CHAPTER 17

Special Journals: Purchases and Cash Payments

What You’ll Learn

1. Explain the purpose of the purchases and cash payments journals.
2. Record transactions in the purchases and cash payments journals.
3. Record payroll transactions in the cash payments journal.
4. Post from the purchases and cash payments journals to the general ledger and the accounts payable subsidiary ledger.
5. Total, prove, and rule the purchases and cash payments journals.
6. Prepare a schedule of accounts payable.
7. Prove cash.
8. Define the accounting terms introduced in this chapter.

Why It’s Important

Cash must be protected and accounted for.

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

LOOKING AT THE ROLE OF PURCHASES

Adler Planetarium & Astronomy Museum

Millions of people visit Chicago’s Adler Planetarium & Astronomy Museum where the sky’s the limit when it comes to finding new ways to view the cosmos. If you want to know more about our galaxy, the Adler has something for you. Visitors can observe a simulated night sky in action on the Sky Theater’s 68-foot dome or build a solar system on a computer.

Operations like the Adler make many purchases. Its Galileo Café buys food and utensils. Exhibits might need giant models of planets or moons. The gift shop needs to stock puzzles, telescopes, and jewelry. The museum’s accounting system documents each purchase.

What Do You Think?

When the Adler Planetarium gift shop purchases items for resale, what general ledger accounts are affected?
Do you, or anyone you know, make regular payments to anyone—perhaps for car insurance or for a purchase you made on an installment plan? Businesses make many similar payments. Retail businesses buy the merchandise they sell to customers. They also buy many items used to operate the business, such as china and silverware for a restaurant. Businesses buy most items on credit and must keep track of when payments are due. You will learn how that is done in the accounting records as you study this chapter.

Personal Connection
1. What items might your employer buy on credit?
2. Do you have any ideas on how you might keep track of purchases and when payments are due on those items?

Online Connection
Go to glencoeaccounting.glencoe.com and click on Student Center. Click on Working in the Real World and select Chapter 17.
In the last chapter, you learned that businesses use special journals to record transactions that are similar and occur frequently. If the accounting system were like a transit system, special journals would be like traffic police in helping avoid accounting traffic jams by channeling incoming data into appropriate “lanes.” They also provide a shortcut for much of the data headed for the general ledger.

You also learned in the last chapter that the sales and cash receipts journals record the sale of merchandise and other assets. In this chapter you will learn how accountants use purchases and cash payments journals to record the purchase of merchandise and other assets. You will also learn about the accounts payable subsidiary ledger.

Businesses like Target purchase merchandise for resale from hundreds of suppliers. Target and other companies use purchases and cash payments journals to simplify the purchase and payment processes.

### Using the Purchases Journal

#### What Is the Purpose of the Purchases Journal?

Accountants use the **purchases journal** as a special journal to record all purchases on account. Figure 17–1 shows the purchases journal that On Your Mark Athletic Wear uses.

The purchases journal includes space for the page number, a column for the date, a column for the invoice number, a column for the name of the creditor, and a column for the posting reference. It also has three amount
columns. Refer to Figure 17–1 for a description of what amounts should be recorded in each column.

**Recording the Purchase of Merchandise on Account**

After verifying an invoice, the accounting clerk records the purchase in the purchases journal. Refer to the purchases journal and follow these steps:

1. Enter the date in the Date column. Use the date the invoice was received, not the date the invoice was prepared.
2. Enter the invoice number in the Invoice Number column.
3. Enter the creditor’s name in the Creditor’s Account Credited column.
4. Enter the total of the invoice in the Accounts Payable Credit column.
5. For purchases of merchandise on account, enter the total amount of the invoice in the Purchases Debit column.

**Business Transaction**

On December 14 On Your Mark received Invoice 7894 from Pro Runner Warehouse for merchandise purchased on account, $2,300, terms 2/10, n/30.

**JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>INVOICE NO.</th>
<th>CREDITOR’S ACCOUNT CREDITED</th>
<th>POST. REF.</th>
<th>ACCOUNTS PAYABLE CREDIT</th>
<th>PURCHASES DEBIT</th>
<th>GENERAL ACCOUNT DEBITED</th>
<th>POST. REF.</th>
<th>DEBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>14</td>
<td>Pro Runner Warehouse</td>
<td>2</td>
<td>3000</td>
<td>2000</td>
<td></td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td></td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

After journalizing the invoice from Pro Runner Warehouse, the accounting clerk places it in a tickler file by due date. In this case it is filed in the December 24 folder. On Your Mark plans to take the discount, and December 24 is ten days after the invoice date.

**Journalizing Other Purchases on Account**

On Your Mark also purchases supplies and other assets on account. These purchases do not occur often enough to set up special columns in the purchases journal. When these purchases do occur, they are recorded in the General Debit column of the purchases journal.

Refer to the purchases journal on page 484 and follow these steps:

1. Enter the date the invoice was received in the Date column.
2. Enter the invoice number in the Invoice Number column.
3. Enter the creditor’s name in the Creditor’s Account Credited column.
4. Enter the total of the invoice in the Accounts Payable Credit column.
5. Store equipment is not merchandise purchased for resale, so this 
transaction is not recorded in the Purchases Debit column. Instead, 
it is recorded in the General column. Write the name of the general 
ledger account being debited in the General Account Debited 
column.

6. Enter the total amount of the invoice in the General Debit column.
   After journalizing the invoice, the accounting clerk places it in 
   the tickler file. Because Champion Store Supply does not offer its 
credit customers a cash discount, the due date is January 12, 30 days 
after the date of the invoice. The invoice is filed in folder “12” to 
indicate this date.

**Posting from the Purchases Journal**

**How Do You Post Entries from the Purchases Journal?**

As you have learned, special journals save time in recording and 
posting business transactions. Each transaction in the purchases 
journal is a purchase on account. Therefore, each transaction is 
separately posted daily to the accounts payable subsidiary ledger to keep 
creditor accounts current.

Refer to Figure 17–2 as you read about posting to the accounts payable 
subsidiary ledger.

1. In the Date column of the subsidiary ledger account, enter the date 
of the transaction.
2. In the Posting Reference column of the subsidiary ledger account, 
record the journal letter and the page number. P is the letter used 
for the purchases journal.
3. In the Credit column of the subsidiary ledger account, enter the 
amount owed to the creditor.
4. Compute the new account balance by adding the amount in the 
Credit column to the previous balance amount. Since there was 
no previous balance in Pro Runner’s account, enter $2,300 in the 
Balance column.
Return to the purchases journal and place a check mark (✓) in the first Posting Reference column (next to the Creditor's Account Credited column).

### Posting from the General Debit Column

The clerk makes daily postings from the General Debit column of the purchases journal to the appropriate accounts in the general ledger. Refer to Figure 17–3 on page 486 as you read the following steps:

1. Enter the date of the transaction in the Date column of the general ledger account.
2. In the Posting Reference column of the general ledger account, record the journal letter (P for purchases journal) and page number.
3. In the Debit column of the general ledger account, enter the amount recorded in the General Debit column of the purchases journal.
4. Compute and record the new balance in the Debit Balance column.
5. Return to the purchases journal and place the general ledger account number in the General Posting Reference column (following the General Account Debited column).

