

# Accounting



## CHAPTER 15

### ACCOUNTING FOR PURCHASES AND CASH PAYMENTS

SECTION 15.1  
PURCHASING ITEMS  
NEEDED BY A BUSINESS

SECTION 15.2  
ANALYZING AND RECORDING  
PURCHASES ON ACCOUNT

SECTION 15.3  
ANALYZING AND RECORDING  
CASH PAYMENTS

# The Purchasing Process

Section 15.1

Purchasing Items  
Needed by a Business

Two Types of Discounts:

Purchases Discount

Discount Period



**purchases discount**

The buyer's cash discount for early payment of an invoice on account.



**discount period**

The period of time within which an invoice must be paid if a discount is to be taken.

# The Purchasing Process

Section 15.1

Purchasing Items  
Needed by a Business

## Processing the Supplier's Invoice

<b>PRO RUNNER WAREHOUSE</b> 22009 Ben White Blvd. Austin, TX 78705		<b>INVOICE NO. 7894</b>	
TO Starting Line Sports Gear 595 Leslie Street Dallas, TX 75207		DATE: Dec. 14, 20-- ORDER NO.: 9784 SHIPPED BY: Federal Trucking TERMS: 2/10, n/30	
REC'D DEC. 14, 20--			
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: <u>12/24</u> Discount: <u>\$ 46.00</u> Net Amount: <u>\$ 2,254.00</u> Check No.: _____			

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# The Purchases Account

Section 15.1

Purchasing Items  
Needed by a Business

Purchases account is used to record **merchandise bought** to sell to customers; it is a **temporary** account that is classified as a **cost of merchandise** account.



### **Purchases account**

The account used to record the cost of merchandise purchased during a period.



### **cost of merchandise**

The actual cost to the business of the merchandise sold to customers.

# Purchases of Assets on Account

Section 15.2 Analyzing and Recording  
Purchases on Account

**The most important thing a retail business purchases is merchandise to resell.**

**Merchandise can be bought on a cash basis or on account.**

# Purchases of Assets on Account

Section 15.2 Analyzing and Recording  
Purchases on Account

## The Accounts Payable Subsidiary Ledger Form

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

Controlling account balance equals total of accounts in subsidiary ledger.

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### **accounts payable subsidiary ledger**

A separate ledger that contains accounts for all creditors; it is summarized in the Accounts Payable controlling account in the general ledger.

# Purchases of Assets on Account

Section 15.2 Analyzing and Recording  
Purchases on Account

When a purchase of merchandise on account is recorded, a diagonal line is entered in the Posting Reference column to indicate the credit amount is posted in two places:

**The Accounts Payable  
controlling account**

**The individual account in  
the accounts payable  
subsidiary ledger**

# Purchases of Assets on Account

Section 15.2 Analyzing and Recording  
Purchases on Account

## Business Transaction

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

Purchases		Accounts Payable	
Debit	Credit	Debit	Credit
+		-	+
2,300	-	-	2,300

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

GENERAL JOURNAL					PAGE <u>21</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1 20--					1
2 Dec. 14	Purchases		2 300 00		2
3	Accts. Pay./Pro Runner Whs.			2 300 00	3
4	Invoice 7894				4

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# Purchases of Assets on Account

