

CHAPTERS 1-30

College Accounting

Price
Haddock
Farina

Accounting for Sales and Accounts Receivable

Section 1: Merchandise Sales

Section Objectives

1. Record credit sales in a sales journal.
2. Post from the sales journal to the general ledger accounts.

Meet *The Style Shop*

- Mary Amos is the sole proprietor of the firm.
- *The Style Shop* is a merchandising business that sells the latest fashion clothing for men, women, and children.
- It is a **retail business**.



Journals Used by Merchandising Businesses

Type of Journal	Purpose
<i>Sales</i>	To record sales of merchandise on credit
<i>Purchases</i>	To record purchases of merchandise on credit
<i>Cash receipts</i>	To record cash received from all sources
<i>Cash payments</i>	To record all disbursements of cash
<i>General</i>	To record all transactions that are not recorded in another special journal and all adjusting and closing entries

Ledgers Used by Merchandising Businesses

Type of Ledger	Content
<i>General</i>	Assets, liabilities, owner's equity, revenue, and expense accounts
<i>Accounts receivable</i>	Accounts for credit customers
<i>Accounts payable</i>	Accounts for creditors

The Style Shop

Chart of Accounts

ASSETS

101	Cash
105	Petty Cash Fund
109	Notes Receivable
111	Accounts Receivable
112	Allowance for Doubtful Accounts
116	Interest Receivable
121	Merchandise Inventory
126	Prepaid Insurance
127	Prepaid Interest
129	Supplies
131	Store Equipment
132	Accumulated Depreciation - Store Equip.
141	Office Equipment
142	Accumulated Depreciation - Office Equip.

LIABILITIES

201	Notes Payable — Trade
202	Notes Payable — Bank
205	Accounts Payable
216	Interest Payable
221	Social Security Tax Payable
222	Medicare Tax Payable
223	Employee Income Tax Payable
225	Federal Unemployment Tax Payable
227	State Unemployment Tax Payable
229	Salaries Payable
231	Sales Tax Payable

OWNER'S EQUITY

301	Mary Amos, Capital
302	Mary Amos, Drawing
399	Income Summary

REVENUE

401	Sales
451	Sales Returns and Allowances
491	Interest Income
493	Miscellaneous Income

COST OF GOODS SOLD

501	Purchases
502	Freight In
503	Purchases Returns and Allowances
504	Purchases Discounts

EXPENSES

611	Salaries Expense - Sales
612	Supplies Expense
614	Advertising Expense
617	Cash Short or Over
626	Depreciation Expense - Store Equipment
634	Rent Expense
637	Salaries Expense - Office
639	Insurance Expense
641	Payroll Taxes Expense
643	Utilities Expense
649	Telephone Expense
651	Uncollectible Accounts Expense
657	Bank Fees Expense
658	Delivery Expense
659	Depreciation Expense - Office Equipment
691	Interest Expense
693	Miscellaneous Expense

General Journal and General Ledger

Four credit sales made on January 3, 8, 11, and 15 require four separate entries in the general journal:

- **Four debits to *Accounts Receivable***
- **Four credits to *Sales Tax Payable***
- **Four credits to *Sales***
- **Four descriptions**

GENERAL JOURNAL

PAGE 2

Date 20--	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Jan. 3	Accounts Receivable Sales Tax Payable Sales Sold merchandise on credit to Roy Anderson, Sales Slip 1101	111 231 401	432.00	32.00 400.00
8	Accounts Receivable Sales Tax Payable Sales Sold merchandise on credit to Cathy Ball, Sales Slip 1102	111 231 401	648.00	48.00 600.00
11	Accounts Receivable Sales Tax Payable Sales Sold merchandise on credit to Barbara Coe, Sales Slip 1103	111 231 401	756.00	56.00 700.00
15	Accounts Receivable Sales Tax Payable Sales Sold merchandise on credit to Amalia Rodriguez, Sales Slip 1104	111 231 401	324.00	24.00 300.00