### Totaling, Proving, and Ruling the Purchases Journal

To complete the purchases journal, refer to Figure 17–4 on page 486 and follow these steps:

1. Draw a single rule across the three amount columns: Accounts Payable Credit, Purchases Debit, and General Debit.
2. Foot each amount column.

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**Figure 17–2** Posting from the Purchases Journal to the Accounts Payable Subsidiary Ledger

5. Return to the purchases journal and place a check mark (✓) in the first Posting Reference column (next to the Creditor's Account Credited column).
3. Test for the equality of debits and credits.

<table>
<thead>
<tr>
<th>Debit Columns</th>
<th>Credit Column</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases $15,400</td>
<td>Accounts Payable $16,850</td>
</tr>
<tr>
<td>General 1,450</td>
<td>[\text{\textbullet\textbullet\textbullet}]</td>
</tr>
<tr>
<td>[\text{\textbullet\textbullet\textbullet}]</td>
<td>[\text{\textbullet\textbullet\textbullet}]</td>
</tr>
</tbody>
</table>

4. In the Date column, on the line below the single rule, enter the date the journal is being totaled.

5. On the same line, write the word \textit{Totals} in the Creditor's Account Credited column.

6. Enter the three column totals, in ink, just below the footings.

7. Draw a double rule across the three amount columns.

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**Figure 17–3** Posting from the Purchases Journal to the General Ledger

**Figure 17–4** The Completed Purchases Journal

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The completed purchases journal is a quick reference tool for the accountant to review current transactions that affect the Purchases account and the Accounts Payable account. Miscellaneous purchases are also reflected in the purchases journal. If a general journal had been used, these transactions would have been mixed with other transactions (cash receipts, payments, and more) of the period.

What else can the accountant verify from the completed purchases journal? A quick review of the Post. Ref. column tells the accountant that amounts have been posted to the accounts payable subsidiary ledger.

**Posting the Special Column Totals to the General Ledger**

After totaling and ruling the purchases journal, the clerk posts the totals of the Accounts Payable Credit column and the Purchases Debit column to the general ledger accounts. Then the clerk calculates the new balance for each account, and enters the new balance in the appropriate Balance column. Figure 17–5 shows the posting of these column totals.

After posting each column total, write the general ledger account number, in parentheses, in the column below the double rule as shown in Figure 17–5. The total of the General Debit column is not posted because the individual amounts were posted during the month. Place a check mark (✓) in parentheses below the double rule in the General Debit column to indicate that the total is not posted.
Do the Math
Dynamo Industries received an invoice from Santos Suppliers for merchandise purchased on July 5 for $12,000 with terms of 3/15, n/30. Answer the following questions:
1. What is the due date of the invoice?
2. What is the amount of cash discount?
3. What is the net amount to be paid?
4. What account is debited and for what amount?
5. What account is credited and for what amount?

Problem 17–1 Recording Transactions in the Purchases Journal
The Design Den, a retail merchandising business, uses special journals. On page 3 of the purchases journal in the working papers, record the following purchases:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 1</td>
<td>Purchased $1,400 in merchandise on account from Woodstock Furnishings, terms 3/15, n/30, Invoice WF39.</td>
</tr>
<tr>
<td>2</td>
<td>Bought $900 in store equipment on account from Holmes Equipment Company, terms n/30, Invoice 98.</td>
</tr>
<tr>
<td>4</td>
<td>Purchased $700 in merchandise from Fuller Fabrics, terms 3/10, n/30, Invoice 72.</td>
</tr>
<tr>
<td>7</td>
<td>Purchased computer speakers on account for $50 from Digital Solutions, terms 2/10, n/30, Invoice AB220.</td>
</tr>
<tr>
<td>10</td>
<td>Purchased fabric from Valley Upholstery for $1,500, terms 2/10, n/30, Invoice 947.</td>
</tr>
</tbody>
</table>
You have learned about three special journals: the sales journal, the cash receipts journal, and the purchases journal. Now you will study the cash payments journal. For many businesses like grocers who must pay for the purchases of a wide variety of merchandise, frequent payments make the use of the cash payments journal necessary.

Using the Cash Payments Journal

How Do You Record Cash Payments?

The cash payments journal is used to record all transactions in which cash is paid out or decreased. These transactions include: payments to creditors for items bought on account, cash purchases of merchandise and other assets, payments for various expenses, payments for wages and salaries, and cash decreases for bank service charges and bankcard fees. The source documents for the journal entries are check stubs and the bank statement. The cash payments journal is also called the cash disbursements journal.

Figure 17–6 shows the cash payments journal that On Your Mark uses. Notice that it has five amount columns.

The seven transactions that follow are typical of those recorded in the cash payments journal. Note that each transaction in the cash payments journal results in a credit to the Cash in Bank account.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO.</th>
<th>ACCOUNT NAME</th>
<th>POST REF.</th>
<th>GENERAL DEBIT</th>
<th>CREDIT</th>
<th>ACCOUNTS PAYABLE DEBIT</th>
<th>CREDIT</th>
<th>PURCHASES DISCOUNTS DEBIT</th>
<th>CREDIT</th>
<th>CASH IN BANK CREDIT</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>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

Used to enter debits and credits to general ledger accounts for which there are no special columns.

Used to record decreases to accounts in the accounts payable subsidiary ledger and to the Accounts Payable controlling account.

Used to enter the amount of purchases discounts taken.

Figure 17–6 Cash Payments Journal

Main Idea

The cash payments journal is used to record the cash a business pays out.

Read to Learn…

- how to record cash payment transactions. (p. 489)
- how to post from the cash payments journal. (p. 494)

Key Terms

cash payments journal
schedule of accounts payable
proving cash
Recording the Cash Purchase of an Asset

Cash purchases of various assets are recorded in the cash payments journal. One asset commonly purchased for cash is insurance. Let's record a transaction involving a cash purchase of insurance.

**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.

**JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO.</th>
<th>ACCOUNT NAME</th>
<th>POST REF.</th>
<th>GENERAL</th>
<th>ACCOUNTS PAYABLE</th>
<th>PURCHASES DISCOUNTS</th>
<th>CASH IN BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 17</td>
<td>1001</td>
<td>Prepaid Insurance</td>
<td></td>
<td>1 500.00</td>
<td></td>
<td></td>
<td>1 500.00</td>
</tr>
</tbody>
</table>

Refer to the cash payments journal above and follow these steps:
1. Enter the date of the transaction in the Date column.
2. Enter the check number in the Document Number column.
3. Enter the name of the account debited in the Account Name column.
4. Because there is no special column for Prepaid Insurance, enter the amount of the debit in the General Debit column.
5. Enter the amount of the credit in the Cash in Bank Credit column.

After payment, the invoice for the insurance is filed.

**Recording a Cash Purchase of Merchandise**

Retail businesses are constantly purchasing merchandise for resale. While they make most purchases on account, many are for cash. Let’s record a cash purchase of merchandise for resale.

