

Accounting for Purchases and Cash Payments

BEFORE
You

READ

What You'll Learn

1. Explain the procedures for processing a purchase on account.
2. Describe the accounts used in the purchasing process.
3. Identify controls over cash.
4. Analyze transactions relating to the purchase of merchandise.
5. Record a variety of purchases and cash payment transactions.
6. Post to the accounts payable subsidiary ledger.
7. Define the accounting terms introduced in this chapter.

Why It's Important

► The purchasing process results in a large outflow of cash.

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

Exploring the *Real World* of Business

ANALYZING PURCHASES

Suncoast Motion Picture Company

If you were searching for *The Lord of the Rings: The Return of the King* DVD, would you care if it was new or used? In the DVD business, used is often as good as new. Sales of “previously viewed” DVDs have become a huge source of revenue for retailers like Suncoast Motion Picture Company, attracting customers by providing more choices.

Suncoast Motion Picture Company purchases used DVDs for resale. Customers either sell them to **Suncoast** for cash or trade in older titles for new or different ones.

Suncoast stores also offer movie memorabilia like posters, T-shirts, and books. Movie posters and T-shirts are purchased from various commercial printers.

What Do You Think?

If **Suncoast** purchased 5,000 posters from a commercial printer on credit, which accounts do you think would be affected?

SUNCOAST
The store for movie lovers.



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

Have you ever gone shopping only to find that the store is out of the item you wanted? The store may have had a big sale and not yet received new merchandise. Stores order new items to replace the ones sold. In this chapter you will learn about the purchasing process and how to record purchases of merchandise and other items.

Personal Connection

1. If you work for a retail store, does it usually have most of its items in stock?
2. If it were up to you to decide on a new item to offer to your customers, what would it be?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 15**.





SECTION 1

BEFORE
You

READ

Main Idea

Merchandising businesses follow an orderly process for purchasing merchandise, supplies, and equipment.

Read to Learn...

- the four stages in purchasing items for a business and the processes and documents related to each stage. (p. 416)
- the purpose of the **Purchases** account. (p. 419)

Key Terms

purchase requisition
purchase order
packing slip
processing stamp
purchases discount
discount period
Purchases account
cost of merchandise

Purchasing Items Needed by a Business

In Chapter 14 you learned that the primary source of income for a merchandising business is from the sale of its merchandise. However, to sell merchandise, a business must first buy the items. The items you find for sale at Wal-Mart—housewares, clothing, sporting goods, jewelry—are all purchased from wholesalers and suppliers. In this chapter you will learn how to analyze transactions relating to the purchase of merchandise.

The Purchasing Process

What Are the Four Stages of Purchasing?

All businesses, from the corner grocery store to a giant international corporation, are involved in the purchasing process. Retail businesses need shopping bags for customers, sales slips, and cash register tapes. They also need to purchase supplies, equipment, and merchandise.

The purchase of supplies, equipment, and merchandise is divided into four stages:

- requesting needed items
- ordering from a supplier
- verifying items received
- processing the supplier's invoice

Let's take a look at each of these stages.

Requesting Needed Items

In a small business, the owner does all the buying. In a large business, a separate purchasing department buys items for the entire company. When the company needs to buy equipment or supplies, or when the inventory of merchandise on hand is low, a purchase requisition is prepared.

A **purchase requisition** is a written request to order a specified item or items. Usually a purchase requisition is a prenumbered, multicopy form. The manager of the department requesting the item(s) approves the purchase requisition. Then the original copy of the purchase requisition goes to the purchasing department or the purchasing agent. The person making the request keeps a copy. **Figure 15–1** shows the purchase requisition form used by On Your Mark Athletic Wear.

Ordering from a Supplier

A **purchase order** is a written *offer* to a supplier to buy specified items. Much of the information on the purchase order comes directly

**ON YOUR MARK ATHLETIC WEAR
PURCHASE REQUISITION**

NO. 9421

FOR DEPARTMENT	Shoes	DATE	Nov. 12, 20--
NOTIFY	Vic Ventura	ON DELIVERY	DATE WANTED
QUANTITY	DESCRIPTION	STOCK NO.	
20 Pair	Soft Cushion, White	94682	
10 Pair	Soft Cushion, Black	94788	
10 Pair	Low Cut, White	94281	
10 Pair	Low Cut, Black	94666	

ORDER FROM Pro Runner Warehouse APPROVED BY *Jennifer Mack*
SHOE DEPARTMENT MANAGER

Figure 15–1
Purchase Requisition

As You READ

Key Point

Forms Used in Purchasing The purchase requisition stays *inside* the company. The purchase order goes *outside* the company.

from the purchase requisition. Other information may be obtained from the supplier's catalog.

Look at the purchase order prepared by On Your Mark in **Figure 15–2**. The purchase order contains:

1. quantity	5. supplier's name and address
2. description	6. date needed
3. unit price	7. shipping method (optional)
4. total cost	

The purchase order is a prenumbered multicopy form. The original of the purchase order goes to the supplier. One copy goes to the department requesting the items. The purchasing department keeps another copy.

ON YOUR MARK ATHLETIC WEAR
595 Leslie Street, Dallas, TX 75207

PURCHASE ORDER
No. 9784

To	Pro Runner Warehouse 5 22009 Ben White Blvd. Austin, TX 78705	Date: November 15, 20-- 6 Date Needed: December 15, 20--	
Quantity 1	Item 2	Unit Price 3	Total 4
20 pair	Soft Cushion: White, #94682	\$ 50.00	\$ 1,000.00
10 pair	Soft Cushion: Black #94788	50.00	500.00
10 pair	Low Cut: White, #94281	40.00	400.00
10 pair	Low Cut: Black, #94666	40.00	400.00
	Total		\$ 2,300.00

As You READ

Compare and Contrast

Purchase Requisition and Purchase Order

How are a purchase requisition and a purchase order similar? How are they different?

Verifying Items Received

Note that a purchase order is only an *offer* to buy items. Until the items are actually received, the buyer does not know whether or not the supplier has accepted the offer. A supplier may not be able to fill the purchase order

Figure 15–2
Purchase Order



MATH HINTS

Estimate by Rounding

When you need an estimate of an answer to check for reasonableness, you can use rounding as shown:

$$\begin{array}{r} 4,682 \longrightarrow 5,000 \\ + 14,289 \longrightarrow + 14,000 \\ \hline 18,971 \qquad 19,000 \end{array}$$

Round to the nearest thousand and add to get an estimate of 19,000. Because this is close to the calculated sum of 18,971, the answer is reasonable.

As You

READ

Key Point

Purchase Order

A purchase order does not require a journal entry. It is only an *offer to buy*.



because an item is out of stock or has been discontinued. The mailing of a purchase order, therefore, does not require a journal entry. A supplier accepts a purchase order by shipping the items requested and billing the buyer for these items.

When a supplier ships to a buyer, the shipment includes a **packing slip**, which is a form that lists the items included in the shipment. When a shipment arrives, the buyer immediately unpacks and checks the contents against the quantities and items listed on the packing slip. If the shipment contents do not agree with those listed on the packing slip, a note about the differences is made on the packing slip. The packing slip is then sent to the accounting department to be checked against both the purchase order and the supplier's bill. A buyer does not have to pay for items that it did not receive, or that were damaged, or not ordered and returned to the supplier.

Processing the Supplier's Invoice

When it ships to a buyer, the supplier prepares a bill called an *invoice*. It lists the credit terms; the quantity, description, unit price, and total cost of the items shipped; the buyer's purchase order number; and the method of shipment.

The supplier sends the invoice directly to the buyer's accounting department, where it is date stamped to indicate when the invoice was received. The accounting clerk checks each detail (item, quantity, and price) on the invoice against the packing slip and the purchase order. This procedure verifies that the buyer is billed for the quantities and items actually ordered and received and that the prices are correct.

Once verified, the invoice is the source document for a journal entry. Before the invoice is recorded, a **processing stamp** is placed on the invoice to enter the following information: the date the invoice is to be paid, the discount amount, if any, the amount to be paid, and the check number.

The first three lines on the processing stamp are completed at the time the invoice is received. The check number is entered later, when the check is issued.

Look at the invoice in Figure 15–3. Notice the date stamp, which indicates when the invoice was received. The processing stamp information is complete except for the check number, which means that the invoice has been verified but not yet paid.

When a small business grows too large for one person to handle all the financial responsibilities, it may adopt the *voucher system* to provide internal control. A *voucher* is a document that serves as written authorization for a cash payment. The business prepares a voucher for every invoice received. The voucher, with invoice attached, is circulated within the company for approval signatures. The approved voucher is authorization to issue a check.