Section 15.2 Analyzing and Recording  
Purchases on Account

## Business Transaction

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

Store Equipment		Accounts Payable	
Debit + 1,200	Credit -	Debit -	Credit + 1,200

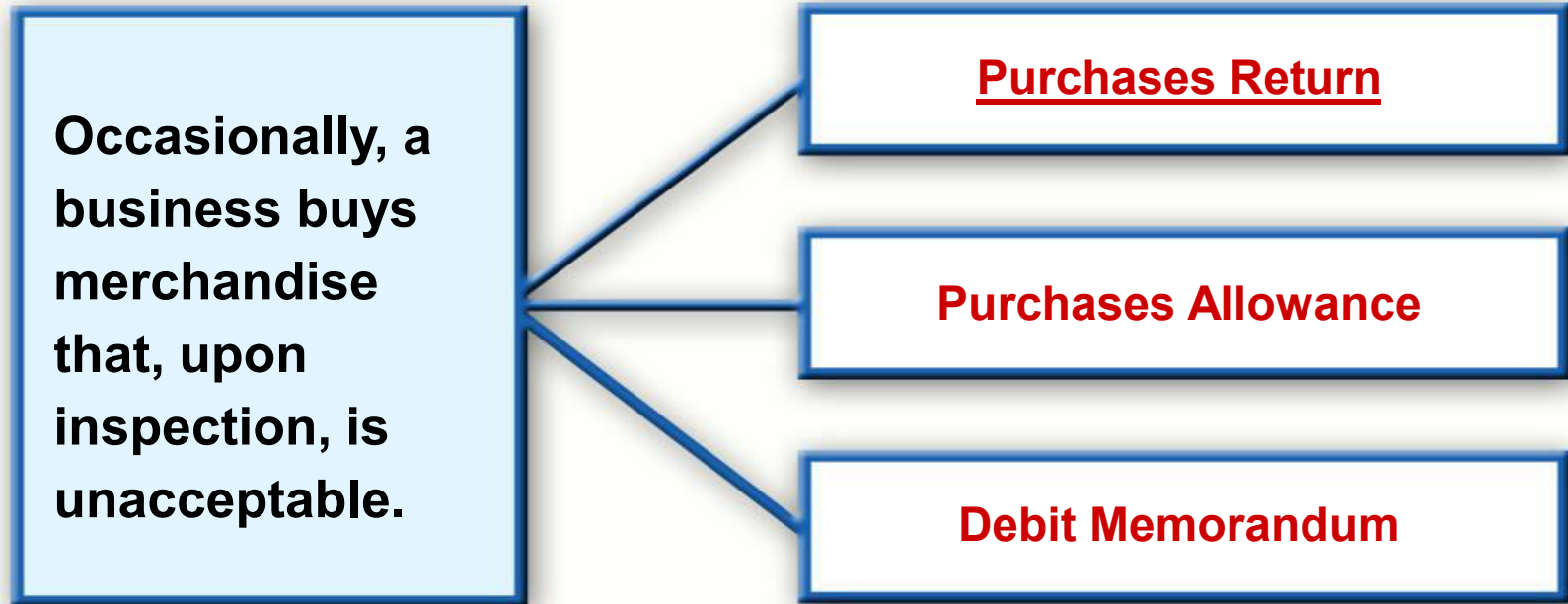
Accounts Payable Subsidiary Ledger Champion Store Supply	
Debit -	Credit + 1,200

GENERAL JOURNAL					PAGE 21
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

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# Purchases Returns and Allowances