**Business Transaction**

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

**JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO.</th>
<th>ACCOUNT NAME</th>
<th>POST REF.</th>
<th>GENERAL</th>
<th>ACCOUNTS PAYABLE</th>
<th>PURCHASES DISCOUNTS</th>
<th>CASH IN BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 19</td>
<td>1002</td>
<td>Purchases</td>
<td></td>
<td>1 300.00</td>
<td></td>
<td></td>
<td>1 300.00</td>
</tr>
</tbody>
</table>

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Refer to On Your Mark’s purchase from FastLane Athletics and the cash payments journal as you follow these steps:

1. Enter the date of the transaction in the Date column.
2. Enter the check number in the Document Number column.
3. Enter the name of the account debited in the Account Name column.
4. Because there is no special column for Purchases, enter the amount of the debit in the General Debit column.
5. Enter the amount of the check in the Cash in Bank Credit column.

After recording the transaction, the receipt for the cash purchase is filed.

**Recording a Payment on Account**

Now let’s learn how to make a payment on account and take a purchase discount.

**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.

**JOURNAL ENTRY**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO.</th>
<th>ACCOUNT NAME</th>
<th>POST REF.</th>
<th>GENERAL DEBIT</th>
<th>ACCOUNTS PAYABLE DEBIT</th>
<th>PURCHASES DISCOUNTS CREDIT</th>
<th>CASH IN BANK CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>24</td>
<td>Pro Runner Warehouse</td>
<td>1003</td>
<td>82</td>
<td>2,300</td>
<td>4600</td>
<td>2,254</td>
</tr>
</tbody>
</table>

Refer to the purchases journal above and follow these steps:

1. Enter the date of the transaction in the Date column.
2. Enter the check number in the Document Number column.
3. Enter the creditor’s name in the Account Name column.
4. Enter the amount of the original purchase in the Accounts Payable Debit column.
5. Enter the amount of the purchase discount in the Purchases Discounts Credit column.
6. Enter the amount of the check in the Cash in Bank Credit column.

Remember that a processing stamp is placed on each invoice when it is verified. After the cash payment has been journalized, the accounting clerk records the check number on the “Check No.” line of the processing stamp. The paid invoice is then filed.

Companies offer no discount for some purchases. For others they offer a discount, but the business cannot pay within the discount period. In these cases the check is written for the full amount of the purchase.
Recording Other Cash Payments

Let’s record a check written to pay for shipping charges when merchandise is sent FOB shipping point.

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

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO</th>
<th>ACCOUNT NAME</th>
<th>POST REF</th>
<th>GENERAL DEBIT</th>
<th>ACCOUNTS PAYABLE DEBIT</th>
<th>PURCHASES DISCOUNTS CREDIT</th>
<th>CASH IN BANK CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>1004</td>
<td>Transportation In</td>
<td></td>
<td>275.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Refer to the cash payments journal above and follow these steps:

1. Enter the date of the transaction in the Date column.
2. Enter the check number in the Document Number column.
3. Enter the name of the account debited in the Account Name column.
4. Because there is no special column for Transportation In, enter the amount in the General Debit column.
5. Enter the amount of the check in the Cash in Bank Credit column.

Recording Payment of Payroll

In an earlier chapter, you learned how to record the payroll entry in the general journal. When a business uses special journals, the entry for payment of the payroll is recorded in the cash payments journal. The information to record payroll transactions in journals is taken from the payroll register.

To record the payroll transaction, refer to the cash payments journal and follow these steps:

1. On the first line of the entry, enter the date of the transaction in the Date column.
2. Enter the check number in the Document Number column.
3. Enter the name of the account debited in the Account Name column.
4. Enter the amount of the payroll (gross pay) in the General Debit column.
5. Enter the net pay in the Cash in Bank Credit column.
6. On the next four lines, enter the names of the accounts credited in the Account Name column. Enter the amount of each liability in the General Credit column.
Bank service charges are automatically deducted from the checking account. Although no check is written to pay these charges, the transactions are recorded in the cash payments journal because the charges decrease the Cash in Bank account.

**Recording Bank Service Charges**

Bank service charges are automatically deducted from the checking account. Although no check is written to pay these charges, the transactions are recorded in the cash payments journal because the charges decrease the Cash in Bank account.

**Business Transaction**

On December 31 On Your Mark wrote Check 1012 for $2,974 to pay the payroll of $4,000 (gross earnings) for the pay period ended December 31. The following amounts were withheld: Employees' Federal Income Tax, $640; Employees' State Income Tax, $80; Social Security Tax, $248; and Medicare Tax, $58.

**Business Transaction**

On December 31 On Your Mark recorded a bank service charge for $20 indicated on the bank statement.

**Recording Bankcard Fees**

Most banks charge a fee for handling bankcard sales. This fee is automatically deducted from the business's checking account. For example, On Your Mark's bank deducted a bankcard fee of $75. The fee appeared on the bank statement as a deduction from the checking account balance. The accounting clerk recorded this decrease in cash in the cash payments journal.

**As You Read In Your Experience**

Bank Service Charges

What bank service charges, if any, has your bank charged you?
The clerk also enters the bank charges in the checkbook records. Figure 17–7 illustrates one way to adjust the balance on the check stub. The deposit heading is crossed out, and the words Bankcard Fees are written in its place. A deduction of $75 is entered on the stub. On the next line, the words Less Bank Service Charge are written and an entry is made for the $20 deduction. Both amounts are subtracted from the balance brought forward.

**Key Point**

Posting from the Cash Payments Journal

How Do You Post from the Cash Payments Journal?

Individual amounts in the Accounts Payable Debit column and the General Debit column are posted daily. Column totals are posted at the end of the month.

To keep creditors’ accounts current, clerks make daily postings from the Accounts Payable Debit column to the accounts payable subsidiary ledger. Refer to Figure 17–8 and follow these steps:

1. Enter the date of the transaction in the Date column of the subsidiary ledger account.
2. In the subsidiary ledger account’s Posting Reference column, enter the journal letters (CP for the cash payments journal) and the page number.
3. In the Debit column of the subsidiary ledger account, enter the amount recorded in the Accounts Payable Debit column of the journal.
4. Compute the new account balance and enter it in the Balance column. If the account has a zero balance, draw a line through the Balance column.

![Figure 17–7 Recording Bankcard Fees and Service Charges in the Checkbook](image-url)
5. Return to the cash payments journal and enter a check mark (✓) in the Posting Reference column.

Figure 17–9 shows On Your Mark's accounts payable subsidiary ledger after all postings have been made. Notice that the accounts contain entries from the purchases, cash payments, and general journals.

Figure 17–8 Posting from the Cash Payments Journal to the Accounts Payable Subsidiary Ledger

Figure 17–9 The Completed Accounts Payable Subsidiary Ledger
Figure 17–9 The Completed Accounts Payable Subsidiary Ledger (continued)
Posting from the General Debit Column

Accountants post daily from the General Debit column to the appropriate general ledger accounts. Refer to Figure 17–10 as you read the following steps.

