

Name: KEY

Chapter 1

Recording Departmental Purchases & Cash Payments

Section 1.1: Using Accounting Principles and Records

Accounting Equation

- **asset** – anything of value that is owned
- **liability** – amount owed by a business
- **equities** – financial rights to the assets of a business
- **owners' equity** – amount remaining after the value of all liabilities is subtracted from the value of all assets
- **stockholders' equity** – owners' equity in a corporation
- **accounting equation** – equation showing the relationship among assets, liabilities, & owners' equity
- **Unit of Measurement (summarize)** – business transactions are reported in numbers that have common values
- **source documents** – business papers from which transactions are obtained
- **Objective Evidence** – source documents must be available to show that the transaction did occur

General Journal

- **double-entry accounting** – recording of debit & credit parts of a transaction
- **journal** – form for recording transactions in chronological order
- **special journal** – journal used to record only one kind of transaction
 - **Purchases Journal** – for all purchases of merchandise on account

- **Cash Payments Journal** – for all cash payments
- **Sales Journal** – sales of merchandise on account
- **Cash Receipts Journal** – cash receipts
- **General Journal** – all other transactions

Normal Balances of Accounts

- **account** – record summarizing all info pertaining to a single item in the acc. eq.

Label each t account below with the following: Debit, Credit, Normal Balance, Increase, and Decrease.

Assets		=	Liabilities		+	Owners' Equity	
Any Asset			Any Liability			Stockholders' Equity	
D	C		D	C		D	C
normal bal.				normal balance			normal balance
↑	↓		↓	↑		↓	↑

Any Revenue	
D	C
	normal balance
↓	↑

Any Expense	
D	C
normal balance	
↑	↓

Ledgers

- **ledger** – group of accounts
- **general ledger** – ledger w/ all accounts needed to prepare financial statements
- **subsidiary ledger** – ledger summarized in single ledger account

- **controlling account** – account that controls all accounts in a subsidiary ledger

Subsidiary Ledgers	Controlling Accounts
AR Ledger	AR
AP Ledger	AP

General and Subsidiary Ledger File Management

- **file maintenance** – procedure for arranging accounts in general ledger, assigning account numbers, & keeping records current

Work Together 1.1

Determining the normal balance, increase, and decrease sides for accounts

For each of the accounts below, complete the following.

- 1) In parentheses to the right side of the account title, identify the account as asset, liability, owners' equity, revenue, or expense.
- 2) Label the debit and credit sides.
- 3) Label each side the T account using the labels *Normal Balance*, *Increase Side*, or *Decrease Side*.

Prepaid Insurance		Advertising Expense		Lee Enterprises (an account payable)	
D	C	D	C	D	C
normal		normal			normal
↑	↓	↑	↓	↓	↑
Capital Stock		Merchandise Inventory		Nguyen Entertainment (an account payable)	
D	C	D	C	D	C
	normal	normal			normal
↓	↑	↑	↓	↓	↑
Sales		Cash			
D	C	D	C		
	normal	normal			
↓	↑	↑	↓		

Section 1.2: Journalizing and Posting Purchases and Purchases Returns

Departmental Accounting System

- **departmental accounting system** – accounting system showing accounting information for two or more departments
- **merchandising business** – biz that purchases + sells goods

Journalizing Purchases on Account

Sample Problem (Work Together 1.2)

City Music has two departments: Discs and Tapes. A purchases journal is provided. Journalize each transaction. Source document is abbreviated as follows: purchase invoice, P.

- March 1 Purchased tapes on account from Raymond Wholesalers, \$1,350. P283.
 2 Purchased discs on account from Artex Music, \$965. P284.
 18 Purchased tapes on account from Quality Tapes, \$268. P285.
 23 Purchased tapes on account from Castle Records and Tapes, \$993. P286.

PURCHASES JOURNAL								PAGE 3
DATE	ACCOUNT CREDITED	PURCH NO.	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT			
					DISCS	TAPES		
1 MAR 1	RAYMOND WHOLESALERS	283	180	1350		1350		
2 2	ARTEX MUSIC	284	110	965	965			
3 18	QUALITY TAPES	285	170	268		268		
4 23	CASTLE RECORDS & TAPES	286	110	993		993		
5 31	TOTALS			<u>2576</u>	<u>965</u>	<u>2611</u>		
6				(2576)	(965)	(2611)		

Journalizing Purchases Returns and Allowances

- **debit memorandum** – form prepared by customer showing the price deduction for purchase returns + allowances
- **contra account** – an account that reduces a related account on a financial statement

Sample Problem, continued (Work Together 1.2)

City Music has two departments: Discs and Tapes. A general journal is provided. Journalize each transaction. Source document is abbreviated as follows: debit memorandum, DM.