Purchases Discounts

Suppliers frequently offer charge customers a cash discount for early payment. For the buyer this discount is called a **purchases discount**. A purchases discount and cash discount are calculated in the same way.

PRO RUNNER WAREHOUSE 22009 Ben White Blvd. Austin, TX 78705		INVOICE NO. 7894	
TO	On Your Mark Athletic Wear 595 Leslie Street Dallas, TX 75207	REC'D DEC. 14, 20--	DATE: Dec. 14, 20--
			ORDER NO.: 9784
			SHIPPED BY: Federal Trucking
			TERMS: 2/10, n/30
QTY.	ITEM	UNIT PRICE	TOTAL
20 pair	Soft Cushion: White, #94682	\$ 50.00	\$ 1,000.00
10 pair	Soft Cushion: Black, #94788	50.00	500.00
10 pair	Low Cut: White, #94281	40.00	400.00
10 pair	Low Cut: Black, #94666	40.00	400.00
	Total		\$ 2,300.00
	Due Date: 12/24		
	Discount: \$ 46.00		
	Net Amount: \$ 2,254.00		
	Check No.:		

Figure 15–3 Invoice

For example, On Your Mark purchased \$2,300 of merchandise on account from Pro Runner Warehouse. Figure 15–3 shows the invoice dated December 14. The credit terms are 2/10, n/30. If On Your Mark pays for the merchandise on or before December 24, it may deduct 2% of the value of the merchandise. The 10 days, called the **discount period**, is the time within which an invoice must be paid if the discount is taken. If On Your Mark does not pay for the merchandise within the discount period, it pays the net, or total amount, within 30 days of the invoice date.

On Your Mark can save \$46 if it pays the invoice within the 10-day discount period ending December 24. The end of the discount period can be determined by adding 10 days to the date of the invoice (December 14 + 10 days = December 24). The amount to be paid within the discount period is calculated as follows:

1.	Merchandise Purchased	×	Discount Rate	=	Discount
	\$2,300	×	.02	=	\$46
2.	Invoice Amount	–	Discount Amount	=	Amount Paid Within Discount Period
	\$2,300	–	\$46	=	\$2,254

The Purchases Account

What Is the Purpose of the Purchases Account?

When a business buys merchandise to sell to customers, the cost of the merchandise is recorded in the **Purchases account**. The **Purchases** account is a temporary account, classified as a **cost of merchandise** account. Cost of merchandise accounts contain the actual cost to the business of the merchandise sold to customers.

Merchandise that is purchased for resale is a cost of doing business. Therefore, the **Purchases** account follows the rules of debit and credit for expense accounts. The **Purchases** account is increased by debits and decreased by credits. The normal balance of the **Purchases** account is a debit.

As You
READ

Key Point

Discount Period
The discount period is calculated from the date of the invoice, not the date the invoice is received.

Purchases	
Debit + Increase Side Normal Balance	Credit – Decrease Side

Reinforce the Main Idea

Create a table similar to this one to identify the four stages in the purchasing process, the activity involved in each stage, and the document used in that stage.

Stage	Stage Title	Activity	Document
1			
2			
3			
4			

**Do the Math**

As a new accountant for the South City School District, one of your primary duties involves preparing purchase requisitions. For each item ordered, you compute the extensions (quantity ordered multiplied by the cost per unit). On a separate sheet of paper, calculate the extensions for each of the following items ordered.

Quantity	Item Description	Unit Price
1	Box of copy paper	\$34.00/box
5	Reams of art paper	\$12/ream
2	Globes	\$55/ea.
100	No. 2 pencils	\$.12/ea.
4 doz.	Transparency markers	\$6.50/doz.

**Problem 15-1 Analyzing a Purchase Order**

Instructions Analyze the purchase order shown here and answer the following questions in your working papers.

1. What company ordered the merchandise?
2. What company was asked to supply the merchandise?
3. What is the purchase order number?
4. When was the purchase order prepared?
5. When is the merchandise needed?
6. How many gallons of paint were ordered?
7. How many different colors of paint were ordered?
8. What colors were ordered?
9. How much does each gallon of paint cost?
10. What is the total cost of the order?

CASE CONSTRUCTION COMPANY		PURCHASE ORDER No. 7894	
601 Mt. Lebanon Road, Shaker Heights, OH 44120		Date: November 15, 20-- Date Needed: December 1, 20--	
To	Westmoreland Paint and Supply Co. 1714 Peak Road Cleveland, OH 44109		
Quantity	Item	Unit Price	Total
4 gal.	Exterior paint, white, #682	\$ 20.00	\$ 80.00
4 gal.	Exterior paint, gray, #788	20.00	80.00
6 gal.	Exterior paint, brown, #281	20.00	120.00
6 gal.	Exterior paint, beige, #66	20.00	120.00
5 gal.	Exterior paint, peach, #711	20.00	100.00
		Total	\$ 500.00





SECTION 2

Analyzing and Recording Purchases on Account

Small retailers may rely on a bookkeeper or part-time accountant to record purchase transactions. Large companies such as Kohl's Department Store can have thousands of suppliers. They need an entire accounts payable department to verify invoices and correct any discrepancies before recording purchases in the accounting records.

Purchases of Assets on Account

How Are the Purchases of Assets on Account Recorded?

Regardless of its type, size, or purpose, a retail business needs to buy supplies, equipment, and other assets. Most importantly, it buys merchandise to resell. Merchandise can be bought on a cash basis or on account. The business posts purchases on account in the accounts payable subsidiary ledger.

The Accounts Payable Subsidiary Ledger

In Chapter 14 you learned that when a business sells to many customers on credit, using an accounts receivable subsidiary ledger is efficient. Likewise, a business that purchases from many suppliers on account finds it efficient to set up an **accounts payable subsidiary ledger** with an account for each supplier or creditor. These individual accounts are summarized in the general ledger controlling account, **Accounts Payable**. The balance of the **Accounts Payable** controlling account and the total of all account balances in the accounts payable subsidiary ledger must agree after posting.

The Accounts Payable Subsidiary Ledger Form

The ledger account form in Figure 15–4 on page 422 is used for both the accounts payable subsidiary ledger and the accounts receivable subsidiary ledger. The ledger account form has lines for the creditor's name and address. A manual accounting system arranges the accounts payable subsidiary ledger in alphabetical order with no account numbers. A computerized accounting

General Ledger	
Accounts Payable—controlling account	
	\$4,500
Accounts Payable Subsidiary Ledger	
Individual Accounts Within Ledger:	
Sandals Etc.	\$ 900
Shoe Warehouse	2,100
Shoe Wholesale Inc.	1,000
Store Supply Shop	500
Total	\$4,500

Controlling account balance equals total of accounts in subsidiary ledger.

BEFORE
YOU

READ

Main Idea

Individual accounts payable transactions are posted to a subsidiary ledger.

Read to Learn...

- ▶ how to journalize purchases on account. (p. 421)
- ▶ how to journalize and post purchases returns and allowances. (p. 424)

Key Terms

accounts payable subsidiary ledger
tickler file
due date
purchases return
purchases allowance
debit memorandum

NAME _____					
ADDRESS _____					
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE

Figure 15–4 Subsidiary Ledger Account Form

credit. The Debit column for payments to creditors records decreases to the account. The Credit column for purchases on account is for increases to it. The Balance column shows the amount owed to the creditor.

Merchandise Purchases on Account

On Your Mark's first purchase transaction in December involves a purchase of merchandise on account. When this entry is recorded in the journal, a diagonal line in the Posting Reference column indicates that the credit amount is posted in *two* places.

- *First* post to the **Accounts Payable** controlling account in the general ledger.
- *Then* post to the **Pro Runner Warehouse** account in the accounts payable subsidiary ledger.

After the invoice from Pro Runner Warehouse is journalized, it is put in a **tickler file**, which has a folder for each day of the month. Each invoice is placed in a folder according to its **due date**, the date it is to be paid. For example, an invoice due December 24 is placed in the "24" folder.

Business Transaction

On December 14 On Your Mark purchased \$2,300 in merchandise on account from Pro Runner Warehouse, Invoice 7894.