General Ledger

ACCOUNT		<u>Accounts Receivable</u>			ACCOUNT NO.		<u>111</u>	
DATE	EXPLANATION	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
20--								
Jan. 1	Balance	✓			3,240.00			
3		J2	432.00		3,672.00			
8		J2	648.00		4,320.00			
11		J2	756.00		5,076.00			
15		J2	324.00		5,400.00			

ACCOUNT		<u>Sales Tax Payable</u>			ACCOUNT NO.		<u>231</u>	
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
20--								
Jan. 1	Balance	✓					756.00	
3		J2		32.00			788.00	
8		J2		48.00			836.00	
11		J2		56.00			892.00	
15		J2		24.00			916.00	

General Ledger

ACCOUNT		<i>Sales</i>			ACCOUNT NO.		<i>401</i>	
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
					20--			
Jan. 3		J2		400.00				400.00
8		J2		600.00				1,000.00
11		J2		700.00				1,700.00
15		J2		300.00				2,000.00

Objective 1 Record credit sales in a *sales journal*

In a retail business such as *The Style Shop*, the data needed for each entry is taken from a copy of the customer's sales slip.

The Style Shop

2010 Trendsetter Lane
Dallas, TX 75268

Qty.	Description	Unit Price	Amount
1	Sports Coat	400.00	400.00

DATE: 1/3/-- SALESPERSON: S Harris AUTH.:

Goods Taken To Be Delivered

Send to:

Special Instructions:

Sales Tax 32.00
Total 432.00

I authorize this purchase to be charged on my account.

Roy Anderson
Signature

NAME: Roy Anderson
ADDRESS: 8913 South Hampton Road
Dallas, TX 75232

SALES SLIP 1101

SALES JOURNAL

PAGE 1

DATE	SALES SLIP NO.	CUSTOMER'S NAME	POST. REF.	ACCOUNTS RECEIVABLE DEBIT	SALES TAX PAYABLE CREDIT	SALES CREDIT
20-- Jan. 3	1101	Roy Anderson	✓	432.00	32.00	400.00

SALES JOURNAL

PAGE 1

DATE	SALES SLIP NO.	CUSTOMER'S NAME	POST. REF.	ACCOUNTS RECEIVABLE DEBIT	SALES TAX PAYABLE CREDIT	SALES CREDIT
20--						
Jan. 3	1101	Roy Anderson	✓	214.00	14.00	200.00
8	1102	Cathy Ball	✓	535.00	35.00	500.00
11	1103	Barbara Coe	✓	642.00	42.00	600.00
15	1104	Amalia Rodriguez	✓	428.00	28.00	400.00
18	1105	Fred Wu	✓	856.00	56.00	800.00
21	1106	Linda Carter	✓	321.00	21.00	300.00
28	1107	Kim Ramirez	✓	107.00	7.00	100.00
29	1108	Mesia Davis	✓	1070.00	70.00	1000.00
31	1109	Alma Sanchez	✓	963.00	63.00	900.00
31	1110	Roy Anderson	✓	267.50	17.50	250.00
31		Totals		5,886.00	436.00	5,450.00

With a sales journal it is not necessary to post each credit sale individually to general ledger accounts.

Instead, summary postings are made at the end of the month after the amount columns of the sales journal are totaled.

SALES JOURNAL

DATE	SALES SLIP NO.	CUSTOMER'S NAME	POST. REF.	ACCOUNTS RECEIVABLE DEBIT	SALES TAX PAYABLE CREDIT	SALES CREDIT
20--						
Jan. 3	1101	Roy Anderson	✓	432.00	32.00	400.00
8	1102	Gentry Bell		648.00	48.00	648.00
11			✓	56.00	56.00	700.00
11				324.00	24.00	300.00
11			✓	810.00	60.00	750.00
22				486.00	36.00	450.00
22			✓	108.00	8.00	100.00
22				1080.00	80.00	1000.00
31	1109	Alma Sanchez	✓	972.00	72.00	900.00
31	1110	Roy Anderson	✓	270.00	20.00	250.00
31		Totals	✓	5,886.00	436.00	5,450.00
				(111)	(231)	(401)

The general ledger account numbers are entered in parentheses under column totals.