- March 5 Returned discs to Dade, Inc., \$165, from P280. DM36.
 6 Received an allowance on tapes from Raymond Wholesalers, \$100, from P283. DM37.

GENERAL JOURNAL							PAGE 3
	DATE	ACCOUNT TITLE	DOC NO.	POST. REF.	DEBIT	CREDIT	
1	MAR 5	AP/Dade Inc.	DM36	DM36	165		1
2		PURCHASES RETURNS & ALLOW-DISC	DM36			165	2
3	6	AP/RAYMOND WHOLESALERS	DM37	DM37	100		3
4		PURCHASES RETURNS & ALLOW-TAPES	DM37			100	4

Posting from a Purchases Journal

- **posting** - transferring transaction info from a journal entry to a ledger account

Sample Problem, continued (Work Together 1.2)

City Music has two departments: Discs and Tapes. A partial general ledger and accounts payable ledger are provided. The balances are recorded as of March 1 of the current year. Use the purchases journal and general journal from the previous page.

- 1) Post the items that are to be posted individually from the purchases journal.
- 2) Post from the general journal.
- 3) Prove and rule the purchases journal. Post the totals.

General Ledger

Account Accounts Payable						Account No. 2105	
Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
Mar	1	Balance	v				2 170 00
	5		63	105			2 005
	6		63	100			1 905
	31		P3		5576		5481

Account Purchases—Discs					Account No. 5105		
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Credit	
MAR 31		P3	965		965		

Account Purchases Returns and Allowances—Discs						Account No. 5115	
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Credit	
MAR 5		63		105		105	

Account Purchases—Tapes					Account No. 5205	
Date		Item	Post. Ref.	Debit	Credit	Balance
						Debit Credit
MAR 6			63		100	
						100

Account Purchases Returns and Allowances—Tapes						Account No. 5215	
Date	Item	Post. Ref.	Debit	Credit	Balance		
					Debit	Credit	
MAR 31		P3	2011		2011		

Accounts Payable Ledger

Vendor Artex Music						Vendor No. 210
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
Mar 1	Balance	v			480 00	
12		P3		965	1445	

Vendor Castle Records and Tapes						Vendor No. 220
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
Mar 1	Balance	v			760 00	
13		P3		993	1753	

Vendor Dade, Inc.						Vendor No. 230
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
Mar 1	Balance	v			570 00	
5		G3	105		405	

Vendor Park Recording Company						Vendor No. 260
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
Mar 1	Balance	v			360 00	

Vendor Quality Tapes						Vendor No. 270
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
MAR 18		P3		208	208	

Vendor Raymond Wholesalers						Vendor No. 280
Date	Item	Post. Ref.	Debit	Credit	Credit Balance	
MAR 1		P3		1350	1350	
4		G3	100		1250	

Section 1.3: Journalizing and Posting Cash Payments

Departmental Cash Payments

- **cash discount** – deduction vendor allows on invoice amount to encourage prompt payment
- **purchases discount** – cash discount on purchases taken by a customer

Recording Entries in a Cash Payment Journal (pg. 21)

Sample Problem (Work Together 1.3 - modified)

Village Music Center has two departments: Guitars and Keyboards. Page 17 of a cash payments journal is provided. Source documents are as follows: check, C; debit memorandum, DM; and purchase invoice, P.

- Sept. 5 Paid cash on account for guitars from Peninsula Guitar covering P358 for \$1,150; no discount. C241.
- 7 Paid cash for administrative supplies, \$120. C242.

Journalizing a Purchases Discount (pg. 19)

Sample Problem, continued (Work Together 1.3 - modified)

Continue to use the cash payments journal started above.

- Sept. 9 Paid cash on account for keyboards from Magic Keyboard covering P361 for \$1,800, less 2% discount. C243.