ANALYSIS *Identify*

Classify

+/–

1. The accounts affected are **Purchases**, **Accounts Payable** (controlling), and **Accounts Payable—Pro Runner Warehouse** (subsidiary).
2. **Purchases** is a cost of merchandise account. **Accounts Payable** (controlling) and **Accounts Payable—Pro Runner Warehouse** (subsidiary) are liability accounts.
3. **Purchases** is increased by \$2,300. This is the cost of the merchandise purchased. **Accounts Payable** (controlling) and **Accounts Payable—Pro Runner Warehouse** (subsidiary) are increased by \$2,300.

PRO RUNNER WAREHOUSE 22009 Ben White Blvd. Austin, TX 78705		INVOICE NO. 7894
RECD DEC. 14, 20–	DATE: Dec. 14, 20–	
TO	ORDER NO.: 9784	SHIPPED BY: Federal Trucking
On Your Mark Athletic Wear 595 Leslie Street Dallas, TX 75207	TERMS: 2/10, n/30	
QTY.	ITEM	UNIT PRICE
20 pair	Soft Cushion: White, #94682	\$ 50.00
10 pair	Soft Cushion: Black, #94788	50.00
10 pair	Low Cut: White, #94281	40.00
10 pair	Low Cut: Black, #94666	40.00
	Total	\$ 2,300.00
Due Date: 12/24 Discount: \$ 46.00 Net Amount: \$ 2,254.00 Check No.:		

DEBIT-CREDIT RULE

4. Increases to cost of merchandise accounts are recorded as debits. Debit **Purchases** for \$2,300.
5. Increases to liability accounts are recorded as credits. Credit **Accounts Payable** (controlling) for \$2,300. Also credit **Accounts Payable—Pro Runner Warehouse** (subsidiary) for \$2,300.

system assigns each creditor an account number.

The ledger account form has three amount columns. The normal balance of an **Accounts Payable** subsidiary account is a

T ACCOUNTS

6. Purchases		Accounts Payable	
Debit	Credit	Debit	Credit
+ 2,300	-	-	+ 2,300
Accounts Payable Subsidiary Ledger Pro Runner Warehouse		Debit - Credit + 2,300	

JOURNAL ENTRY

GENERAL JOURNAL						PAGE <u>21</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Dec. 14	Purchases		230000		2
3		Accts. Pay./Pro Runner Whs.			230000	3
4		Invoice 7894				4

Other Purchases on Account

On Your Mark purchases assets other than merchandise, such as supplies, computer equipment, and store equipment. The following example illustrates the purchase of store equipment on account.

Business Transaction

On December 15 On Your Mark received Invoice 3417, dated December 13, from Champion Store Supply for store equipment bought on account for \$1,200, terms n/30.

ANALYSIS Identify

1. The accounts affected are **Store Equipment**, **Accounts Payable** (controlling), and **Accounts Payable—Champion Store Supply** (subsidiary).
2. **Store Equipment** is an asset account. **Accounts Payable** (controlling) and **Accounts Payable—Champion Store Supply** (subsidiary) are liability accounts.
3. **Store Equipment** is increased by \$1,200. **Accounts Payable** (controlling) and **Accounts Payable—Champion Store Supply** (subsidiary) are increased by \$1,200.

CHAMPION STORE SUPPLY 47249 Randall Parkway Dallas, TX 75207		RECD DEC. 15, 20--	INVOICE NO. 3417
TO On Your Mark Athletic Wear 595 Leslie Street Dallas, TX 75207		DATE: Dec. 13, 20--	ORDER NO.: 9795
		SHIPPED BY: Federal Trucking	TERMS: n/30
QTY.	ITEM	UNIT PRICE	TOTAL
3	Corner Shelf Units	\$ 300.00	\$ 900.00
1	Shirt Rack	300.00	300.00
		Total	\$ 1,200.00
Due Date: <u>1/12</u> Discount: <u>\$0.00</u> Net Amount: <u>\$1,200.00</u> Check No.: <u> </u>			

Classify**+/−****DEBIT-CREDIT RULE**

4. Increases to asset accounts are recorded as debits. Debit **Store Equipment** for \$1,200.
5. Increases to liability accounts are recorded as credits. Credit **Accounts Payable** (controlling) for \$1,200. Also credit **Accounts Payable—Champion Store Supply** (subsidiary) for \$1,200.

T ACCOUNTS	6. Store Equipment		Accounts Payable																														
	Debit + 1,200	Credit -	Debit -	Credit +																													
Accounts Payable Subsidiary Ledger Champion Store Supply																																	
	Debit -	Credit +																															
JOURNAL ENTRY	7. <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: center;">GENERAL JOURNAL</th> <th style="text-align: right;">PAGE <u>21</u></th> </tr> <tr> <th style="width: 10%;">DATE</th> <th style="width: 40%;">DESCRIPTION</th> <th style="width: 10%;">POST. REF.</th> <th style="width: 40%;">DEBIT</th> <th style="width: 10%;">CREDIT</th> </tr> </thead> <tbody> <tr> <td>5 Dec. 15</td> <td>Store Equipment</td> <td></td> <td style="text-align: right;">1 200 00</td> <td style="text-align: right;">5</td> </tr> <tr> <td>6</td> <td>Accts. Pay./Champion Store</td> <td></td> <td style="text-align: right;">1 200 00</td> <td style="text-align: right;">6</td> </tr> <tr> <td>7</td> <td>Invoice 3417</td> <td></td> <td></td> <td style="text-align: right;">7</td> </tr> <tr> <td>8</td> <td></td> <td></td> <td></td> <td style="text-align: right;">8</td> </tr> </tbody> </table>				GENERAL JOURNAL			PAGE <u>21</u>	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	5 Dec. 15	Store Equipment		1 200 00	5	6	Accts. Pay./Champion Store		1 200 00	6	7	Invoice 3417			7	8				8
GENERAL JOURNAL			PAGE <u>21</u>																														
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT																													
5 Dec. 15	Store Equipment		1 200 00	5																													
6	Accts. Pay./Champion Store		1 200 00	6																													
7	Invoice 3417			7																													
8				8																													

Purchases Returns and Allowances

How Are Purchases Returns and Allowances Recorded?

Occasionally, a business buys merchandise that, upon inspection, is unacceptable. A **purchases return** occurs when a business returns merchandise to the supplier for full credit. A **purchases allowance** occurs when a business keeps less than satisfactory merchandise and pays a reduced price.

A **debit memorandum**, or debit memo, is used to notify suppliers (creditors) of a return or to request an allowance. The “debit” in debit memorandum indicates that the creditor’s account will be debited, or decreased.

Figure 15–5 shows a debit memorandum prepared by On Your Mark.

Figure 15–5
Debit Memorandum

DEBIT MEMORANDUM No. 51									
Date: December 16, 20-- Invoice No.: FL610									
									
To: FastLane Athletics 35992 Fletcher Blvd. #334 Boston, MA 02206	This day we have debited your account as follows:								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Quantity</th> <th style="width: 45%;">Item</th> <th style="width: 15%;">Unit Price</th> <th style="width: 25%;">Total</th> </tr> </thead> <tbody> <tr> <td>5 pair</td> <td>All-Star Athletic Shoes</td> <td style="text-align: right;">\$ 40.00</td> <td style="text-align: right;">\$ 200.00</td> </tr> </tbody> </table>		Quantity	Item	Unit Price	Total	5 pair	All-Star Athletic Shoes	\$ 40.00	\$ 200.00
Quantity	Item	Unit Price	Total						
5 pair	All-Star Athletic Shoes	\$ 40.00	\$ 200.00						

As you can see, the debit memorandum is prenumbered and has spaces for the creditor’s name and address and the invoice number. The original is sent to the creditor. The copy is the source document for the journal entry.

A debit memorandum always results in a debit (decrease) to the **Accounts Payable** controlling account in the general ledger and to the creditor’s account in the subsidiary ledger. The account credited depends on whether the debit memorandum is for merchandise or another asset.

Purchases	
Debit + Increase Side Normal Balance	Credit - Decrease Side
Purchases Returns and Allowances	
Debit - Decrease Side	Credit + Increase Side Normal Balance

The **Purchases Returns and Allowances** account is used to record the return of merchandise to a supplier or to record an allowance. It is classified as a *contra cost of merchandise* account to the **Purchases** account. The normal balance of **Purchases** is a debit, so the normal balance of **Purchases Returns and Allowances** is a credit. This relationship is shown in these T accounts.