ACCOUNT Accounts Receivable ACCOUNT NO. 111

DATE	EXPLANATION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Jan. 1	Balance	✓			3,240.00	
23		J2		162.00	3,078.00	
25		J2		486.00	2,592.00	
31		S1	5886.00		8,478.00	

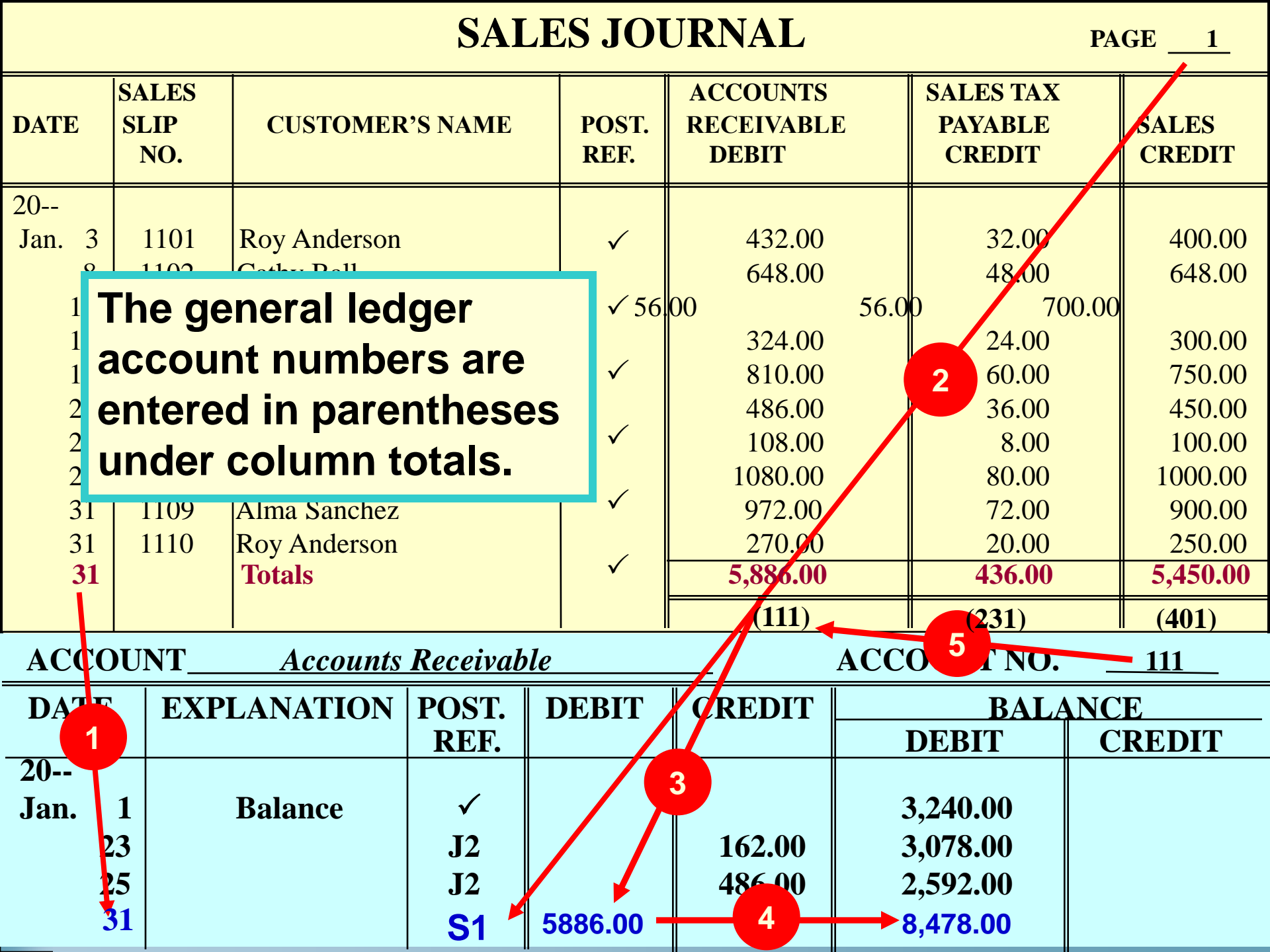
1

2

5

3

4



SALES		CUSTOMER'S NAME		ACCOUNTS RECEIVABLE		SALES TAX	
DATE	SLIP NO.		POST. REF.	DEBIT		PAYABLE CREDIT	SALES CREDIT
20--							
Jan. 3	1101	Roy Anderson	✓	432.00		32.00	400.00
8	1102	Cathy Ball		648.00		48.00	648.00
11	1103	Barbara Coe	✓	56.00	56.00	700.00	
15	1104	Amalia Rodriguez		324.00		24.00	300.00
18	1105	Fred Wu	✓	810.00		60.00	750.00
21	1106	Linda Carter		486.00		36.00	450.00
28	1107	Kim Ramirez	✓	108.00		8.00	100.00
29	1108	Mesia Davis		1080.00		80.00	1000.00
31	1109	Alma Sanchez	✓	972.00		72.00	900.00
31	1110	Roy Anderson	✓	270.00		20.00	250.00
31		Totals		5,886.00		436.00	5,450.00
				(111)		(231)	(401)

ACCOUNT		<i>Sales Tax Payable</i>		ACCOUNT NO.		231	
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Jan. 1	Balance	✓					756.00
11		CP1	756.00				-0-
23		J2	12.00		12.00		
25		J2	36.00		48.00		
31		S1		436.00			388.00

DATE	SALES SLIP NO.	CUSTOMER'S NAME	POST. REF.	ACCOUNTS RECEIVABLE DEBIT	SALES TAX PAYABLE CREDIT	SALES CREDIT
20--						
Jan. 3	1101	Roy Anderson	✓	432.00	32.00	400.00
8	1102	Cathy Ball		648.00	48.00	648.00
11	1103	Barbara Coe	✓	56.00	56.00	700.00
15	1104	Amalia Rodriguez		324.00	24.00	300.00