1. Enter the date of the transaction in the Date column of the general ledger account.
2. Enter the journal letters (CP for the cash payments journal) and the page number in the Posting Reference column of the general ledger account.
3. In the Debit column, enter the amount from the General Debit column of the cash payments journal.
4. Compute the new balance and enter it in the appropriate Balance column. (Because the example used here has no previous balance, the amount recorded in the Debit column is also entered in the Debit Balance column.)
5. Return to the cash payments journal and enter the account number in the Posting Reference column.

All the transactions in the General Debit column are posted to the general ledger accounts in the same way.

Accountants also post entries daily from the General Credit column to the appropriate general ledger accounts. This is done in the same way as shown for General Debit Column entries.

Totaling, Proving, and Ruling the Cash Payments Journal

Accountants total the cash payments journal following the same steps that they use for other special journals. Before they rule the journal, they prove the equality of debits and credits.

**Figure 17–10** Posting from the General Debit Column of the Cash Payments Journal

**Instant Recall**

Totaling Special Journal Columns First, foot columns with the totals entered in pencil. After verifying the totals, write them in ink.
Debit Columns Credit Columns

General $ 9,170 General $ 1,026
Accounts Payable 9,100 Purchases Discounts 140
Cash in Bank 17,104

$18,270 $18,270

Since debits equal credits, the cash payments journal can be double-rulled, as shown in Figure 17–11.

**Posting Column Totals to the General Ledger**

At the end of the month, the accountant posts the total of each special amount column to the general ledger account named in the column heading. For the cash payments journal, column totals are posted to Accounts Payable, Purchases Discounts, and Cash in Bank. Figure 17–12 shows the posting of the three special column totals to the general ledger accounts. Note that the account numbers for the three general ledger accounts are written in parentheses below the double rule in the appropriate columns of the cash payments journal.

The totals of the General Debit and Credit columns are not posted. Each entry in those columns was posted individually to the general ledger accounts. A check mark (√) is entered below the double rule in the General Debit and Credit columns.
The accountant prepares a **schedule of accounts payable** after posting the column totals. This schedule lists all creditors in the accounts payable subsidiary ledger, the balance in each account, and the total amount owed to all creditors. The clerk proves the accounts payable subsidiary ledger when the total of the schedule of accounts payable agrees with the balance of the **Accounts Payable** (controlling) account in the general ledger.

**Figure 17–13** on page 500 shows On Your Mark’s schedule of accounts payable for December. The accounts are listed in alphabetical order. All creditors are listed, even those with zero balances. Notice that the total listed on the schedule ($13,850) agrees with the balance of the **Accounts Payable** (controlling) account.

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### CASH PAYMENTS JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DOC NO.</th>
<th>ACCOUNT NAME</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>ACCOUNTS PAYABLE DEBIT</th>
<th>PURCHASES DISCOUNTS CREDIT</th>
<th>CASH IN BANK CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>17</td>
<td>2000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>1001</td>
<td>Prepaid Insurance</td>
<td>135</td>
<td>15000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15000</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>19</td>
<td>605</td>
<td>7500</td>
<td>7500</td>
<td>0</td>
<td>7500</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>20</td>
<td>917000</td>
<td>102000</td>
<td>910000</td>
<td>12000</td>
<td>12000</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td>21</td>
<td>141</td>
<td>141</td>
<td>141</td>
<td>(201)</td>
<td>(201)</td>
</tr>
</tbody>
</table>

**ACCOUNT Cash in Bank**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance</td>
<td></td>
<td>15000</td>
<td>0</td>
<td>15000</td>
</tr>
<tr>
<td>19</td>
<td>CR13</td>
<td>17 28 00</td>
<td>3228</td>
<td>0</td>
<td>3228</td>
</tr>
<tr>
<td>21</td>
<td>CP14</td>
<td>17 10 40</td>
<td>15 179</td>
<td>0</td>
<td>15 179</td>
</tr>
</tbody>
</table>

**ACCOUNT Accounts Payable**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance</td>
<td></td>
<td>6300</td>
<td>0</td>
<td>6300</td>
</tr>
<tr>
<td>16</td>
<td>G21</td>
<td>20 00 00</td>
<td>6100</td>
<td>0</td>
<td>6100</td>
</tr>
<tr>
<td>31</td>
<td>P12</td>
<td>16 85 00</td>
<td>22 950</td>
<td>0</td>
<td>22 950</td>
</tr>
<tr>
<td>31</td>
<td>CP14</td>
<td>9 100 00</td>
<td>13 850</td>
<td>0</td>
<td>13 850</td>
</tr>
</tbody>
</table>

**ACCOUNT Purchases Discounts**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance</td>
<td></td>
<td>12 000</td>
<td>0</td>
<td>12 000</td>
</tr>
<tr>
<td>31</td>
<td>CP14</td>
<td>14 00 00</td>
<td>13 400</td>
<td>0</td>
<td>13 400</td>
</tr>
</tbody>
</table>

---

**Proving the Accounts Payable Subsidiary Ledger**

The accountant prepares a **schedule of accounts payable** after posting the column totals. This schedule lists all creditors in the accounts payable subsidiary ledger, the balance in each account, and the total amount owed to all creditors. The clerk proves the accounts payable subsidiary ledger when the total of the schedule of accounts payable agrees with the balance of the **Accounts Payable** (controlling) account in the general ledger.

Figure 17–13 on page 500 shows On Your Mark’s schedule of accounts payable for December. The accounts are listed in alphabetical order. All creditors are listed, even those with zero balances. Notice that the total listed on the schedule ($13,850) agrees with the balance of the **Accounts Payable** (controlling) account.
Proving Cash

Proving cash is the process of verifying that cash recorded in the accounting records agrees with the amount entered in the checkbook. Ideally businesses should prove cash each day. When a business uses special journals, however, it updates the Cash in Bank account in the general ledger at the end of the month. For many businesses, then, proving cash is done at the end of the month.
The cash proof may be prepared on plain paper, on accounting stationery, on a special cash proof form, or on a computer. The cash proof for On Your Mark, shown in Figure 17–14, is prepared on two-column accounting stationery. To prove cash, follow these steps:

1. On the first line, record the beginning balance of Cash in Bank according to the general ledger account.
2. On the next line, enter the total cash received during the month. This is the total of the Cash in Bank Debit column from the cash receipts journal.
3. Add the first and second lines.
4. From this subtotal subtract the cash payments for the month. This is the total of the Cash in Bank Credit column from the cash payments journal.
5. Compare this figure to the balance shown on the last check stub in the checkbook. If the ending balance of Cash in Bank and the balance on the check stub match, you have proved cash. In this example the ending balance of Cash in Bank is $15,179. The balance shown on the last check stub is also $15,179; therefore, cash is proved.

If the balances are not equal, you should look for errors. Recording a bank service charge or a bankcard fee in the checkbook but not in the general ledger can cause the cash proof to be out of balance. Next, you should verify that all disbursements and deposits were recorded in the accounting records. If cash is being proved at month-end, the accountant can then continue making month-end entries.