As You READ

Instant Recall

Contra Account A

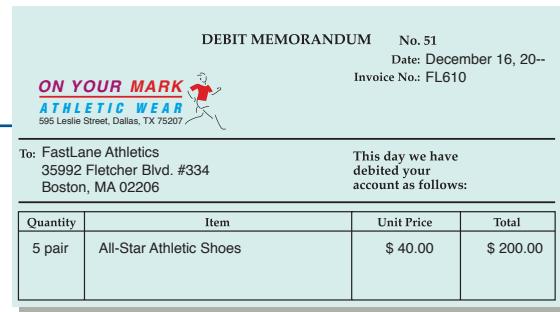
contra account is an account whose balance is a decrease to another related account.

Recording a Purchases Returns and Allowances Transaction

On Your Mark prepared and sent the debit memorandum shown in Figure 15–5.

Business Transaction

On December 16 On Your Mark issued Debit Memorandum 51 for the return of \$200 in merchandise purchased on account from FastLane Athletics.



ANALYSIS Identify

Classify

+/-

1. The accounts affected are **Accounts Payable** (controlling), **Accounts Payable—FastLane Athletics** (subsidiary), and **Purchases Returns and Allowances**.
2. **Accounts Payable** (controlling) and **Accounts Payable—FastLane Athletics** (subsidiary) are liability accounts. **Purchases Returns and Allowances** is a contra cost of merchandise account.
3. **Accounts Payable** (controlling) and **Accounts Payable—FastLane Athletics** (subsidiary) are decreased by \$200. **Purchases Returns and Allowances** is increased by \$200.

DEBIT-CREDIT RULE

4. Decreases to liability accounts are recorded as debits. Debit **Accounts Payable** (controlling) for \$200. Also debit **Accounts Payable—FastLane Athletics** (subsidiary) for \$200.
5. Increases to contra cost of merchandise accounts are recorded as credits. Credit **Purchases Returns and Allowances** for \$200.

T ACCOUNTS

6. Accounts Payable

Debit - 200	Credit + 200
-------------------	--------------------

Purchases Returns and Allowances

Debit - 200	Credit + 200
-------------------	--------------------

Accounts Payable Subsidiary Ledger
FastLane Athletics

Debit - 200	Credit + 200
-------------------	--------------------

JOURNAL ENTRY



7.

GENERAL JOURNAL					PAGE <u>21</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
8	Dec. 16	Accts. Pay./FastLane Athletics		20000	8
9		Purchases Returns and Allow.			20000 9
10		Debit Memorandum 51			10
11					11

Posting to the Accounts Payable Subsidiary Ledger

In Figure 15–6 note how the transaction is posted. The \$200 debit is posted to two accounts—the Accounts Payable controlling account and the accounts payable subsidiary ledger account, FastLane Athletics. After it is posted to Accounts Payable, the account number 201 is entered to the *left* of the diagonal in the Posting Reference column. After the amount is posted to FastLane Athletics, a check mark (✓) is entered to the *right* of the diagonal line.

GENERAL JOURNAL					PAGE <u>21</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
8	Dec. 16	Accounts Payable/FastLane Athletics	201 ✓	200 00	8
9		Purchases Returns and Allowances	515		200 00 9
10		Debit Memorandum 51			10
11					

ACCOUNT <u>Accounts Payable</u>			ACCOUNT NO. <u>201</u>		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20--					
Dec. 1	Balance	✓			6 300 00
14	G21			2 300 00	8 600 00
15	G21			1 200 00	9 800 00
16	G21		200 00		9 600 00

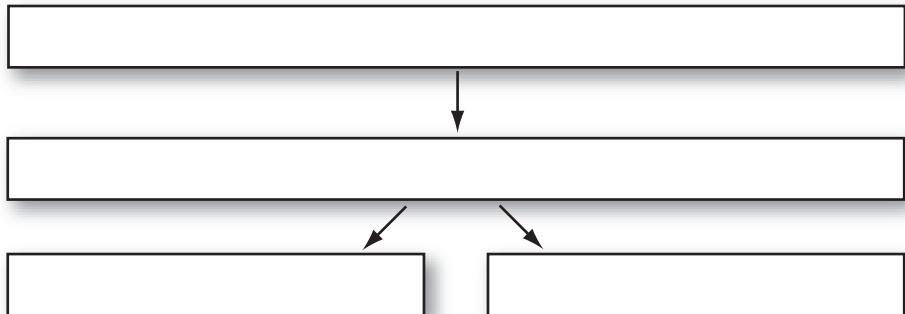
ACCOUNT <u>Purchases Returns and Allowances</u>			ACCOUNT NO. <u>515</u>		
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20--					
Dec. 1	Balance	✓			1 600 00
16	G21			200 00	1 800 00

NAME <u>FastLane Athletics</u>					
ADDRESS <u>35992 Fletcher Blvd. #334, Boston, MA 02206</u>					
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20--					
Dec. 1		✓			1 000 00
16		G21	200 00		800 00

Figure 15–6
Posting to General Ledger
and Accounts Payable Ledger

Reinforce the Main Idea

Create a flowchart like this one and write the correct labels in the boxes and next to the arrows. Create the labels from these terms: *general ledger, invoice, journal, posted to, recorded in, subsidiary ledger*. Terms can be used more than once.

**Do the Math**

Alpha Enterprises received an invoice dated May 2 for the purchase of \$3,000 of merchandise. Terms of sale are 2/10, n/30. Answer the following questions:

1. What is the due date of the invoice?
2. What is the amount of the cash discount?
3. What is the net amount to be paid?
4. If the discount period is missed, what is the last day the invoice is to be paid? How much would be paid?

**Problem 15–2 Recording Purchases Transactions**

Instructions Record the following purchases transactions on page 7 of the general journal in your working papers.

Date	Transactions
Sept. 2	Purchased \$900 in merchandise on account from Sunrise Novelty Supply, Invoice SN110.
7	Issued Debit Memorandum 18 to Sunrise Novelty Supply for a \$50 allowance granted on damaged merchandise.

**Problem 15–3 Analyzing a Source Document**

As an accounting intern for Kaleidoscope Comics, you perform a variety of accounting tasks. The accountant hands you this debit memo.

Instructions

1. Analyze the source document. Determine which accounts are to be debited or credited.
2. Record the entry on page 15 of the general journal in your working papers.

DEBIT MEMORANDUM No. 559			
Date: November 12, 20--			Invoice No.: 2260
Kaleidoscope Comics 2110 Brady Lane, Austin, TX 78748			This day we have debited your account as follows:
To: Randall's Cafe and Bookstore			
Quantity	Item	Unit Price	Total
1 dz	Best of Dilbert	\$ 7.50	\$ 7.50
1 dz	Banzai Anime	8.50	8.50
			\$ 16.00

Accounting Careers in Focus

ANALYST

Morgan Stanley, Teaneck, New Jersey
Anwar Beatty

Q: What has helped you in your career?

A: Networking. I always try to get to know people in different positions and fields and learn what they do.

Q: What are your day-to-day responsibilities?

A: I help maintain the in-house computer systems for one of our business groups. I conduct systems checks, help resolve user issues, and carry through enhancements that allow for greater productivity and efficiency. In addition, I'm responsible for compiling a variety of reports and filing them with senior management and the Securities and Exchange Commission.

Q: What is the biggest challenge you face in your job?

A: Learning aspects of the finance industry that were not part of my coursework in school. Education should be ongoing—you must be able to pick up new things, digest them, and apply them the next day.

Q: What advice would you give students who are interested in becoming analysts?

A: Get involved with professional associations. They can help prepare you for your first job. They'll also help you build professional skills that you'll need in the business world. If you do your research, you'll find that there are a great deal more opportunities available in finance than you might realize. I never thought I would be involved in this aspect of the business, for example.

Tips from . . .

 Robert Half International Inc.

When reviewing a job candidate's resume, 53 percent of hiring managers say they look first for relevant experience. You can build your work history through volunteer opportunities, internships, and temporary assignments.

CAREER FACTS

- **Nature of the Work:** Work with stock traders to monitor stock positions and companies' earnings reports; interact with personnel from various financial institutions to resolve customer queries and problems concerning stock trades.
- **Training or Education Needed:** A bachelor's degree in accounting or finance is preferred.
- **Aptitudes, Abilities, and Skills:** Strong communication skills, organizational skills, and multitasking abilities.
- **Salary Range:** \$30,000 to \$50,000 depending on experience, level of responsibility, and firm size.
- **Career Path:** Start as an entry-level analyst, and then assume roles of increasing responsibility.

Thinking Critically

How might you acquire the basic accounting experience you need for an entry-level position?



SECTION 3

Analyzing and Recording Cash Payments

If cash is the lifeblood of a business, the accounting department is its heart. All cash entering or leaving a business is “pumped” through the accounting department at some time. If it is not, cash losses can occur.

