LESSON 10-1

• Tear out chapter 10 workbook pages 221-241. You do NOT need the “Using Source Documents” problem, but make sure you DO NOT throw away the last page of the challenge problem!!!
Special Journals

- Purchases Journal
  - Used to record purchase of merchandise on account

- Cash Payments Journal
  - Used to record transactions that involve paying cash

- General Journal
  - Record supplies bought on account
  - Record purchases returns and allowances

- Sales Journal
  - Used to record sales of merchandise on account

- Purchases and the sale of merchandise are the two major activities of a merchandising business

- Customer
  - A person or business to whom merchandise is sold
SALES TAX

Sales tax – a tax on a sale of merchandise or services
- Amount is collected by the business, tax reports are filed with the appropriate government unit, and tax collected is submitted

Businesses must record (1) total sales and (2) total sales tax collected

Sales tax collected is a liability until paid to the government agency
A sale of merchandise increases revenue

- Revenue must be recorded at the time of the sale, regardless of when payment is made (CONCEPT: Realization of Revenue)

Sale on account (charge sale) – a sale for which cash will be received at a later date
SALES JOURNAL

Sales Journal – special journal used only to record sales of merchandise on account
Sales Invoice - Objective evidence

3 copies: customer, Hobby Shack shipping, source document

This same invoice is considered a purchase invoice by Village Crafts

Sales Tax:
540 x 6% = 32.40

Total Amount:
540 + 32.40 = 572.40
November 3. Sold merchandise on account to Village Crafts, $540.00, plus sales tax, $32.40; total, $572.40. Sales Invoice No. 76.

1. Write the date.
2. Write the customer name.
3. Write the sales invoice number.
4. Write the total amount owed by the customer.
5. Write the sales amount.
6. Write the sales tax amount.
Prove the equality of debits and credits:
8,723 + 345.06 = **9,068.06**
TERMS REVIEW

- customer
- sales tax
- sales journal
Journalizing Cash Receipts

Using a Cash Receipts Journal

Objectives: Define accounting terms related to cash receipts for a merchandising business.

Identify accounting concepts and practices related to cash receipts for a merchandising business.

Journalize cash receipts using a cash receipts journal.
Processing Sales Transactions

- **Cash sale**
  - A sale in which cash is received for the total amount of the sale at the time of the transaction

- **Credit card sale**
  - A sale in which a credit card is used for the total amount of the sale at the time of the transaction (VISA, MasterCard, Discover)
    - Customer is promising to pay the bank issuing the credit card
Processing Sales Transactions

- **Cash register receipt**
  - Some small businesses still use traditional cash registers – the cash register prints a summary of the sales recorded every day
  - Cannot provide information about what was sold, when, and to whom

*Cash Register Receipt*

<table>
<thead>
<tr>
<th>Antique Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 Eagle Street</td>
</tr>
<tr>
<td>Hanson, Iowa</td>
</tr>
</tbody>
</table>

| 13.23  |
| 2.45   |
| 2.45   |
| 10.34  |

Subtotal 28.47

| Tax 1.71 |

Total 30.18

Old system
Processing Sales Transactions

- Point-of-sale (POS) terminal
  - Modern version of cash register
  - Computer used to collect, store, and report all the information of a sales transaction
  - Number, description, price, and quantity on hand is stored in the POS terminal
  - Sales clerk uses scanning device to scan UPC

UPC (Universal Product Code)

<table>
<thead>
<tr>
<th>Hobby Shack, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1420 College Plaza</td>
</tr>
<tr>
<td>Atlanta, Georgia</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>latex paint, blue 1 oz.</td>
<td>5</td>
<td>$1.45</td>
</tr>
<tr>
<td>paint brush, 3/4 glaze</td>
<td>3</td>
<td>$3.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>17.00</strong></td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td></td>
<td><strong>1.02</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>18.02</strong></td>
</tr>
</tbody>
</table>