![Figure 17–14 Cash Proof](image)

Note that proving cash is different from reconciling a bank statement, which is taught in Chapter 11 (pages 284–287). Proving cash verifies that amounts recorded in the general ledger, cash receipts journal, and cash payments journal agree with the checking account balance. It does not confirm that the bank has processed all the deposits from the business or that all outstanding checks have cleared.
Reinforce the Main Idea
Create a table similar to the one here to identify the journal in which each of the following transactions should be recorded. Identify debit and credit parts for each transaction.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Journal</th>
<th>Account(s) Debit</th>
<th>Account(s) Credited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sold merchandise on account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Purchased merchandise on account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Paid a creditor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Sold merchandise for cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Bankcard sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Paid the payroll</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Discovered that purchase of supplies was incorrectly debited to Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Do the Math
At Car Wash Palace, hourly wage earners are paid weekly. These employees earned $8,000 in total gross earnings this week.
1. Calculate each withholding amount.
2. What is the total net pay for this week?

<table>
<thead>
<tr>
<th>Tax</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>6.2%</td>
</tr>
<tr>
<td>Medicare</td>
<td>1.45%</td>
</tr>
<tr>
<td>Federal Unemployment</td>
<td>0.8%</td>
</tr>
<tr>
<td>State Unemployment</td>
<td>5.4%</td>
</tr>
<tr>
<td>State Income</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Problem 17–2 Preparing a Cash Proof
Apple Tree Boutique uses special journals. On September 30 the total of the Cash in Bank Debit column of the cash receipts journal is $18,750.12. The total of the Cash in Bank Credit column of the cash payments journal is $16,890.43. The checkbook balance on September 30 is $5,610.59.

Instructions
Prepare a cash proof for September in your working papers. The balance of Cash in Bank on September 1 is $3,750.90.

Problem 17–3 Analyzing a Source Document
The Country Peddler, which is a retail merchandising business, had the following transaction that occurred on November 2.

Instructions
Analyze Check Stub 104 that is shown here. In your working papers, make the necessary entry to record the transaction on page 11 of the cash payments journal.
Accounting Careers in Focus

**DIRECTOR OF FINANCE**
*Leslie Karnauskas*
*Cobe Cardiovascular, Arvada, Colorado*

**Q:** What does Cobe Cardiovascular do?
**A:** We identify and develop products that help treat cardiovascular disease.

**Q:** What are your day-to-day responsibilities?
**A:** I manage the general ledger, financial reporting, accounts payable, and cost accounting groups at three of our company’s sites. I am part of a team responsible for budgeting and forecasting, internal and external audit, and financial analysis.

**Q:** What has been key to your success?
**A:** I have always set high standards for myself and those I manage. I continually look for new and better ways to get things done, not just in accounting but in all aspects of the business. I’ve also learned the importance of being proactive and taking initiative.

**Q:** What is most challenging about your job?
**A:** Finding the time and resources to meet our company’s goals. I constantly reprioritize my tasks and manage several initiatives at once to make sure I meet all deadlines and still focus on growing the business.

**Q:** What advice do you have for accounting students?
**A:** Learn as much as you can about the company you join—its products, market, and strategy. Involve yourself in every aspect of the business. Join a professional organization and volunteer on a committee or its board to build leadership skills. Also, pursue interests outside of work to balance your life.

**CAREER FACTS**

- **Nature of the Work:** Maintain budgeting and forecasting models; assist with business-funding decisions; hire, train, and motivate finance staff.
- **Training or Education Needed:** At least 10 years of public accounting or finance experience. A master’s degree in business administration, as well as a CPA or CMA designation is preferred.
- **Aptitudes, Abilities, and Skills:** Strong leadership abilities, technology skills, analytical skills, and communication skills.
- **Salary Range:** $80,000 to $180,000 depending on location, experience, and company size.
- **Career Path:** Obtain the required degrees and certifications. Gain job experience by either working for a public accounting firm or in management accounting. Once in a corporate environment, gradually take on increased responsibility and move into a management position.

**Thinking Critically**

How can you improve your time-management skills and increase productivity?

---

**Tips from . . .**

Before submitting your résumé, don’t forget to proofread it. Reread the document several times and ask a friend to do the same. A single typo or grammatical mistake can cause a hiring manager to question your professionalism and attention to detail.
**Key Concepts**

1. A purchases journal is used to record purchases made on credit instead of with cash. The Purchases Debit column is used for merchandise purchases only. Other purchases are recorded in the General column. The cash payments journal is used to record all decreases to cash.

2. The following illustrates the purchases journal entry to record the purchase of merchandise on account.

   ![Purchases Journal](image)

   The following types of transactions are recorded in the cash payments journal:
   
   (a) merchandise purchased for cash
   
   (b) payment to a creditor
   
   (c) payment to a creditor with a cash discount taken
   
   (d) cash paid out but no check written (for example, a bank service charge)

3. Follow these steps to record payroll transactions in the cash payments journal:
   
   (a) Enter the date of the transaction in the Date column.
   
   (b) Enter the check number in the Document Number column.
   
   (c) Enter the name of the account debited in the Account Name column.
   
   (d) Enter the amount of the payroll (gross pay) in the General Debit column.
   
   (e) Enter the net pay amount in the Cash in Bank Credit column.
   
   (f) On the next four lines, enter the names of the accounts credited in the Account Name column, and enter the amount of each liability in the General Credit column.

4. Post these columns' individual amounts daily:

<table>
<thead>
<tr>
<th>Journal</th>
<th>Individual Column Amounts</th>
<th>Are Posted To:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases Journal</td>
<td>Accounts Payable Credit column ➤ Subsidiary ledger creditor account</td>
<td></td>
</tr>
<tr>
<td></td>
<td>General Debit column ➤ General ledger account</td>
<td></td>
</tr>
</tbody>
</table>
Summary

5. Complete seven steps before you post special journal column totals to the general ledger:
   (a) Rule the amount columns.
   (b) Foot the amount columns.
   (c) Prove the journal.
   (d) Under the last transaction, enter the date the journal is totaled in the Date column.
   (e) On the same line, enter the word Totals
      • in the purchases journal Creditors’ Account Credited column
      • in the cash payments journal Account Name column
   (f) Enter the column totals, in ink, just below the footings.
   (g) Double-rule the amount columns.

6. To prove the accounts payable subsidiary ledger, accountants prepare a schedule of accounts payable, which is a list of each creditor, the balance in the creditor’s account, and the total amount due to all creditors. The Accounts Payable account is the controlling account for the accounts payable subsidiary ledger. Review this relationship in Figure 17–13 on page 500.

7. At the end of each month, prove cash by verifying that the cash recorded in the accounting records agrees with the amount shown in the checkbook.

Key Terms

cash payments journal  (p. 489)  purchases journal  (p. 482)
proving cash  (p. 500)  schedule of accounts payable  (p. 499)
CHAPTER 17 Review and Activities

Check Your Understanding

1. Purchases and Cash Payments Journals
   a. What are the source documents for the purchases journal?
   b. What are the source documents for the cash payments journal?

2. Recording Transactions
   a. List the steps to record transactions in the purchases journal.
   b. Bank service charges are automatically deducted from the bank account. Why are these charges recorded in the cash payments journal?