18	1105	Fred Wu	✓	810.00	60.00	750.00
21	1106	Linda Carter		486.00	36.00	450.00
28	1107	Kim Ramirez	✓	108.00	8.00	100.00
29	1108	Mesia Davis		1080.00	80.00	1000.00
31	1109	Alma Sanchez	✓	972.00	72.00	900.00
31	1110	Roy Anderson	✓	270.00	20.00	250.00
31		Totals		5,886.00	436.00	5,450.00
				(111)	(231)	(401)

ACCOUNT		<i>Sales</i>		ACCOUNT NO.		401	
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Jan. 31	Balance	S1		5,450.00		5,450.00	

Advantages of a Sales Journal

- **Saves time, effort, and recording space**
- **Makes journalizing and posting more efficient**
- **Requires only three summary postings to the general ledger at the end of each month**
- **Allows division of work**
- **Improves the audit trail**

Accounting for Sales and Accounts Receivable

Section 2: Accounts Receivable

Section Objectives

3. Post from the sales journal to the customers' accounts in the accounts receivable subsidiary ledger.
4. Record sales returns and allowances in the general journal.
5. Post sales returns and allowances.
6. Prepare a schedule of accounts receivable.

The Accounts Receivable Ledger

NAME Roy Anderson

ADDRESS 8913 South Hampton, Dallas, Texas 75232-6002

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20 --					
Jan. 1	Balance	✓			432.00
3	Sales Slip 1101	S1	432.00		864.00

- The accounts receivable ledger has three money columns.
- The BALANCE column is presumed to contain debit amounts.