Taking a Discount after a Purchase Return (pg. 20)

Sample Problem, continued (Work Together 1.3 - modified)

Continue to use the cash payments journal started above.

- Sept. 16 Paid cash on account for keyboards from Magic Keyboard covering P360 for \$2,210, less DM53 for \$210, and less 2% discount. C244. (use the calculation area below to help prepare this transaction)

Amount owed on invoice:

Purchase Invoice	-	Purchases Return	=	Purchase Invoice
Amount (P360)		(DM53)		Amount after Return
<u>2210</u>	-	<u>210</u>	=	<u>2000</u>

Purchases discount:

Purchase Invoice	x	Purchases Discount	=	Purchases
Amount after Return		Rate		Discount
<u>2000</u>	x	<u>.02</u>	=	<u>40</u>

Amount owed on invoice:

Purchase Invoice	-	Purchases	=	Total Amount
Amount after Return		Discount		Due
<u>2000</u>	-	<u>40</u>	=	<u>1960</u>

Cash Payment to Replenish Petty Cash (pg. 22)

- **petty cash** – amount of cash kept on hand & used for making small payments

Sample Problem, continued (Work Together 1. 3 - modified)

Continue to use the cash payments journal started above.

Sept. 30 Paid cash to replenish the petty cash fund, \$64: administrative supplies, \$15; advertising expense, \$22, miscellaneous expense, \$27. C245.

CASH PAYMENTS JOURNAL										
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCH. DISCOUNT CR.		CASH	
				DEBIT	CREDIT		GUITARS	KEYBOARDS	CREDIT	
Sept 5	Peninsula Guitar	141	130			1150			1150	
7	Supplies-Admin.	142	1315	120					120	
9	Magic Keyboard	143	130			1800		36	1764	
16	Magic Keyboard	144	130			2000		40	1960	
30	Supplies-Admin.	145	1315	15					64	
30	Advertising exp.			22						
30	Misc. Exp.			27						
30	TOTALS			184		4950		76	5058	
				(V)	(V)	(1150)	(V)	(510)	(1150)	

Posting from a Cash Payments Journal (pg. 23)

Continue to use the cash payments journal started above. A partial general ledger and an accounts payable ledger are provided.

- 1) Post items that are to be posted individually.
- 2) Prove and rule the cash payments journal. Post the totals.

General Ledger

ACCOUNT <div>Cash</div>						ACCOUNT NO. <div>1105</div>	
DATE		ITEM	POST REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	1	Balance	v			23 120 00	
	30		CP17		5058	18062	

ACCOUNT Petty Cash						ACCOUNT NO. 1110			
DATE		ITEM	POST REF.	DEBIT	CREDIT	BALANCE			
						DEBIT	CREDIT		
Sep	1	Balance	v			300 00			

ACCOUNT Supplies—Administrative						ACCOUNT NO. 1315	
DATE		ITEM	POST REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	1	Balance	v			2 560 00	
	7		CP17	120		2680	
	30		CP17	15		2695	

ACCOUNT Accounts Payable						ACCOUNT NO. 2105	
DATE		ITEM	POST REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	1	Balance	v				8 593 00
	10		CP17	4990			3643

ACCOUNT Purchases Discount—Guitars						ACCOUNT NO. 5110	
DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	

ACCOUNT Purchases Discount—Keyboards						ACCOUNT NO. 5210	
DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Sept 10		CP17	00	70		70	

ACCOUNT Advertising Expense						ACCOUNT NO. 7105	
DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Sept 30		CP17	12		12		

ACCOUNT Miscellaneous Expense						ACCOUNT NO. 7120	
DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Sept 30		CP17	17		17		

Accounts Payable Ledger

VENDOR Carmel Music							VENDOR NO. 210
Date		Item	Post. Ref.	Debit	Credit	Credit Balance	
Sep	1	Balance	v			1 963 00	

VENDOR Magic Keyboards						VENDOR NO. 220	
Date		Item	Post. Ref.	Debit	Credit	Credit Balance	
Sep	1	Balance	v			3 800 00	
	9		CP17	1800		2000	
	10		CP17	2000			

VENDOR Peninsula Guitar						VENDOR NO. 230	
Date		Item	Post. Ref.	Debit	Credit	Credit Balance	
Sep	1	Balance	v			2 830 00	
	5		CP17	1150		1080	