VISA RECEIPT

<table>
<thead>
<tr>
<th>Purchase</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exp 02/--</td>
<td></td>
</tr>
<tr>
<td>04/01/--</td>
<td></td>
</tr>
<tr>
<td>Ref 3534423</td>
<td></td>
</tr>
<tr>
<td>Register #: 002</td>
<td></td>
</tr>
<tr>
<td>Cashier #: 010</td>
<td></td>
</tr>
</tbody>
</table>

Thanks, Come Again
Terminal Summary
- Report that summarizes the cash and credit card sales of a POS terminal (CONCEPT: Objective Evidence)

POS system can produce a variety of reports to aid mgt. in decision making:
- Report of sales by sales clerk
- Report of sales by time of day
- Report of merchandise on hand to alert mgt. when to reorder

Terminal Summary

<table>
<thead>
<tr>
<th>TERMINAL SUMMARY</th>
<th>Hobby Shack, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code:</td>
<td>34</td>
</tr>
<tr>
<td>Date:</td>
<td>11/27/---</td>
</tr>
<tr>
<td>Time:</td>
<td>18:24</td>
</tr>
<tr>
<td>Visa Sales</td>
<td>034</td>
</tr>
<tr>
<td>Sales</td>
<td>295.38</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>17.72</td>
</tr>
<tr>
<td>Total</td>
<td>313.10</td>
</tr>
<tr>
<td>MasterCard Sales</td>
<td>042</td>
</tr>
<tr>
<td>Sales</td>
<td>107.21</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>6.43</td>
</tr>
<tr>
<td>Total</td>
<td>113.64</td>
</tr>
<tr>
<td>Cash Sales</td>
<td>152</td>
</tr>
<tr>
<td>Sales</td>
<td>5,057.41</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>303.45</td>
</tr>
<tr>
<td>Total</td>
<td>5,360.86</td>
</tr>
<tr>
<td>Totals Sales</td>
<td>5,460.00</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>327.60</td>
</tr>
<tr>
<td>Total</td>
<td>5,787.60</td>
</tr>
</tbody>
</table>

(continued from previous slide)
**Batch Report**

- **Batch Report** - report of credit card sales produced by a POS terminal
  - Can be **detailed** or a **summary**
  - Process (**batching out**) – POS electronically submits a summary of batch report to bank; bank sends it to the Federal Reserve Bank so the funds can be transferred (p.278)
  - Companies usually batch out daily, but the business determines when/how often this task is performed
CASH RECEIPTS JOURNAL

- Special journal used to record only **cash receipt** transactions
  - Necessary because there are a large # of cash receipt transactions

- Sales discount – cash **discount on sales** taken by a customer
  - Reduces the amount of **cash received** by the business

- POS terminal combines cash and credit card sales in terminal summary and the **total** is recorded as a **single cash transaction**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACCOUNT TITLE</th>
<th>DOC. NO.</th>
<th>POST. REF.</th>
<th>GENERAL</th>
<th>ACCOUNTS RECEIVABLE</th>
<th>SALES</th>
<th>SALES TAX PAYABLE</th>
<th>SALES DISCOUNT</th>
<th>CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
November 4. Recorded cash and credit card sales, $5,460.00, plus sales tax, $327.60; total, $5,787.60. Terminal Summary 34.

1. Write the date.
2. Place a check mark in the Account Title column.
3. Write the terminal summary document number.
4. Place a check mark in the Post. Ref. column.
5. Write the sales amount.
6. Write the sales tax amount.
7. Write the cash amount.
November 6. Received cash on account from Country Crafters, $2,162.40, covering S69. Receipt No. 90.

1. Write the date.
2. Write the customer’s name.
3. Write the receipt number.
4. Write the credit amount.
5. Write the debit amount.
November 1. Sold merchandise on account to Cumberland Center, $1,200.00, Sales Invoice No. 74. Cumberland is tax exempt.

