

CHAPTERS 1-30

College Accounting

Price
Haddock
Farina

Accounting for Purchases and Accounts Payable

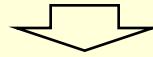
Section 1: Merchandise Purchases

Section Objectives

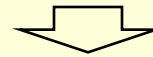
1. Record purchases of merchandise on credit in a three-column purchases journal.
2. Post from the three-column purchases journal to the general ledger accounts.

Purchasing Procedures

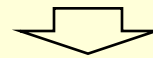
The Sales Department
sends an authorized purchase requisition to the Purchasing Department.



The Purchasing Department
issues an authorized purchase order and sends to the selected supplier.



A receiving report is prepared when the merchandise is received.



The Accounting Department
receives the invoice and copies of the purchase order and receiving report.

International Apparel Shop

INVOICE NO. 7985

SOLD TO: **The Style Shop**
2007 Trendsetter Lane
Dallas, TX 75268

DATE: January 23, 20—
ORDER NO.: 9001
SHIPPED BY: Metroplex Express
TERMS: n/30

YOUR ORDER NO. 8001	SALESPERSON	TERMS n/30	
DATE SHIPPED January 23, 20--	SHIPPED BY Metroplex	FOB Dallas	
QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10	Assorted colors men's suits	476 00	4760.00
	Freight		360.00
	Total		5,120.00

This is a purchase invoice for the customer.

This is a sales invoice for the seller.

QUESTION:

What is the *Purchases* account?

ANSWER:

The *Purchases* account is an account used to record cost of goods bought for resale during a period.

Wow! I need to order more inventory!



Account Classifications

Recall the major account classifications from earlier chapters:

- Assets
- Liabilities
- Owner's Equity
- Revenue
- Expenses

The *Purchases* account is under a different classification:

- **Cost of Goods Sold**

QUESTION:

What is the *Freight In* account?

ANSWER:

The *Freight In* account is an account showing transportation charges for items purchased. It is also called Transportation In account.

Cost of Goods Sold

Price of goods (debit Purchases)	\$4,760.00
Freight charge (debit Freight In)	<u>360.00</u>
Total invoice (credit Accounts Payable)	<u><u>\$5,120.00</u></u>

Purchases		+	Freight In		=	Accounts Payable	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
4,760			360				5,120

The cost of goods sold accounts have normal *debit* balances.

GENERAL JOURNAL

DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
20– Jan.	3	Purchases Freight In Accounts Payable Purchased merchandise from Fashion Design Inc., Invoice 5879, dated Dec. 29, terms 2/10, n/30	501 502 205	2,675.00 190.00	2,865.00
	5	Purchases Freight In Accounts Payable Purchased merchandise from The Trend Center, Invoice 633, dated Dec. 30, terms n/30	501 502 205	3880.00 175.00	
	6	Purchases Freight In Accounts Payable Purchased merchandise from The Modern Woman, Invoice 8011, dated Dec. 31, terms n/30	501 502 205		
	7	Purchases Freight In Accounts Payable Purchased merchandise from World of Fashions, Invoice 4321, dated Dec. 31, terms 2/10, n/30	501 502 205		3,935.00

These four general journal entries require twelve separate postings to general ledger accounts. It takes a great deal of time and effort to post them.

PURCHASES JOURNAL

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20-- Jan. 3	Fashion Designs	8434	12/29/--	2/10, n/30		2,865.00	2,675.00	190.00
5	The Trend Center	336	12/30/--	n/30		4,055.00	3,880.00	175.00
6	Modern Woman	9080	12/31/--	n/30		3,140.00	2,900.00	240.00
7	World of Fashions	4321	01/03/--	2/10, n/30		3,935.00	3,675.00	260.00
10

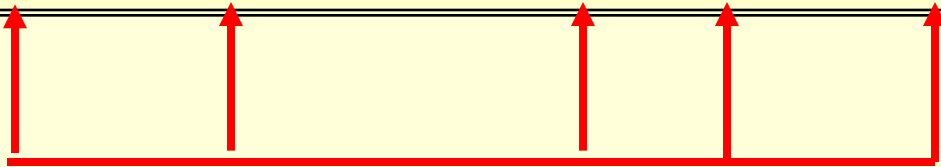
ACCOUNT	Accounts Payable	ACCOUNT NO.	205
DATE	DESCRIPTION	POST. REF.	BALANCE
			DEBIT CREDIT
			(501) (502)