3. Recording Payroll Payments
   a. Where do you find the information for recording payroll transactions in the cash payments journal?
   b. In recording payroll, what four liabilities are entered in the General Credit column of the cash payments journal?

4. Posting from Special Journals
   a. When are purchases transactions posted to the accounts payable subsidiary ledger? Why?
   b. When are cash payments transactions posted to the accounts payable subsidiary ledger? Why?

5. Totaling, Proving, and Ruling
   a. When totaling, proving, and ruling the purchases journal, where are the double rules placed?
   b. What does the check mark (✓) in the first Posting Reference column indicate?

6. Schedule of Accounts Payable
   a. What information does the schedule of accounts payable include?
   b. With what account in the general ledger must the total of the schedule of accounts payable agree when proving the accounts payable subsidiary ledger?

7. Proving Cash
   a. When does a business that uses special journals update the Cash in Bank account in the general ledger?
   b. How does an accountant prove cash?

Apply Key Terms

You are an applicant for an accounting clerk position with PETCO and asked to write definitions for these terms. Make sure you connect your knowledge of these accounting terms to the financial activities you believe take place at PETCO.

- cash payments journal
- proving cash
- purchases journal
- schedule of accounts payable
Mastering Purchases and Cash Payments

Making the Transition from a Manual to a Computerized System

<table>
<thead>
<tr>
<th>Task</th>
<th>Manual Methods</th>
<th>Computerized Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting up vendor records</td>
<td>• Ledger sheet or card is prepared with vendor details such as name, address, and contact information.</td>
<td>• Record details of vendor accounts into vendor records. The software will access this information automatically each time the vendor ID code is used.</td>
</tr>
<tr>
<td></td>
<td>• Account activities are posted to the vendor subsidiary ledger accounts.</td>
<td>• The accounting software creates a credit memo and applies it to the appropriate outstanding vendor invoice. The accounting software automatically posts the credit memo to the vendor account and to the general ledger.</td>
</tr>
<tr>
<td>Recording a debit memorandum</td>
<td>• A journal entry is prepared to record the debit memorandum.</td>
<td>• The journal entry is posted to the subsidiary account and to the general ledger.</td>
</tr>
<tr>
<td></td>
<td>• The journal entry is posted to the subsidiary account and to the general ledger.</td>
<td></td>
</tr>
</tbody>
</table>

Peachtree Question Answer

<table>
<thead>
<tr>
<th>Peachtree Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| How do I set up a new vendor account? | 1. From the Maintain menu, select Vendors.  
2. Assign a Vendor ID to the new vendor.  
3. Enter vendor name and contact information.  
4. Click on the Purchases Defaults tab.  
5. Verify or enter the appropriate purchase default GL account number. |
| How do I record a debit memorandum? | 1. From the Tasks menu, select Vendor Credit Memos.  
2. Select the appropriate vendor from the Vendor ID drop-down list.  
3. Enter the Vendor Credit number in the Credit Number field.  
4. Click on the Apply to Invoices tab, select the invoice to which the credit memo is applied, and enter the credit amount. |

QuickBooks Question Answer

<table>
<thead>
<tr>
<th>QuickBooks Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| How do I set up a new vendor record? | 1. From the Lists menu, select Vendor List.  
2. Click the Vendor pull-down menu and choose New.  
3. Enter vendor name and contact information.  
4. Click on the Additional Info tab and enter any additional vendor information. |
| How do I issue and record a debit memorandum? | 1. From the Vendors menu, select Enter Bills.  
2. Click the Credit radio button and enter the vendor name.  
3. Click on the Items tab and select the item to which the credit memo is applied.  
4. Enter the quantity and select a customer from the Customer:Job field. |

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.
CHAPTER 17

Problems

Complete problems using:

Peachtree®

Manual Glencoe
Working Papers
OR

Peachtree Complete
Accounting Software
OR

QuickBooks Templates

Problem 17–4 Recording Payment of the Payroll

Denardo’s Country Store pays its employees on a biweekly basis. This week the payroll is $2,000. You issued Check 949 for $1,487 in payment of the payroll less the following amounts: Employees’ Federal Income Tax, $320; Employees’ State Income Tax, $40; Social Security Tax, $124; and Medicare Tax, $29.

Instructions In your working papers, record the July 15 payroll on page 4 of the cash payments journal.

Analyze Calculate the total deductions from employees’ wages for federal, state, social security, and Medicare taxes. What percentage of gross payroll is this amount?

Problem 17–5 Recording Transactions in the Purchases Journal

Sunset Surfwear had the following purchases transactions for the month of July.

Instructions Use the purchases journal in your working papers.

1. Record each of the following transactions on page 4 of the purchases journal.
2. Foot, prove, total, and rule the purchases journal.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>Purchased merchandise on account from Waverunner Designs for $1,200, Invoice WD121.</td>
</tr>
<tr>
<td></td>
<td>Received Invoice CA552 from Capital Accessories for the purchase of $1,600 in merchandise on account.</td>
</tr>
<tr>
<td>3</td>
<td>Purchased $2,000 in store equipment on account from Neilson Store Equipment, Invoice NS444.</td>
</tr>
<tr>
<td>5</td>
<td>Purchased $870 in merchandise on account from Kelley Apparel Inc., Invoice KA772.</td>
</tr>
<tr>
<td>9</td>
<td>Purchased $250 in supplies from Moore Paper &amp; Office Supply Co., Invoice MPS266.</td>
</tr>
<tr>
<td>12</td>
<td>Purchased $1,800 in merchandise on account from AcaTan Products, Invoice ATP99.</td>
</tr>
</tbody>
</table>

TIP: Remember to update the G/L Account field for each line of a multipart cash payment transaction.

Step–by–Step Instructions: Problem 17–5

1. Select the problem set for Sunset Surfwear (Prob. 17–5).
2. Rename the company and set the system date.
3. Record all purchases on account using the Purchases/Receive Inventory option.
4. Print a Purchases Journal report.
5. Proof your work.
6. Complete the Analyze activity.
7. End the session.

TIP: Remember to change the G/L Account field as needed for general purchases.

CONTINUE
## Problems

### CHAPTER 17

**Step–by–Step Instructions:**

**Problem 17–6**

1. Select the problem set for Shutterbug Cameras (Prob. 17–6).
2. Rename the company and set the system date.
3. Record all purchases on account using the Purchases/Receive Inventory option.
4. Print a Purchases Journal report.
5. Proof your work.
6. Print a General Ledger report and a Vendor Ledgers report.
7. Complete the Analyze activity.
8. Back up your work.

### SMART GUIDE

**Problem 17–5**

1. Restore the Problem 17-5.QBB file.
2. Enter all purchases on account using the Enter Bills option.
3. Print a Journal report.
4. Proof your work.
5. Print a Vendor Balance Summary.
6. Complete the Analyze activity.
7. Back up your work.