Controls over Cash

How Does a Business Manage Cash Payments?

Earlier chapters explained ways to guard against losses of cash receipts. For example, businesses should deposit all cash receipts in a bank account. Businesses must also properly manage cash payments so that losses do not occur. The following are procedures to manage cash payments:

- Require proper authorization of all cash payments. Support each payment with an approved source document, such as an invoice.
- Write checks for all payments. Allow only authorized persons to sign checks.
- Use prenumbered checks.
- Retain and account for spoiled checks. Mark these checks “Void,” and file them in sequence.

Cash Payment Transactions

How Does a Merchandising Business Make Cash Payments?

Businesses buy merchandise and other assets on account or by paying cash. On Your Mark makes all cash payments by check. When it makes a cash payment, the clerk records the details on the check stub. The check stub is the source document for the journal entry. Then the clerk prepares a check, which an authorized person signs. Let’s look at how to record several types of cash payment transactions that occur frequently.

Recording Cash Purchase of Insurance

Businesses buy insurance to protect against losses from hazards such as theft, fire, and flood. Insurance policies cover varying time periods, such as six months or one year. The cost of insurance protection is called the **premium**. A premium is paid in advance at the beginning of the covered period. Insurance paid in advance is an asset because until the insurance protection expires, it represents a benefit to the company. The insurance premium is recorded in the asset account, **Prepaid Insurance**.

BEFORE
YOU

READ

Main Idea

The accounting department is responsible for making the cash payments for the business.

Read to Learn...

- the procedures for managing cash payments. (p. 429)
- how to record the different types of cash payment transactions. (p. 429)

Key Terms

premium
FOB destination
FOB shipping point
bankcard fee

As
You

READ

Instant Recall

Internal Controls One of the key purposes of internal controls is to protect cash and other assets.

Business Transaction

On December 17 On Your Mark paid \$1,500 to Keystone Insurance Company for the premium on a six-month insurance policy, Check 1001.

ANALYSIS *Identify*

Classify
+/-

1. The accounts affected are **Prepaid Insurance** and **Cash in Bank**.
2. Both **Prepaid Insurance** and **Cash in Bank** are asset accounts.
3. **Prepaid Insurance** is increased by \$1,500. **Cash in Bank** is decreased by \$1,500.



DEBIT-CREDIT RULE

4. Increases to asset accounts are recorded as debits. Debit **Prepaid Insurance** for \$1,500.
5. Decreases to asset accounts are recorded as credits. Credit **Cash in Bank** for \$1,500.

T ACCOUNTS

6. Prepaid Insurance		Cash in Bank	
Debit	Credit	Debit	Credit
+ 1,500	-	+ 1,500	-

JOURNAL ENTRY

7. GENERAL JOURNAL PAGE 21					
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
11	Dec. 17	Prepaid Insurance		1 500.00	
12		Cash in Bank			1 500.00
13		Check 1001			

Recording Cash Purchases of Merchandise

Usually businesses purchase merchandise on account. Sometimes a business buys merchandise for cash. Let's look at an example of a cash purchase of merchandise.

Business Transaction

On December 19 On Your Mark purchased merchandise from FastLane Athletics for \$1,300, Check 1002.

ANALYSIS *Identify*

Classify
+/-

1. The accounts affected are **Purchases** and **Cash in Bank**.
2. **Purchases** is a cost of merchandise account. **Cash in Bank** is an asset account.
3. **Purchases** is increased by \$1,300. **Cash in Bank** is decreased by \$1,300.



DEBIT-CREDIT RULE

- Increases to cost of merchandise accounts are recorded as debits. Debit **Purchases** for \$1,300.
- Decreases to asset accounts are recorded as credits. Credit **Cash in Bank** for \$1,300.

T ACCOUNTS**6. Purchases**

Debit	Credit
+ 1,300	-

Cash in Bank

Debit	Credit
+ 1,300	-

JOURNAL ENTRY**7.**

GENERAL JOURNAL					PAGE <u>21</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
14	Dec. 19	Purchases		1 300 00	14
15		Cash in Bank			1 300 00 15
16		Check 1002			16
17					17

Recording Cash Payments for Items Purchased on Account

An invoice received by a business is verified for items, quantities, and prices, recorded in the journal, and filed by due date in a tickler file.

Each day, the invoices due for payment are removed from the tickler file. Checks are prepared, signed by an authorized person, and mailed to creditors.

The amount of the check in payment of an invoice depends on the credit terms and the payment date. For example, On Your Mark purchased \$2,300 of merchandise on account from Pro Runner Warehouse. The invoice, dated December 14, listed credit terms of 2/10, n/30. If On Your Mark pays for the merchandise on or before December 24, it can take a discount of \$46.

When it pays the invoice on December 24, On Your Mark debits **Accounts Payable** (controlling) and **Accounts Payable—Pro Runner Warehouse** for the full amount of the invoice, \$2,300. On Your Mark is paying for all of the merchandise and doesn't owe any more money on this purchase.



Cash in Bank is credited for \$2,254, the actual amount of the check. The difference between \$2,300 and \$2,254 is the cash discount, which is credited to the **Purchases Discounts** account.

The **Purchases Discounts** account tracks the cash discounts a business takes. **Purchases Discounts** is a contra cost of merchandise account. Its balance reduces the balance of the **Purchases** account. Its normal balance is therefore a credit.

Purchases	
Debit	Credit
+ Increase Side Normal Balance	- Decrease Side

Purchases Discounts	
Debit	Credit
- Decrease Side	+ Increase Side Normal Balance

Business Transaction

On December 24 On Your Mark paid \$2,254 to Pro Runner Warehouse for merchandise purchased on account, \$2,300 less a discount of \$46, Check 1003.



ANALYSIS Identify

Classify

+/-

1. The accounts affected are **Accounts Payable** (controlling), **Accounts Payable—Pro Runner Warehouse** (subsidiary), **Cash in Bank**, and **Purchases Discounts**.
2. **Accounts Payable** (controlling) and **Accounts Payable—Pro Runner Warehouse** (subsidiary) are liability accounts. **Cash in Bank** is an asset account. **Purchases Discounts** is a contra cost of merchandise account.
3. **Accounts Payable** (controlling) and **Accounts Payable—Pro Runner Warehouse** (subsidiary) are decreased by \$2,300. **Cash in Bank** is decreased by \$2,254. **Purchases Discounts** is increased by \$46.

DEBIT-CREDIT RULE

4. Decreases to liability accounts are recorded as debits. Debit **Accounts Payable** (controlling) for \$2,300. Also debit **Accounts Payable—Pro Runner Warehouse** (subsidiary) for \$2,300.
5. Decreases to asset accounts are recorded as credits. Credit **Cash in Bank** for \$2,254. Increases to contra cost of merchandise accounts are recorded as credits. Credit **Purchases Discounts** for \$46.

T ACCOUNTS

6.	Accounts Payable		Cash in Bank	
	Debit — 2,300	Credit + —	Debit + —	Credit — 2,254
	Accounts Payable Subsidiary Ledger Pro Runner Warehouse		Purchases Discounts	
	Debit — 2,300	Credit + —	Debit — —	Credit + 46

JOURNAL ENTRY

7.	GENERAL JOURNAL				PAGE 21
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
17	Dec. 24	Accts. Pay./Pro Runner Ware.		2 300 00	17
18		Cash in Bank			2 254 00 18
19		Purchases Discounts			46 00 19
20		Check 1003			20

Other Cash Payments

When a company buys merchandise from a supplier, there is often a charge for shipping the goods. The shipping terms determine whether the buyer or shipper will pay the shipping charges.

Shipping terms are stated as either FOB destination or FOB shipping point. "FOB" stands for "free on board." **FOB destination** means that the *supplier* pays the shipping cost to the buyer's destination or location. When merchandise is shipped **FOB shipping point**, the *buyer* pays the shipping charge from the supplier's shipping point.

Terms	Shipping Cost Paid By
FOB destination	Supplier
FOB shipping point	Buyer

A shipping charge is an additional cost of the merchandise. The account set up to handle shipping charges is **Transportation In**, which is a cost of merchandise account. **Transportation In** follows the rules of debit and credit for expense accounts. **Transportation In** is increased by debits and decreased by credits. The normal balance of **Transportation In** is a debit.

Here is an example of the payment of shipping charges.

Business Transaction

On December 24 On Your Mark issued Check 1004 for \$275 to Dara's Delivery Service for shipping charges on merchandise purchased from Sports Link Footwear.