ACCOUNT	Purchases	ACCOUNT NO.	501
DATE	DESCRIPTION	POST. REF.	BALANCE
			DEBIT CREDIT

ACCOUNT	Freight In	ACCOUNT NO.	502
DATE	DESCRIPTION	POST. REF.	BALANCE
			DEBIT CREDIT
20-- Jan. 31		P1	1,565.00
			1,565.00

Objective 1 Record purchases of merchandise on credit in a three-column *purchases journal*

PURCHASES JOURNAL								PAGE	<u>1</u>
DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT	
20--									
Jan. 3	Fashion Designs	8434	12/29/--	2/10, n/30		2,865.00	2,675.00	190.00	
5	The Trend Center	336	12/30/--	n/30		4,055.00	3,880.00	175.00	
6	Modern Woman	9080	12/31/--	n/30		3,140.00	2,900.00	240.00	
7	World of Fashions	4321	01/03/--	2/10, n/30		3,935.00	3,675.00	260.00	
18	Fashion Warehouse	9789	01/15/--	2/10, n/30		4,200.00	3,860.00	340.00	
22	Inter'l Apparel Shop	7985	01/22/--	n/30	5	120.00	4,760.00	360.00	
31						<u>23,315.00</u>	<u>21,750.00</u>	<u>1,565.00</u>	
						(205)	(501)	(502)	



1. Enter the date, supplier's name, invoice number, invoice date, and credit terms.

2. In the Accounts Payable Credit column, enter the total owed to the supplier.

PURCHASES JOURNAL

PAGE 1

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20--								
Jan. 3	Fashion Designs	8434	12/29/--	2/10, n/30		2,865.00	2,675.00	190.00
5	The Trend Center	336	12/30/--	n/30		4,055.00	3,880.00	175.00
6	Modern Woman	9080	12/31/--	n/30		3,140.00	2,900.00	240.00
7	World of Fashions	4321	01/03/--	2/10, n/30		3,935.00	3,675.00	260.00
18	Fashion Warehouse	9789	01/15/--	2/10, n/30		4,200.00	3,860.00	340.00
22	Inter'l Apparel Shop	7985	01/22/--	n/30	5	120.00	4,760.00	360.00
31						23,315.00	21,750.00	1,565.00
						(205)	(501)	(502)

3. In the Purchases Debit column, enter the price of the goods purchased .

4. In the Freight In Debit column, enter the freight amount.

Examples of Credit Terms

- Net 30 days or **n/30**:

Payment in full is due 30 days after the date of the invoice.

- Net 10 days EOM, or **n/10 EOM**:

Payment in full is due 10 days after the end of the month in which the invoice was issued.

- 2% 10 days, net 30 days; or **2/10, n/30**:

If payment is made within 10 days of the invoice date, the customer can take a 2 percent discount. Otherwise, payment in full is due in 30 days.

Objective 2 Post from the three-column *purchases journal* to the general ledger accounts

- **The purchases journal simplifies the posting process.**
- **Summary amounts are posted at the end of the month.**

Post from the Purchases Journal to the general ledger in six steps.

1. Locate the Accounts Payable account.
2. Enter the date.
3. Enter the posting reference.
4. Enter the amount from the Accounts Payable Credit column in the *purchases journal* in the Credit column of the Accounts Payable ledger account.
5. Compute the new balance and enter it into Balance Credit column.
6. In the *purchases journal*, enter the general ledger account number under the column total.
7. Repeat the steps for the Purchases Debit and Freight In Debit columns

PURCHASES JOURNAL

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20--								
Jan. 3	Fashion Designs	5879	12/29/--	2/10, n/30		2,865.00	2,675.00	190.00
5	The Trend Center	633	12/30/--	n/30		4,055.00	3,880.00	175.00
6	Modern Woman	8011	12/31/--	n/30		3,140.00	2,900.00	240.00
7	World of Fashions	4312	01/03/--	2/10, n/30		3,935.00	3,675.00	260.00
18	Fashion Warehouse	8997	01/15/--	2/10, n/30		4,200.00	3,860.00	340.00
22	Inter'l Apparel Shop	7985	01/22/--	n/30	5	120.00	4,760.00	360.00
31						23,315.00	21,750.00	1,565.00
						(205)	(501)	(502)

ACCOUNT	<u>Accounts Payable</u>				ACCOUNT NO.	205
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Jan. 1	Balance	✓				10,800.00
31		P1		23,315.00	→	23,315.00