Section 15.2 Analyzing and Recording  
Purchases on Account

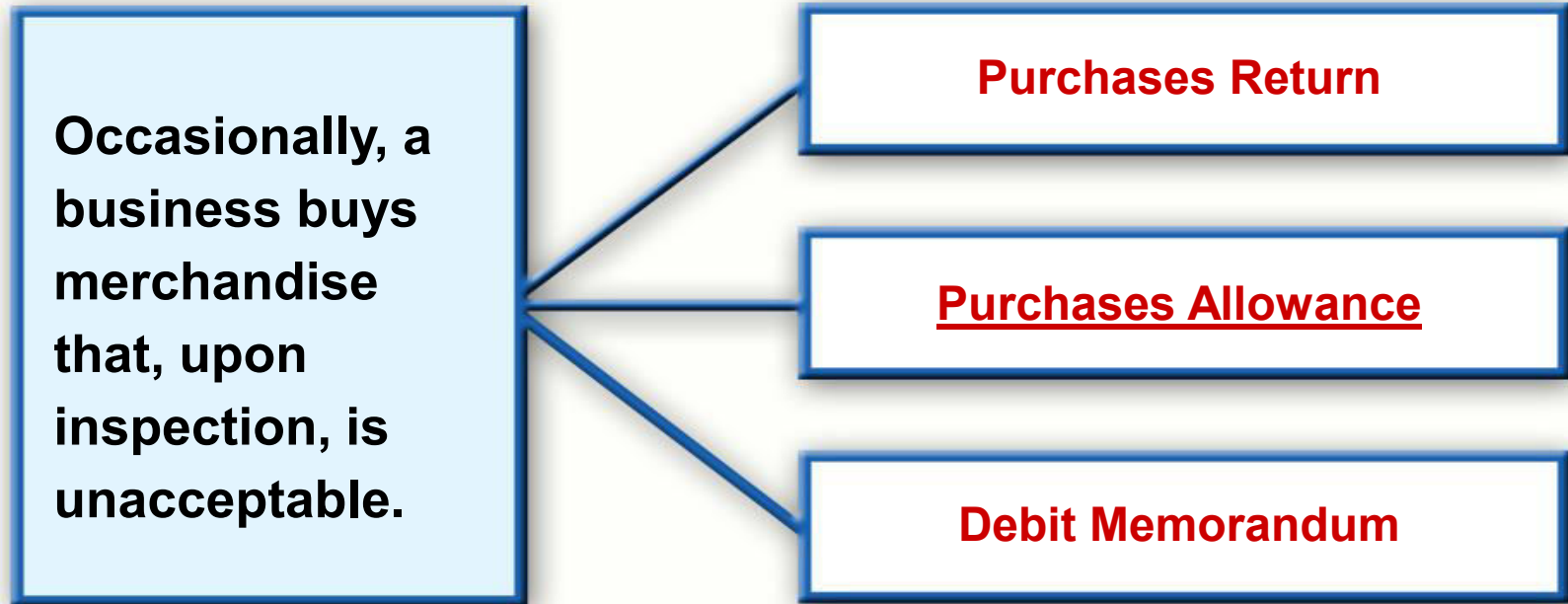


## **purchases return**

The return of merchandise bought on account to the supplier for full credit.

# Purchases Returns and Allowances

Section 15.2 Analyzing and Recording  
Purchases on Account

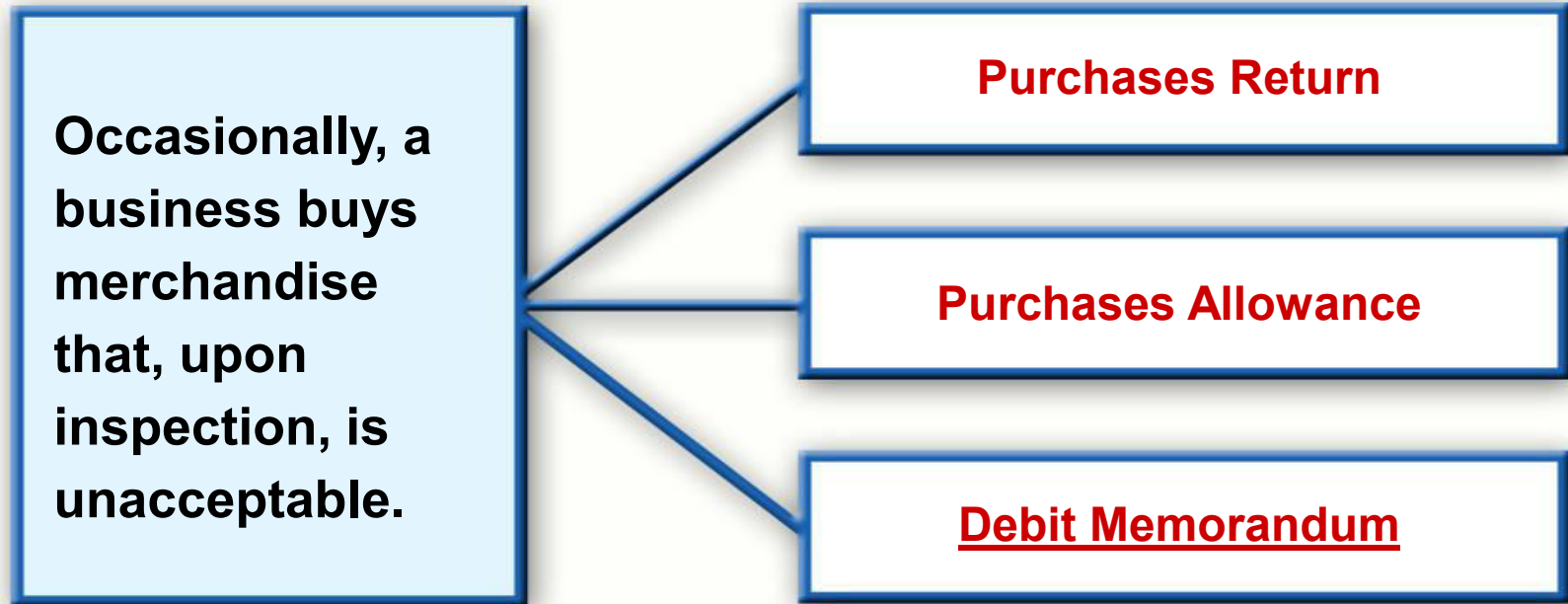


## **purchases allowance**

A price reduction given when a business keeps unsatisfactory merchandise it has bought.