JOURNAL ENTRY



GENERAL JOURNAL					PAGE <u>21</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
21 Dec. 24	Transportation In		275.00		21
22	Cash in Bank			275.00	22
23	Check 1004				23

Recording Bankcard Fees

On Your Mark makes the following entry to record the bankcard fee deducted from the business checking account. Banks charge a fee for handling bankcard sales slips. This **bankcard fee** is usually a percentage of the total of the amounts recorded on the bankcard sales slips processed.

Business Transaction

On December 31 On Your Mark records the bankcard fee of \$75, December bank statement.

JOURNAL ENTRY

GENERAL JOURNAL					PAGE <u>21</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
24 Dec. 31	Bankcard Fees Expense		75.00		24
25	Cash in Bank			75.00	25
26	December Bank Statement				26

As You READ
In Your Own Words
FOB Shipping Point In your own words, explain what the term *FOB shipping point* means.

Transportation In

Debit + Increase Side Normal Balance	Credit - Decrease Side
---	------------------------------

The journal entries for all of the transactions discussed and illustrated in this chapter are shown in **Figure 15–7**.

GENERAL JOURNAL					PAGE <u>21</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20--				
2	Dec. 14	Purchases		2 300 00	
3		Accounts Payable/Pro Runner Warehouse			2 300 00
4		Invoice 7894			
5	15	Store Equipment		1 200 00	
6		Accounts Payable/Champion Store Supply			1 200 00
7		Invoice 3417			
8	16	Accounts Payable/FastLane Athletics		200 00	
9		Purchases Returns & Allowances			200 00
10		Debit Memorandum 51			
11	17	Prepaid Insurance		1 500 00	
12		Cash in Bank			1 500 00
13		Check 1001			
14	19	Purchases		1 300 00	
15		Cash in Bank			1 300 00
16		Check 1002			
17	24	Accounts Payable/Pro Runner Warehouse		2 300 00	
18		Cash in Bank			2 254 00
19		Purchases Discounts			46 00
20		Check 1003			
21	24	Transportation In		275 00	
22		Cash in Bank			275 00
23		Check 1004			
24	31	Bankcard Fees Expense		75 00	
25		Cash in Bank			75 00
26		December Bank Statement			
27					

Figure 15–7 Journal Entries for December Business Transactions



Reinforce the Main Idea

Create a chart similar to the one here to analyze each cash payment transaction for a merchandising business discussed in the chapter. Identify the accounts affected, the account(s) credited, and the account(s) debited.

Action	Accounts Affected	Account to Credit	Account to Debit

**Do the Math**

Clara's Designs is a crafts store with a large inventory of seasonal crafts items. As the inventory clerk, you are to create a chart or graph to compare the cost of the items purchased and the related shipping charges. Using the data provided, design a chart or graph that depicts both sets of data. What conclusions can you draw from your chart or graph?

	Cost of Item	Shipping Charges
Holiday decorator ribbon	\$2,000	\$200
Door wreaths and hangers	3,200	320
Potpourri	1,200	120
Styrofoam trees	4,350	435

**Problem 15–4 Recording Cash Payment Transactions**

Meadow Link Golf Club had the following cash payment transactions.

Instructions Record the following transactions on page 6 of the general journal in your working papers.

Date	Transactions
May 1	Purchased \$10,500 in golf equipment (merchandise) from TopMax Golf Manufacturers, Check 1150.
5	Issued Check 1151 for \$325 to Franco's Trucking for delivery charges on merchandise bought from TopMax Golf Manufacturers.
7	Paid Lone Star Insurance Company \$2,500 for the annual premium on an insurance policy, Check 1152.

Key Concepts

- Four documents are used in the purchasing process:
 - The *purchase requisition* is a request to order goods.
 - The *purchase order* is an offer to buy goods.
 - The *packing list* is a list of the goods shipped.
 - The *invoice* lists the credit terms; the quantity, description, unit price, and total cost of the items; the buyer's purchase order number; and the method of shipment.
- The four accounts used in the purchasing process and their classifications are:

Purchases—cost of merchandise

Purchases Discounts—contra cost of merchandise

Purchases Returns and Allowances—contra cost of merchandise

Transportation In—cost of merchandise
- Cash is the lifeblood of a business and must be protected from loss, waste, theft, forgery, and embezzlement. Good internal controls include the proper management of cash payments, requiring that they be authorized, made by check, and signed by an authorized person.
- The **Purchases** account is used to record the cost of merchandise purchased during the period. The rules of debit and credit for **Purchases** are the same as those for expense accounts.

Purchases	
Debit	Credit
+ Increase Side	- Decrease Side
Normal Balance	

Suppliers may offer cash discounts to their credit customers to encourage prompt payment. Buyers who take a cash discount record it in the **Purchases Discounts** account.

Purchases Discounts	
Debit	Credit
- Decrease Side	+ Increase Side
	Normal Balance

When the buyer receives credit for returned or damaged merchandise, the amount is recorded in the **Purchases Returns and Allowances** account.

Purchases Returns and Allowances	
Debit	Credit
- Decrease Side	+ Increase Side
	Normal Balance

The shipping charges for merchandise purchased from suppliers are considered an additional cost of merchandise. Shipping charges are debited to the **Transportation In** account.

Transportation In	
Debit	Credit
+ Increase Side	- Decrease Side
Normal Balance	

AFTER
YOU

READ

Check Your Understanding

- Processing a Purchase on Account**
 - List the steps in making a purchase on account.
 - Why is an invoice checked against both the purchase order and the packing slip?
- Accounts Used in Purchasing**
 - What accounts are used when a business purchases merchandise on account?
 - What type of account is **Transportation In**?
- Controls over Cash**
 - Why must each payment be supported by an approved source document?
 - List four procedures that a business should use to control its cash payments.
- Merchandise Purchases**
 - Which accounts are debited and credited when merchandise is purchased for cash?
 - Which accounts are debited and credited when merchandise is purchased on account?
- Recording Purchases and Cash Payments**
 - What term is used to describe the payment for insurance coverage?
 - What account is debited when insurance is purchased?
- Accounts Payable Subsidiary Ledger**
 - What is the purpose of the accounts payable subsidiary ledger?
 - Why do you post a purchase on account to two different ledgers?

Apply Key Terms

Work with a partner to pair these terms. Discuss the relationship between the terms. Is one the result of another? Are they opposite? Once you agree, write out your explanation for each pair.

accounts payable subsidiary ledger
bankcard fee
cost of merchandise
debit memorandum
discount period
due date
FOB destination
FOB shipping point
packing slip

premium processing stamp
purchase order
purchase requisition
Purchases account
purchases allowance
purchases discount
purchases return
tickler file



Recording Purchases and Cash Payments

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Recording purchase transactions	<ul style="list-style-type: none"> Prepare general journal entries and post them based on an invoice for merchandise purchased on account or for cash. 	<ul style="list-style-type: none"> The system automatically generates journal entries from the invoice information and posts them to the general ledger.
Recording cash payment transactions	<ul style="list-style-type: none"> Write checks in payment of an invoice or memorandum. Prepare journal entries to record the checks and post them to the general ledger. Calculate new account balances. 	<ul style="list-style-type: none"> The system automatically generates journal entries as it prepares the check for payment. The system posts journal entries and updates account balances.



Peachtree® Q & A

Peachtree Question	Answer
How do I record the purchase of merchandise on account?	<ol style="list-style-type: none"> From the Tasks menu, select Purchases/Receive Inventory. Enter Vendor ID, Invoice No., and Date. Select the Apply to Purchases tab. Enter quantity, description, general ledger account, and unit price for each item.
How do I record payments on account?	<ol style="list-style-type: none"> From the Tasks menu, select Payments. Enter the Vendor ID, Check No., Date, and Cash account number. Click the Apply to Invoices tab. Select the invoice to be paid.



QuickBooks Q & A

QuickBooks Question	Answer
How do I record the purchase of merchandise on account?	<ol style="list-style-type: none"> From the Vendors menu, select Enter Bills. Enter the vendor's name, date, purchase amount, reference number, and memo. From the Items tab, select the item purchased. Enter the quantity in the Qty field.
How do I record payments on account?	<ol style="list-style-type: none"> From the Vendors menu, select Pay Bills. Select the Due on or before button, and enter the due date of the bills to pay. Place a check mark to the left of the vendor to be paid, and set discounts or credits if applicable. Select the Assign check no. radio button. Enter the date of the transactions in the Payment Date field.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe
Working Papers OR Peachtree Complete
Accounting Software OR QuickBooks
Templates OR Spreadsheet
TemplatesSPREADSHEET
SMART GUIDEStep-by-Step Instructions:
Problem 15-5

1. Select the spreadsheet template for Problem 15-5.
2. Enter your name and the date in the spaces provided on the template.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.