PURCHASES JOURNAL

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20--								
Jan. 3	Fashion Designs	5789	12/29/--	2/10, n/30		2,865.00	2,675.00	190.00
5	The Trend Center	633	12/30/--	n/30		4,055.00	3,880.00	175.00
6	Modern Woman	8011	12/31/--	n/30		3,140.00	2,900.00	240.00
7	World of Fashions	4312	01/03/--	2/10, n/30		3,935.00	3,675.00	260.00
18	Fashion Warehouse	8997	01/15/--	2/10, n/30		4,200.00	3,860.00	340.00
22	Inter'l Apparel Shop	7985	01/22/--	2/10, n/30		5,120.00	4,760.00	360.00
31						23,315.00	21,750.00	1,565.00
						(205)	(501)	(502)

ACCOUNT	Freight In	ACCOUNT NO.	502			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
31		P1	1,565.00		1,565.00	

Advantages of a *Purchases Journal*

- **Allows for the division of accounting work among different employees**
- **Strengthens the audit trail**
- **Records all credit purchases in one place**

Accounting for Purchases and Accounts Payable

Section 2: Accounts Payable

Section Objectives

3. Post credit purchases from the purchases journal to the accounts payable subsidiary ledger.
4. Record purchases returns and allowances in the general journal and post them to the accounts payable subsidiary ledger.
5. Prepare a schedule of accounts payable.
6. Compute the net delivered cost of purchases.
7. Demonstrate a knowledge of the procedures for effective internal control of purchases.

The Accounts Payable Ledger

NAME		International Apparel Shop		TERMS		n/30
ADDRESS 1718 Sherry Lane, Dallas, Texas 75267-6205						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
20-- JAN.						
1	Balance	☰				1,600.00
23	Invoice 7985, 01/23/--	P1		5,120.00		6,720.00

- The accounts payable ledger has three money columns.
- The Balance column is presumed to contain credit amounts.

Objective 3

Post credit purchases from the *purchases journal* to the *accounts payable subsidiary ledger*

To keep the accounting records up to date, invoices are posted to the *accounts payable subsidiary ledger* every day.

Steps to post to the accounts payable ledger

Enter the date, invoice number and date, and the page number from the purchases journal.

PURCHASES JOURNAL

PAGE 1

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20-- Jan. 3	Fashion Designs	5879	12/29/--	2/10, n/30	✓	2,865.00	2,675.00	190.00
23	Intern'l Apparel Shop	7985	01/23/--	n/30	✓	5,120.00	4,760.00	360.00

NAME	International Apparel Shop		TERMS	n/30		
ADDRESS	1718 Sher...ne, Dallas, Texas 75267-6205					
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
20--						
JAN						
1	Balance				1,600.00	
23	Invoice 7985, 01/22/--	P1		5,120.00	6,720.00	

From the purchases journal, write the dollar amount of the purchase in the credit column of the subsidiary ledger. Recalculate the current balance in the ledger. Then enter the check mark in the Posting Reference column back in the journal to indicate that the transaction is posted in the accounts payable subsidiary ledger.

DATE	CREDITOR'S ACCOUNT CREDITED	INVOICE NUMBER	INV. DATE	TERMS	POST. REF.	ACCOUNTS PAYABLE CREDIT	PURCHASES DEBIT	FREIGHT IN DEBIT
20-- Jan. 3	Fashion Designs	5879	12/29/--	2/10, n/30	✓	2,865.00	2,875.00	190.00
23	Intern'l Apparel Shop	7985	01/23/--	n/30	✓	5,120.00	4,760.00	360.00

NAME	International Apparel Shop		TERMS	n/30	
ADDRESS	1718 Sherman Ave, Dallas, Texas 75267-6205				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20--					
JAN					
1	Balance				1,600.00
23	Invoice 7985, 01/22/--	P1		5,120.00	6,720.00

Cash Payments are posted as debits in the A/P Ledger.

The cash payment is then posted to the individual creditor's account in the accounts payable ledger.

NAME		International Apparel Shop	TERMS		n/30
ADDRESS		1718 Sherry Lane, Dallas, Texas 75267-6205			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20--					
Jan. 1	Balance	✓			1,600.00
23	Invoice 7985, 01/22/--	P1		5,120.00	6,720.00
27		CP1	2,400.00		4,320.00

Posted from page 1 of the *cash payments journal*

Objective 4

Record purchases returns and allowances in the general journal and post them to the accounts payable subsidiary ledger

A purchase return is a return of unsatisfactory goods.



A credit to the *Purchase Returns and Allowances* account is made when a vendor returns something to a supplier.