Objective 3 Post from the sales journal to the customer's accounts in the accounts receivable subsidiary ledger

Each credit sale recorded in the sales journal is posted to the appropriate customer's account in the accounts receivable ledger.

The information is carried over from the sales journal to the A/R Customer's Ledger.

SALES JOURNAL

DATE	SALES SLIP NO.	CUSTOMER'S ACCOUNT DEBITED	POST. REF.	ACCOUNTS RECEIVABLE DEBIT	SALES TAX PAYABLE CREDIT	SALES CREDIT
20-- Jan. 3	1101	Roy Anderson	✓	432.00	32.00	400.00

NAME Roy Anderson

ADDRESS 891 South Hampton, Dallas, Texas 75232-6002

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20 -- Jan. 1	Balance	✓			432.00
3	Sales Slip 1101	S1	432.00		864.00

When a credit customer pays an outstanding bill, the cash collected is first recorded in a *cash receipts journal*

Let's put it in the **CASH RECEIPTS JOURNAL**



The cash is then posted to the individual customer account in the accounts receivable ledger.

NAME Roy Anderson

ADDRESS 8913 South Hampton Road, Dallas, TX 75232-6002

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20 -- Jan. 1	Balance	☰			432.00	
3	Sales Slip 1101	S1	432.00		864.00	
7		CR1		432.00	432.00	

Posted from page 1 of the cash receipts journal

Objective 4 Record sales returns and allowances in the *general journal*

A sale is entered in the accounting records when the goods are sold or the service is provided.

If something is wrong with the goods or service, the firm may

- take a **sales return**, or
- give a **sales allowance**.

A debit to the Sales Returns and Allowances account is preferred to making a direct debit to Sales.

Sales Returns and Allowances

**Returns
and
Allowances**

Business Transaction

On January 23 *The Style Shop* issued Credit Memorandum 101 for a sales allowance to Fred Wu for merchandise purchased on account. The merchandise was damaged but still usable.

The Style Shop

1010 Red Bird Lane, Dallas, TX 75268

NAME: Fred Wu

ADDRESS: 2010
Trendsetter Lane

Dallas, TX 75268

PHONE:

CREDIT MEMORANDUM		NO. 101
ORIGINAL SALES DATE <i>Dec. 29, 20--</i>	ORIGINAL SALES SLIP <i>No. 1050</i>	APPROVAL <i>S.H.</i>
		<input checked="" type="checkbox"/> MOOSE RET
QTY	DESCRIPTION	
<i>1</i>	<i>Athletic Suit</i>	150.00
REASON FOR RETURN <i>damaged</i>		SUB TOTAL 150.00
THE TOTAL SHOWN AT THE RIGHT WILL BE CREDITED TO YOUR ACCOUNT.		SALES TAX 12.00
		TOTAL 162.00

Sales Allowance

Sales Returns and Allowances

150

Sales Tax Payable

12

Accounts Receivable

162

Objective 5 Post sales returns and allowances

Each sales return or allowance must be posted from the journal to the appropriate customer's account in the accounts receivable ledger.

Posting from the General Journal

Date 20--	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Jan. 25	Sales Returns and Allowances Sales Tax Payable Accounts Rec./Linda Carter Accepted a return of defective merchandise, Credit Memorandum 102; original sale made on Sales Slip 1106 of January 21.	451 231 111/✓	450.00 36.00	486.00

111 indicates that the amount was posted to the Accounts Receivable account in the general ledger. The check mark indicates that the amount was posted to the customer's account.

NAME Linda Carter

ADDRESS 1819 Belt Line Road, Dallas, TX 75267-6318

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20 --					
Jan. 1	Balance	☰			54.00
21	Sales Slip 1106	S1	486.00		540.00
25	CM 102	J1		486.00	54.00

The Style Shop
Income Statement (Partial)
Month Ended January 31, 20--

<u>Revenue</u>	
Sales	\$25,700.00
Less Sales Returns and Allowances	600.00
Net Sales	\$25,100.00

Objective 6 Prepare a schedule of accounts receivable

- The use of an accounts receivable ledger does not eliminate the need for the Accounts Receivable account in the general ledger.
- However, the Accounts Receivable account (in the General Ledger) is now considered a **control account**.