### PROBLEM GUIDE

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**PROBLEM GUIDE**

**QuickBooks**

**SMART GUIDE**

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---

### Date Transactions (cont.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 18</td>
<td>Purchased $500 in office equipment on account from Moore Paper &amp; Office Supply Co., Invoice MIPS275.</td>
</tr>
<tr>
<td>22</td>
<td>Received Invoice WD156 from Waverunner Designs for the purchase of $900 in merchandise on account.</td>
</tr>
<tr>
<td>25</td>
<td>Purchased $475 in merchandise on account from Capital Accessories, Invoice CA560.</td>
</tr>
<tr>
<td>28</td>
<td>Purchased from Kelley Apparel Inc. $390 in merchandise on account, Invoice KA800.</td>
</tr>
<tr>
<td>30</td>
<td>Received Invoice NS460 from Neilson Store Equipment for the purchase of $1,200 in store equipment on account.</td>
</tr>
</tbody>
</table>

---

### Problem 17–6 Recording and Posting Purchases

Shutterbug Cameras, a retail merchandising business, had the following purchases on account for the month of July. In the working papers, the beginning balances in the accounts are opened for you.

**Instructions**

In your working papers:

1. Record July’s transactions on page 18 of the purchases journal.
2. Post to the accounts payable subsidiary ledger accounts daily.
3. Post amounts entered in the General Debit column daily.
4. Foot, prove, total, and rule the purchases journal at the end of the month.
5. Post the column totals at the end of the month to the account named in the column heading.
6. Prepare a schedule of accounts payable.

### Date Transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>Purchased $1,200 in merchandise on account from U-Tech Products, Invoice UT220.</td>
</tr>
<tr>
<td></td>
<td>Purchased $140 in supplies on account from State Street Office Supply, Invoice 983, n/30.</td>
</tr>
<tr>
<td>6</td>
<td>Received Invoice 1338 from Photo Emporium for the purchase of $150 in merchandise on account, 2/10, n/30.</td>
</tr>
<tr>
<td>9</td>
<td>Invoice 445 for $90 was sent by Allen’s Repair for plumbing repairs completed at the store (Maintenance Expense).</td>
</tr>
<tr>
<td>12</td>
<td>Purchased $800 in merchandise on account from Video Optics Inc., Invoice VO167, 3/15, n/45.</td>
</tr>
<tr>
<td>15</td>
<td>Received Invoice 1322 from Digital Precision Equipment for the purchase of $2,500 in store equipment on account, n/30.</td>
</tr>
</tbody>
</table>
Problems

Chapter 17

Step-by-Step Instructions:

Problem 17–7

1. Select the problem set for River's Edge Canoe & Kayak (Prob. 17–7).
2. Rename the company and set the system date.
3. Record all cash payments using the Payments option.
5. Proof your work.
6. Print a General Ledger report and a Vendor Ledgers report.
7. Complete the Analyze activity.
8. End the session.

TIP: Sometimes you may have to manually enter a cash discount when you record a cash payment.

Peachtree®

C H A P T E R 1 7

SMART GUIDE

Problem 17–7 Recording and Posting Cash Payments

River's Edge Canoe & Kayak is a retail merchandising business located in Jackson Hole, Wyoming. The beginning balances of the accounts needed to complete this problem are opened in your working papers.

Instructions

1. Record the transactions on page 19 of the cash payments journal.
2. Post the individual amounts in the Accounts Payable Credit column on a daily basis to the creditors' accounts.
3. Post the individual amounts in the General Debit and Credit columns on the date the transaction occurred.
4. Foot, prove, total, and rule the cash payments journal.
5. Post the column totals at the end of the month.
6. Prepare a schedule of accounts payable.
7. Prove cash at the end of the month. The beginning Cash in Bank balance was $8,000; cash receipts were $7,000; and the ending check stub balance is $8,402.

Analyze

Explain what problems would occur if the transaction of July 23 (Photo Emporium) was posted to the accounts payable subsidiary ledger as $60.

Date | Transactions (cont.)
--- | ---
July 18 | Purchased $1,300 in merchandise on account from U-Tech Products, Invoice UT257.
20 | Purchased $400 in supplies on account from ProStudio Supply, Invoice 4677.
23 | Photo Emporium sent Invoice 1359 for the purchase of $600 of merchandise on account.
26 | Received Invoice 478 for $120 from Allen's Repair for additional plumbing work completed at the store.
28 | Purchased $200 in merchandise on account from Video Optics Inc., Invoice VO183.

July 1 | Issued Check 1405 for $1,372 to North American Waterways Suppliers in payment on account of $1,400 invoice less a 2% discount.
3 | Received insurance premium statement from Rocky Mountain Insurance Company. Issued Check 1406 for $1,800.
**Problem 17–8  Recording and Posting Purchases and Cash Payments**

Buzz Newsstand had the following purchases and cash payment transactions for July. The balance in the accounts payable subsidiary ledger and general ledger accounts are opened in the working papers.

**Instructions** In your working papers:

1. Record the purchases and cash payment transactions on page 12 of the purchases journal and page 12 of the cash payments journal.
2. Post to the creditors’ accounts in the accounts payable subsidiary ledger daily.
3. Post from the General Debit and Credit columns of the journals on the date the transaction occurred.
4. Foot, prove, total, and rule both journals.
5. Post the column totals of the purchases journal to the general ledger accounts named in the column headings.
6. Post the column totals of the cash payments journal to the general ledger accounts named in the column headings.
7. Prepare a schedule of accounts payable.