Problem 15-5 Determining Due Dates and
Discount Amounts

Sunset Surfwear frequently purchases merchandise on account. When it receives invoices, a clerk puts a processing stamp on the invoice indicating the due date, the amount of any discount, and the amount to be paid. The following invoices were received during March.

	Invoice Number	Invoice Date	Credit Terms	Invoice Amount
1.	24574	March 5	2/10, n/30	\$3,000.00
2.	530992	March 7	3/10, n/30	5,550.00
3.	211145	March 12	2/15, n/60	729.95
4.	45679	March 16	n/45	345.67
5.	34120	March 23	2/10, n/30	1,526.50
6.	00985	March 27	n/30	700.00

Instructions Prepare a form similar to the one that follows. The first invoice has been completed as an example. For each invoice do the following:

1. Determine the due date. Assume that Sunset Surfwear always pays invoices within the discount period.
2. Compute the discount amount, if any.
3. Compute the amount to be paid.

Invoice Number	Invoice Date	Credit Terms	Invoice Amount	Due Date	Discount Amount	Amount To Be Paid
24574	Mar. 5	2/10, n/30	\$3,000.00	Mar. 15	\$60.00	\$2,940.00

Analyze

Compute how much money Sunset Surfwear will save by taking all discounts.

SMART GUIDE

Step-by-Step Instructions:

Problem 15–6

1. Select the problem set for InBeat CD Shop (Prob. 15–6).
2. Rename the company and set the system date.
3. Enter all of the purchases on account transactions using the **Purchases/Receive Inventory** option in the **Tasks** menu.
4. Process all debit memorandums using the **Vendor Credit Memos** option in the **Tasks** menu.
5. Record all cash payments using the **Payments** option.
6. Print a Purchases Journal report, a Cash Disbursements Journal, and a Vendor Ledgers report.
7. Proof your work.
8. Print a General Ledger report to complete the Analyze activity.
9. End the session.

TIP: To save time entering transactions, group them by type and then enter the transactions in batches.

Problem 15–6 Analyzing Purchases and Cash Payments

InBeat CD Shop had the following transactions in March.

Instructions Use the T accounts in your working papers. For each transaction:

1. Determine which accounts are affected.
2. Enter the debit and credit amounts in the T accounts.

Date	Transactions
Mar. 2	Purchased merchandise on account from NightVision and Company, \$2,000, Invoice NV-20, terms 2/10, n/30.
6	Issued Check 250 for \$85 to Penn Trucking Company for delivering merchandise from NightVision and Company.
7	Purchased \$300 in supplies on account from Temple Store Supply, Invoice 6011, terms n/30.
12	Issued Check 251 for \$1,960 to NightVision and Company in payment of Invoice NV-20 for \$2,000 less a cash discount of \$40.
15	Paid Keystone Insurance Company \$2,500 for the annual premium on business insurance, Check 252.
16	Purchased \$3,000 in merchandise on account from NightVision and Company, Invoice NV-45, terms 2/10, n/30.
18	Issued Debit Memorandum 25 for \$100 to NightVision and Company for the return of merchandise.
20	Purchased \$900 in merchandise from Dandelion Records, Check 253.
22	Issued Check 254 to Temple Store Supplies for \$300 for Invoice 6011.

Analyze

Calculate the Purchases account balance at the end of March.

Problem 15–7 Recording Purchases Transactions

Shutterbug Cameras, a retail merchandising store, had the following purchases transactions in March.

Instructions In your working papers, record the transactions on page 31 of the general journal.

Date	Transactions
Mar. 3	Purchased \$4,500 in merchandise on account from Photo Emporium, Invoice 1221, terms 2/10, n/30.
5	Bought \$750 in supplies on account from State Street Office Supply, Invoice 873, terms n/30.

CONTINUE 

CHAPTER 15

Problems

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 15-7

1. Select the problem set for Shutterbug Cameras (Prob. 15-7).
2. Rename the company and set the system date.
3. Enter all of the purchases on account transactions using the **Purchases/Receive Inventory** option in the **Tasks** menu.
4. Process all debit memorandums using the **Vendor Credit Memos** option in the **Tasks** menu.
5. Print a Purchases Journal report and a Vendor Ledgers report.
6. Proof your work.
7. Print a general ledger report to complete the Analyze activity.
8. End the session.

Date	Transactions (cont.)
Mar. 9	Returned \$225 in merchandise to Photo Emporium, issued Debit Memorandum 72.
10	Purchased \$3,600 in merchandise on account from Video Optics Inc., Invoice VO94, terms 3/15, n/45.
15	State Street Office Supply granted a \$60 credit for damaged supplies purchased on August 5, Debit Memorandum 73.
20	Bought \$4,800 in store equipment from Digital Precision Equipment on account, Invoice 1288, terms n/30.
25	Issued Debit Memorandum 74 to Video Optics Inc. for the return of \$120 in merchandise.
28	Purchased \$1,800 in merchandise on account from U-Tech Products, Invoice UT66, terms n/30.
29	Bought \$270 in supplies on account from ProStudio Supply, Invoice 4574, terms n/30.
30	Returned \$150 in merchandise to U-Tech Products, Debit Memorandum 75.
31	Issued Debit Memorandum 76 to ProStudio Supply for the return of \$35 in supplies bought on March 29.

Analyze

Identify the total credit amount made to the **Purchases Returns and Allowances** account for the month.

Problem 15-8 Recording Cash Payment Transactions

Cycle Tech Bicycles had the following cash payment transactions in March.

Instructions In your working papers, record the transactions on page 19 of the general journal.

Date	Transactions
Mar. 1	Purchased \$1,800 in merchandise from Summit Bicycles, Check 2111.
3	Issued Check 2112 for \$2,450 to Spaulding Inc. in payment of the \$2,500 account balance less a 2% cash discount of \$50.
7	Issued Check 2113 for \$3,100 to Desert Palms Insurance Company for the annual business insurance premium.
12	Paid \$175 to Viking Express for delivery of merchandise purchased from Schwinn Inc., FOB shipping point, Check 2114.
17	Issued Check 2115 to Suspension Specialists for \$3,880 in payment of Invoice 1492 for \$4,000 less a 3% cash discount of \$120.
20	Received the March bank statement and recorded bankcard fees of \$275.

CONTINUE 

Problems

CHAPTER 15

Date	Transactions (cont.)
Mar. 24	Paid All-Star News \$130 to run an advertisement promoting the store, Check 2116.
28	Bought \$100 in supplies and \$700 in store equipment from Superior Store Equipment Inc., Check 2117 for \$800.
31	Issued Check 2118 for \$2,185.50 in payment of monthly wages of \$3,000 less deductions for the following taxes: Employees' Federal Income Tax Payable, \$480; Employees' State Income Tax Payable, \$105; Social Security Tax Payable, \$186; and Medicare Tax Payable, \$43.50.

Analyze

Determine the total decrease to the checking account for the month.

Problem 15–9 Recording Purchases and Cash Payment Transactions

River's Edge Canoe & Kayak had the following purchases and cash payment transactions for the month of March.

Instructions In your working papers, record the following transactions on page 16 of the general journal.

Date	Transactions
Mar. 1	Purchased \$8,200 in merchandise on account from Trailhead Canoes, Invoice TC202, terms 2/10, n/30.
5	Issued Check 887 for \$98 to Santini Trucking Company for delivery of merchandise purchased from Trailhead Canoes.
7	Bought \$230 in supplies on account from StoreMart Supply, Invoice SM101, terms n/30.
9	Issued Check 888 to World-Wide Insurance Company for \$2,500 in payment of business insurance premium.
11	Issued Check 889 to Trailhead Canoes for \$8,036 in payment of Invoice TC202 for \$8,200 less a 2% cash discount of \$164.
15	Purchased \$6,200 in merchandise on account from Mohican Falls Kayak Wholesalers, Invoice 45332, terms 3/15, n/45.
18	Issued Debit Memorandum 67 for \$25 to StoreMart Supply for damaged supplies purchased on March 7.
21	Paid StoreMart Supply the balance due on their account, \$205 (\$230 less \$25 credit), Check 890.
25	Returned \$200 in merchandise to Mohican Falls Kayak Wholesalers, Debit Memorandum 68.
28	Rollins Plumbing Service completed \$120 in repair work (Maintenance Expense) on account, Invoice RP432.