<table>
<thead>
<tr>
<th>Accounts Rec. - Cumberland</th>
<th>Sales</th>
<th>Sales Discount</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/1</td>
<td>1200.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11/7</td>
<td>1200.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>11/7 24.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11/7 1176.00</td>
</tr>
</tbody>
</table>

November 7. Received cash on account from Cumberland Center, $1,176.00, covering Sales Invoice No. 74 for $1,200.00, less 2% discount, $24.00 (1,200 x .02 = 24). Receipt No. 91.
November 7. Received cash on account from Cumberland Center, $1,176.00, covering Sales Invoice No. 74 for $1,200.00, less 2% discount, $24.00. Receipt No. 91.

1. Write the date.
2. Write the customer’s name.
3. Write the receipt number.
4. Write the original invoice amount.
5. Write the amount of sales discount.
6. Write the debit to cash.
TOTALING, PROVING, AND RULING A CASH RECEIPTS JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACCOUNT TITLE</th>
<th>DOC. NO.</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>ACCOUNTS RECEIVABLE CREDIT</th>
<th>SALES CREDIT</th>
<th>SALES TAX PAYABLE CREDIT</th>
<th>SALES DISCOUNT DEBIT</th>
<th>CASH DEBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>30</td>
<td>T38</td>
<td></td>
<td></td>
<td></td>
<td>138000</td>
<td>8280</td>
<td></td>
<td></td>
<td>146280</td>
</tr>
<tr>
<td>23</td>
<td>30 Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>954000</td>
<td>2753250</td>
<td>164880</td>
<td>5250</td>
<td>3866880</td>
</tr>
</tbody>
</table>

Make sure debits = credits (p. 283)
Proving Cash at the End of the Month

Cash on hand at the beginning of the Month
(from General Ledger Cash Account)

Plus       + Cash Received during the Month
(Cash Debit—Cash Receipts Journal)

Minus      - Cash Paid out during the Month
(Cash Credit—Cash Payments Journal)

Equals     Cash Balance at the End of Month
(Equals amount on Last Check Stub in the Checkbook)
TERMS REVIEW

- cash sale
- credit card sale
- point-of-sale (POS) terminal
- terminal summary
- batch report
- batching out
- cash receipts journal
- sales discount
LESSON 10-3

Recording Transactions Using a General Journal
Sales Returns and Allowances

- **Sales return**
  - A credit allowed a customer for the sales price of returned merchandise, resulting in a decrease in the vendor’s accounts receivable

- **Sales allowance**
  - Credit allowed a customer for part of the sales price of merchandise that is not returned, resulting in a decrease in the vendor’s accounts receivable

- **Credit memorandum** (credit to Accts. Rec.)
  - Form prepared by the vendor showing the amount deducted for returns and allowances (CONCEPT: Objective Evidence)

- **Sales Returns and Allowances**
  - Contra account reducing the balance in Sales
  - Normal debit balance because Sales has a normal credit balance
CREDIT MEMORANDUM FOR SALES RETURNS AND ALLOWANCES

Hobby Shack, Inc.
1420 College Plaza
Atlanta, GA 30337-1726

We have this day credited your account as follows:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Quantity</th>
<th>Units</th>
<th>Description</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>17126</td>
<td>3</td>
<td>ea.</td>
<td>18” × 24” Wood Frame Sales tax</td>
<td>19.50</td>
<td>58.50</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td>3.51</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td>62.01</td>
</tr>
</tbody>
</table>

If the above is incorrect, please return stating difference.
March 11. Granted credit to Village Crafts for merchandise returned, $58.50, plus sales tax, $3.51, from S160; total, $62.01. Credit Memorandum No. 41.

1. Write the date.
2. Write Sales Returns and Allowances.
3. Write CM and the credit memorandum number.
4. Write the amount of the sales return.
5. Write Sales Tax Payable.
6. Write the sales tax amount.
7. Write the accounts to be credited.
8. Draw a diagonal line in the Post. Ref. column.
9. Write the total accounts receivable amount.
TERMS REVIEW

- sales return
- sales allowance
- credit memorandum