Date | Transactions (cont.)
--- | ---
July 5 | Issued Check 1407 to Pacific Wholesalers for $500 to apply on account.
8 | Received an invoice for $300 from Jackson News for advertising. Issued Check 1408.
12 | Issued Check 1409 for $686 to Trailhead Canoes in payment on account of $700 invoice less a 2% discount.
15 | Issued Check 1410 for $200 to Rollins Plumbing Service in full payment of the amount owed on account.
18 | Issued Check 1411 for $75 to Ben Jacobs for completing odd jobs in the store (Miscellaneous Expense).
20 | Purchased $90 in supplies from StoreMart Supply by issuing Check 1412.
22 | Paid StoreMart Supply $400 to apply on account, Check 1413.
24 | Issued Check 1414, $700 to Office Max, store equipment.
25 | Paid Mohican Falls Kayak Wholesalers $200 to apply on account, Check 1415.
26 | Issued Check 1416 to Office Max, $150 to apply on account.
28 | Paid transportation charges of $125 to Stein’s Trucking, Check 1417.
8. Prepare a cash proof at the end of the month. The beginning **Cash in Bank** balance was $9,000. Cash receipts were $10,500. The check stub balance on July 31 is $10,178.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>Issued Check 2455 for $1,552 to ADC Publishing in payment on account of $1,600 invoice less a 3% discount.</td>
</tr>
<tr>
<td>2</td>
<td>Purchased $400 in merchandise on account from Pine Forest Publications, Invoice PFP144, terms 2/10, n/30.</td>
</tr>
<tr>
<td>2</td>
<td>Paid Candlelight Software $1,358 in payment of $1,400 account less a 3% discount, Check 2456.</td>
</tr>
<tr>
<td>4</td>
<td>Issued Check 2457 to Nomad Computer Sales for $350 to apply on account.</td>
</tr>
<tr>
<td>5</td>
<td>Purchased $2,000 in store equipment on account from CorpTech Office Supply, Invoice CT67.</td>
</tr>
<tr>
<td>7</td>
<td>Issued Check 2458 for $125 to Wolfe Trucking for transportation charges.</td>
</tr>
<tr>
<td>9</td>
<td>Purchased $900 in merchandise on account from American Trend Publishers, Invoice ATP98.</td>
</tr>
<tr>
<td>12</td>
<td>Purchased $300 in supplies on account from CorpTech Office Supply, Invoice CT72.</td>
</tr>
<tr>
<td>14</td>
<td>Issued Check 2459 to Delta Press for $750 to apply on account.</td>
</tr>
<tr>
<td>15</td>
<td>Received insurance premium statement from SeaTac Insurance Co. for $1,600. Issued Check 2460.</td>
</tr>
<tr>
<td>16</td>
<td>Check 2461 was issued for $882 to American Trend Publishers in payment of $900 account less a 2% discount.</td>
</tr>
<tr>
<td>18</td>
<td>Purchased $500 in merchandise on account from Candlelight Software, Invoice CS101, terms n/30.</td>
</tr>
<tr>
<td>20</td>
<td>Purchased $200 in merchandise on account from Nomad Computer Sales, Invoice NC56, terms 2/10, n/30.</td>
</tr>
<tr>
<td>22</td>
<td>Paid Pine Forest Publications $100 to apply on account, Check 2462.</td>
</tr>
<tr>
<td>23</td>
<td>Issued Check 2463 for $2,000 to CorpTech Office Supply to apply on account.</td>
</tr>
<tr>
<td>25</td>
<td>Purchased $600 in merchandise on account from ADC Publishing, Invoice ADC70.</td>
</tr>
<tr>
<td>28</td>
<td>Issued Check 2464 for $450 to Nomad Computer Sales to apply on account.</td>
</tr>
</tbody>
</table>

**Analyze** Examine the purchases made during July and determine the dollar amount by which merchandise inventory increased.
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. A listing of vendor accounts, account balances, and total amount due all vendors is a
   - a. schedule of accounts payable.
   - b. schedule of accounts receivable.
   - c. schedule of vendors.
   - d. schedule of creditors.

Use the following choices for questions 2–4. Write the letter for the correct journal used to journalize each transaction.

   - a. Purchases Journal
   - b. Cash Receipts Journal
   - c. Cash Payments Journal
   - d. General Journal
   - e. Sales Journal

2. Purchased merchandise for cash.
3. Paid cash on account.
4. Purchased merchandise on account.

**Business Professionals of America**

**MULTIPLE CHOICE**

5. Just for You Shoes purchased shoes for its two retail locations. The mall store ordered 20 pairs at $29.90/pair and 40 pairs at $18.50/pair. The downtown store ordered 35 pairs at $29.90/pair and 24 pairs at $18.50/pair. What was the total cost of the shoes for the two stores?
   - a. $96.50
   - b. $193.50
   - c. $2,828.50
   - d. $2,703.10

**Need More Help?**

Go to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on Student Center. Click on Winning Competitive Events and select Chapter 17.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology
CHAPTER 17  Real-World Applications and Connections

Special Journals: Purchases and Cash Payments
1. Describe the purpose of the purchases and the cash payments journals.
2. Your test for the equality of debits and credits of the purchases journal does not balance. Explain how you would go about finding the error(s).
3. You are instructed to prepare a schedule of accounts payable and prove its accuracy. How do you perform the task?
4. Explain why the purchase of supplies is not recorded in the special columns of the purchases journal, store equipment is not recorded in the journal’s Purchases Debit column, and the General Debit column of the purchases journal is not posted to the general ledger.
5. Your accounting supervisor asks you to prepare a cash proof for the month. What accounting documents do you need? What steps will you perform?
6. Explain why it is important to prove cash.

Merchandising Business: Books & More
Books & More sells hardcover and paperback books, music tapes, and CDs. It keeps a large stock of merchandise and orders new products often. The store may place an order for fast-selling items, such as a popular new CD, weekly.

You recently noticed two invoices for three dozen CDs ordered from the same music wholesaler. The CDs ordered and the amounts on both invoices are identical.

INSTRUCTIONS
1. Explain how you would determine whether the invoices are for two different orders or are duplicate invoices for one order.
2. Suggest steps to ensure that the company does not pay duplicate invoices.

Insufficient Funds
As the owner of a sporting goods store, you manage the accounting records. Your delivery van has been in the shop for repairs and you need it back as soon as possible. The mechanic calls with the repair cost, which is much higher than you expected. Your checking account cannot cover the bill, but you authorize the work anyway. If you write a check for the repairs, you believe the account will have enough money when the mechanic cashes the check.

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?

Requesting Information
Thomas Sampson is a purchasing agent for Complete Offices. He gave you an envelope full of receipts from a 10-day business trip without any explanations. Write a memo asking Thomas to identify which are cash purchases and which are purchases on account. Refer specifically to payment terms as you explain the information you need to analyze the transactions.
**Real-World Applications and Connections**

**CHAPTER 17**

**Selecting Equipment and Tools**
Web Works is an online computer assistance service specializing in applications accessible through the Internet. In a recent staff meeting, Shelly Lazarus, your manager, asked you to assess online invoice payment.

**INSTRUCTIONS**
1. Use the Internet and read software reviews to explore different options for paying invoices online. Prepare a table showing the comparative data.
2. Draft a memorandum with your recommendations for the hardware and software Web Works will need to facilitate online invoice payment. Proofread the draft, make corrections as needed, and prepare the final memorandum.

**International Competitive Advantage**
If your company has resources, products, or skills that are valuable, unique, or difficult to imitate globally, it has an *international competitive advantage*. For example, Wal-Mart has developed its inventory management and purchasing system into a powerful resource that has given it a sustained competitive advantage in the international retailing industry.

**INSTRUCTIONS** Brainstorm other resources or skills a company might use to gain international competitive advantage.

**Your Federal Income Tax**
If you are working, you know that your employer withhold federal income tax from your earnings each payday as required by law. You may also be required to file a federal tax return each year, either manually or electronically.

**PERSONAL FINANCE ACTIVITY** Assume you have a part-time job. List the information that you need to know about filing a federal income tax return.

**PERSONAL FINANCE ONLINE** Log on to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on *Student Center*. Click on *Making It Personal* and select Chapter 17.

**Cost of Sales**
To increase profits, corporations must increase sales or decrease costs. They share information about both in their annual reports. PETsMART’s annual report has a section labeled *Management’s Discussion and Analysis of Financial Condition and Results of Operations*. It includes a comparison of net sales and gross profit for the current year and previous year. Here is how gross profit is calculated:

\[
\text{Sales} - \text{Cost of Sales} = \text{Gross Profit}
\]

**INSTRUCTIONS**
Refer to the *Fiscal 2003 Compared to Fiscal 2002* section of PETsMART’s annual report in Appendix F to answer these questions.
1. What items do you think would be included in PETsMART’s cost of sales?
2. What factors contributed to a higher gross profit in 2003 versus 2002?