Purchases Returns and Allowances

Returns
and
Allowances

- A complete record of returns and allowances
- A contra cost of goods sold account
- Normal credit balance

Business Transaction

On January 30 The Style Shop received a credit memorandum for \$476 from International Apparel Shop as an allowance for damaged merchandise.

International Apparel Shop
1718 Sherry Lane
Dallas, TX 75267

CREDIT MEMORANDUM

NUMBER: 73

DATE: January 30, 20--

TO: The Style Shop
2007 Trendsetter Lane
Dallas, TX 75268

ORIGINAL INVOICE: 7985

INVOICE DATE: January 22, 20--

DESCRIPTION: Credit for damaged suits **\$476.00**

Purchase Allowance

Accounts Payable

476

Purchases Returns and Allowances

476

Posting from the General Journal

GENERAL JOURNAL

PAGE 1

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Jan. 30	Accounts Payable/ International Apparel Shop	205/ ✓	476.00	
	Purchases Returns and Allowances Received Credit Memo 103 for an allowance for damaged merchandise; original Invoice 7985, Jan. 23, 20--	503		476.00

Enter the date, the credit memorandum number, and the general journal page number.

1

2

3

NAME International Apparel Shop

TERMS n/30

ADDRESS 1718 Sherry Lane, Dallas, Texas 75267-6205

Enter the amount of the return or allowance in the Debit column of the creditor's account. Update the balance.

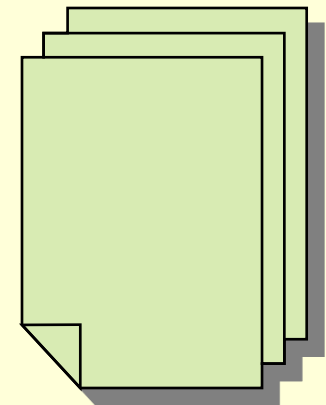
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
1	Balance	✓			1,600.00
23	Invoice 7985, 01/23/--	P		5,120.00	6,720.00
27		CP	2,400.00		4,320.00
30	CM 103	J1	476.00		3,844.00

4

5

The total of the individual creditor accounts in the subsidiary ledger must equal the balance of the Accounts Payable control account.

To prove that the control account and the subsidiary ledger are equal, businesses prepare a **schedule of accounts payable**.



The Style Shop

Schedule of Accounts Payable

January 31, 20--

Fashion Designs	1065.00
Fashion Warehouse	4,200.00
	3,844.00
	4,740.00
	2,205.00
World Of Fashions	6,935.00
Total	22,989.00

A comparison of the total of the schedule of accounts payable and the balance of the Accounts Payable account shows that the two figures are the same.

ACCOUNT Accounts Payable

ACCOUNT NO. 205

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Jan. 1	Balance	✓				10,800.00
30		J1	476.00			10,324.00
31		P1		23,315.00		23,639.00
31		CP1	12,710.00			22,989.00

The income statement of a merchandising business contains a section showing the total cost of purchases.

This section combines information about

- **Cost of the purchases**
- **Freight in**
- **Purchases returns and allowances**

The net delivered cost of purchases for The Style Shop for January is calculated as follows.

Purchases	\$ 23,315
Freight In	1,565
Delivered Cost of Purchases	\$ 24,880
Less Purchases Returns and Allowances	476
Net Delivered Cost of Purchases	\$24,404

Objective 7 Demonstrate a knowledge of the procedures for effective internal control of purchases

The objectives of the controls are to:

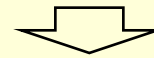
- **create written proof that purchases and payments are authorized, and**
- **ensure that different people are involved in the process of buying goods, receiving goods, and making payments.**

Effective systems have the following controls in place.

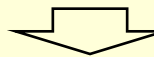
1. All purchases should be made only after proper authorization has been given in writing.



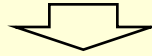
2. Goods should be carefully checked when they are received. They should then be compared with the purchase order and with the invoice received from the supplier.



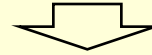
3. The purchase order, receiving report, and invoice should be checked to confirm that the information on the documents is in agreement.



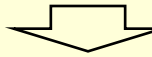
4. The computations on the invoice should be checked for accuracy.



5. Authorization for payment should be made by someone other than the person who ordered the goods, and this authorization should be given only after all the verifications have been made.



6. Another person should write the check for payment.



7. Prenumbered forms should be used for purchase requisitions, purchase orders, and checks. Periodically the numbers of the documents issued should be verified to make sure that all forms can be accounted for.

Thank You

for using

College Accounting, 12th Edition

Price • Haddock • Farina