Analyze

State the total debit amount to the Purchases account for the month.

Peachtree®**SMART GUIDE****Step-by-Step Instructions:****Problem 15–8**

1. Select the problem set for Cycle Tech (Prob. 15–8).
2. Rename the company and set the system date.
3. Record all cash payments.
4. Print a Cash Disbursements Journal and a General Journal report.
5. Complete the Analyze activity.
6. End the session.

QuickBooks**PROBLEM GUIDE****Step-by-Step Instructions:****Problem 15–8**

1. Restore the Problem 15–8.QBB file.
2. Record all cash payments.
3. Print a Journal report.
4. Complete the Analyze activity.
5. Back up your work.

Peachtree®**SMART GUIDE****Step-by-Step Instructions:****Problem 15–9**

1. Select the problem set for River's Edge (Prob. 15–9).
2. Rename the company and set the system date.
3. Enter all of the purchases on account.
4. Process all debit memorandums.
5. Record all cash payments.
6. Print a Purchases Journal, Cash Disbursements Journal, and a General Ledger.
7. Proof your work.
8. Complete the Analyze activity.
9. End the session.



Problem 15-10 Recording and Posting Purchases and Cash Payment Transactions

SOURCE DOCUMENT PROBLEM

Problem 15-10

Use the source documents in your working papers to complete this problem.

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SMART GUIDE

Step-by-Step Instructions: Problem 15-10

1. Select the problem set for Buzz Newsstand (Prob. 15-10).
2. Rename the company and set the system date.
3. Enter all of the purchases on account.
4. Process all debit memorandums.
5. Record all cash payments.
6. Print the following reports: Purchases Journal, Cash Disbursements Journal, Vendor Ledgers, and General Ledger.
7. Proof your work.
8. Complete the Analyze activity.
9. End the session.

Buzz Newsstand's purchases and cash payment transactions for the month of March are described below.

Instructions In your working papers:

1. Record the transactions in the general journal, page 7.
2. Post the transactions to the ledger accounts.

Date	Transactions
Mar. 1	Purchased \$5,600 in merchandise on account from ADC Publishing, Invoice 785, terms 3/15, n/45.
3	Issued Check 1400 for \$735 to Pine Forest Publications in payment of Invoice PFP98 for \$750 less a 2% cash discount of \$15.
5	Issued Check 1401 for \$275 to Rizzo's Trucking Company for transportation charges.
7	Issued Check 1402 for \$588 to Delta Press in payment of Invoice DP166 for \$600 less a 2% cash discount of \$12.
9	American Trend Publishers granted a \$100 allowance for damaged merchandise, Debit Memorandum 33.
11	Issued Check 1403 for \$3,200 to Keystone Insurance Company for the annual premium for business insurance.
15	Issued Check 1404 for \$5,432 to ADC Publishing in payment of Invoice 785 for \$5,600 less a 3% cash discount of \$168.
18	Bought \$2,800 in merchandise on account from Delta Press, Invoice DP204, terms 2/10, n/30.
22	Issued Debit Memorandum 34 to Delta Press for the return of \$300 in merchandise.
28	Paid American Trend Publishers the balance due on their account, \$800, no discount, Check 1405.
30	Bought \$120 in merchandise for cash from ADC Publishing, Check 1406.

Analyze

Calculate how much Buzz Newsstand saved in March by taking cash discounts.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. If bankcard fees are automatically deducted from the checking account of a business, how will the bookkeeper journalize the fee?
 - a. Capital account is increased by the amount of the fee.
 - b. Cash account is increased by the amount of the fee.
 - c. Bank Card Fees Expense is increased by the amount of the fee and Cash is decreased.
 - d. Cash account is increased by the amount of the fee and Bank Card Fees Expense is decreased.
2. A business transaction that involves a purchase on account is considered to be a(n)
 - a. cash transaction.
 - b. credit transaction.
 - c. investment of the owner.
 - d. expense transaction.
3. A liability resulting from the purchase of goods or services on credit is usually recorded as
 - a. an account receivable.
 - b. an account payable.
 - c. a revenue.
 - d. a reduction of equity.
 - e. a net loss.



Business Professionals of America

MULTIPLE CHOICE

4. If an invoice dated September 9 and received on September 12 shows terms of 2/10 n/30, what is the last day that a discount may be taken?
 - a. September 11
 - b. September 19
 - c. September 22
 - d. October 9
5. A form prepared by the customer showing the price deducted taken by the customer for a return is a
 - a. Purchases Discount.
 - b. Sales Return.
 - c. Credit Memorandum.
 - d. Debit Memorandum.

Need More Help?

Go to glencoeaccounting.glencoe.com and click on Student Center. Click on Winning Competitive Events and select Chapter 15.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology



Critical Thinking**Processing Purchases**

1. What is a purchases discount?
2. How do a purchase requisition and a purchase order differ?
3. In your job in the receiving department of a business, you are responsible for verifying the accuracy of a shipment. What do you do?
4. How are a purchases return and a purchases allowance similar? How are they different?
5. Explain the importance of using a purchase requisition, a purchase order, a packing slip, and a processing stamp in the purchasing process of a business.
6. Evaluate the usefulness of subsidiary ledgers.

CASE STUDY**Merchandising Business: Sportswear Store**

The Sports Loft is a retail store that sells sports clothing, accessories, and equipment. Janet Loftis wants you to design a more automated system for ordering merchandise that will free her for other management duties.

INSTRUCTIONS

1. Identify issues involved in creating a new purchasing process. For example, how will it identify low stock?
2. Write a one-page report suggesting a purchasing system for The Sports Loft. Specify the information it should collect and how it would trigger new orders. Draw a diagram if necessary. Include a description of any forms needed.

A Matter of Ethics**Showing Favoritism**

Manufacturers make purchases to conduct their business. Imagine that you work in the purchasing department of a large toy manufacturer like Mattel. Your job is to place orders for the parts used to make toy cars and trucks. One supplier, whose prices are only slightly higher than others, has indicated that it would send free tickets to a sports event if you order most of the parts from it.

ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?

COMMUNICATING ACCOUNTING**A Plan for Quality**

You were recently hired as an accounting clerk at The Writer's Desk. One of your tasks is to process the invoices to be paid. The previous clerk did not pay invoices within the discount period and often paid them late. Write out a plan to improve and maintain quality regarding accounts payable. Address how you will use a ticker file to implement the plan.



Monitoring and Correcting Performance of Systems

Identifying trends, predicting changes, finding problems, and applying solutions are skills of a *systems thinker*.

ON THE JOB

Your town is hosting a big mountain bike competition. As an Action Athletics employee, you know the event offers a chance to increase cycling gear sales. You recommend adjusting and upgrading the cycling merchandise line for this event.

INSTRUCTIONS

1. Pair up with a student and role-play your “sales pitch” to persuade your employer to add to the current merchandise line.
2. Using a spreadsheet program, list 10 biking accessories to include in inventory. Make reasonable estimates for each item’s price and its sales for the month of the bike event when about 200 cyclists will visit the store.



Utilizing E-Procurement

When Schlumberger Oilfield Services needed supplies for its global operations, it used an e-procurement system to connect buyers and suppliers via the Internet. Bidders around the world can compete online for contracts in different currencies and languages. The easy-to-use system saves Schlumberger nearly \$400,000 a month in transaction costs and has decreased its order fulfillment time.

INSTRUCTIONS Imagine that your company has manufacturing plants in both the United States and Japan. Describe how an e-procurement system might be helpful.



Applying for a Loan

You may soon apply for a loan from a financial institution to pay for your education or to buy a vehicle. When you borrow money, you must understand the loan’s finance charges and what the application process involves.

PERSONAL FINANCE ACTIVITY Assume that you plan to borrow \$6,000 from your bank to purchase a five-year-old automobile. What questions do you expect the bank to ask you? What questions will you ask?

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on Student Center. Click on Making It Personal and select Chapter 15.



Identifying Corporate Goals

The information in an annual report is directed to many audiences: existing and potential stockholders; financial analysts and advisors; government regulators, such as the Securities and Exchange Commission (SEC); employees; and creditors.

INSTRUCTIONS

Use the *Dear Fellow Stockholders* letter in PETsMART’s annual report in Appendix F at the back of your textbook to complete the following.

1. List three of PETsMART’s goals for 2004 and beyond that are measurable.
2. Name PETsMART’s most powerful asset, and explain how PETsMART is investing in this asset.