# Purchases Returns and Allowances

Section 15.2 Analyzing and Recording  
Purchases on Account



## **debit memorandum**

The form a business uses to notify its suppliers (creditors) of a return or to request an allowance.



# Purchases Returns and Allowances

Section 15.2 Analyzing and Recording Purchases on Account

## Business Transaction

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

Accounts Payable		Purchases Returns and Allowances	
Debit -	Credit +	Debit -	Credit +
200			200

Accounts Payable Subsidiary Ledger  
FastLane Athletics

Debit	Credit
-	+
200	

GENERAL JOURNAL					PAGE	21
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

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# Purchases Returns and Allowances

Section 15.2 Analyzing and Recording Purchases on Account

Posting to General Ledger Accounts Payable Subsidiary Ledger

GENERAL JOURNAL						PAGE 21
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
8 Dec. 16	Accounts Payable/FastLane Athletics	201 ✓	2 00 00			8
9	Purchases Returns and Allowances	515		2 00 00		9
10	Debit Memorandum 51					10
11						

ACCOUNT Accounts Payable						ACCOUNT NO. 201
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
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		2 00 00			9 600 00

ACCOUNT Purchases Returns and Allowances						ACCOUNT NO. 515
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Dec. 1	Balance	✓				1 600 00
16	G21			2 00 00		1 800 00

NAME FastLane Athletics						
ADDRESS 35992 Fletcher Blvd. #334, Boston, MA 02206						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
20--						
Dec. 1		✓				1 000 00
16		G21	2 00 00			8 00 00

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# Cash Payment Transactions

Section 15.3 Analyzing and Recording Cash Payments

## Business Transaction

On December 19 The Starting Line purchased merchandise from FastLane Athletics for \$1,300, Check 1002.

Purchases		Cash in Bank	
Debit	Credit	Debit	Credit
+		+	
1,300	-		1,300

GENERAL JOURNAL						PAGE	21
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	

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# Cash Payment Transactions

Section 15.3 Analyzing and Recording Cash Payments

## Recording Cash Payments for Items Purchased on Account

### Purchases

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

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

**Purchases Discount**: Deduction that a vendor allows on the invoice amount to encourage prompt payment.

Terms of sale – 2/10, n/30: **2% discount if paid in 10 days, balance due in 30 days.**

Account that reduces a related account on a financial statement: **Contra Account**

17	24	Accounts Payable/Pro Runner Warehouse	2 300 00						17
18		Cash in Bank				2 254 00			18
19		Purchases Discounts				46 00			19

CHAPTER  
**15**

ACCOUNTING FOR  
PURCHASES AND  
CASH PAYMENTS

# Cash Payment on Account Without Discount

17	24	<i>Accounts Payable/Pro Runner Warehouse</i>		2 300 00		17
18		<i>Cash in Bank</i>			2300 00	

# Cash Payment Transactions

Section 15.3 Analyzing and Recording Cash Payments

Banks charge a **bankcard fee** for handling bankcard sales slips.

## Business Transaction

On December 31 The Starting Line records the bankcard fee of \$75, December bank statement.

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



### bankcard fee

A fee charged for handling bankcard sales slips; usually based on the total amounts recorded on the sales slips processed.

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**Question 3**

Your business received an invoice dated February 5 totaling \$2,900.00. The vendor has offered the terms of 2/10, n/30. You pay on February 15. Calculate the following:

- |                             |                         |
|-----------------------------|-------------------------|
| 1. total amount of purchase | <u><b>\$2900.00</b></u> |
| 2. amount of discount       | <u><b>\$58.00</b></u>   |
| 3. amount of check          | <u><b>\$2842.00</b></u> |

Now indicate whether you would debit or credit the following accounts.

- |                                |                      |
|--------------------------------|----------------------|
| 4. Accounts Payable            | <u><b>Debit</b></u>  |
| 5. Vendor's subsidiary account | <u><b>Debit</b></u>  |
| 6. Purchases Discounts         | <u><b>Credit</b></u> |
| 7. Cash in Bank                | <u><b>Credit</b></u> |

# Accounting



## End of CHAPTER 15

### ACCOUNTING FOR PURCHASES AND CASH PAYMENTS

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PURCHASING ITEMS  
NEEDED BY A BUSINESS

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PURCHASES ON ACCOUNT

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