At the end of each month, after all the postings have been made, the balances in the accounts receivable ledger must be proved against the balance of the Accounts Receivable general ledger account.

**TOTAL OF INDIVIDUAL
CUSTOMER BALANCES**

=

**ACCOUNTS RECEIVABLE
BALANCE**

The Style Shop
 Schedule of Accounts Receivable
 January 31, 20--

Roy Anderson	702.00
	648.00
	54.00
	1296.00
	1021.00
	216.00
	972.00
	972.00
Fred Wu	464.00
Total	6345.00

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

ACCOUNT Accounts Receivable Account No. 111

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20 --						
Jan. 1	Balance	☰			3240.00	
23		J1		162.00	3078.00	
25		J1		486.00	2592.00	
31		S1	5886.00		8478.50	
31		CR1		2133.00	6345.00	

Accounting for Sales and Accounts Receivable

Section 3: Special Topics in Merchandising Section Objectives

7. Compute trade discounts.
8. Record credit card sales in appropriate journals.
9. Prepare the state sales tax return.

The basic procedures used by wholesalers to handle sales and accounts receivable are the same as those used by retailers.

However, many wholesalers offer

- **Cash discounts**
- **Trade discounts**

Single Trade Discount

Suppose the list price of goods is \$1,500 and the trade discount is 40 percent.

QUESTION:

What is the net price?

List price – trade discount

\$1,500

– 600

ANSWER:

\$ 900

Series of Trade Discounts

Suppose the list price is \$1,500 and the trade discount is quoted as a series of 25 and 15 percent.

QUESTION:

What is the net price ?

List price

- first discount

- second discount

\$1,500.00

- 375.00

- 168.75

ANSWER:

\$956.25

Sales taxes apply only to retail transactions. A wholesale business does not need to account for sales taxes.

SALES JOURNAL

PAGE 1

DATE	INVOICE NO.	CUSTOMER'S ACCOUNT DEBITED	POST. REF.	 ACCOUNTS RECEIVABLE DR. SALES CR.
20-- Jan. 3	7099	Gabbert's Hardware Company	☰	18,600.00
31	71001	Neal's Department Store	☰	4,200.00
31		Total		40,875.00
				(111/401)

The sales journal has a single amount column.

Advantages of Credit Sales

The volume of both sales and profits will increase if buyers are given a period of a month or more to pay for the goods or services they purchase.

Disadvantages of Credit Sales

- **Sales on credit will lead to increases in profit only if each customer completes the transaction by paying for the goods or services purchased.**
- **If payment is not received, the expected profits become actual losses and the purpose for granting the credit is defeated.**
- **Therefore businesses need to closely analyze a customer's ability to pay before granting credit.**

Types of Credit Sales

- **Open-account credit**
- **Business credit cards**
- **Bank credit cards**
- **Cards issued by credit card companies**

Method 1: No Separate General Ledger Accounts

- **Businesses that have few transactions with credit card companies normally debit the amounts of such sales to the usual Accounts Receivable account in the general ledger and credit them to the same Sales account that is used for cash sales and other types of credit sales.**
- **Payment from a credit card company is recorded in the cash receipts journal.**

Method 2: Separate General Ledger Accounts

Firms that do a large volume of business with credit card companies might use separate general ledger accounts:

- **Sales–Credit Card Companies**
- **Accounts Receivable–Credit Card Companies**

At the end of each month, after the accounts have all been posted, The Style Shop prepares the sales tax return.


Three accounts are involved:

- **Sales Tax Payable**
- **Sales**
- **Sales Returns and Allowances**

SALES TAX RETURN

ALWAYS REFER TO THIS NUMBER WHEN WRITING THE DIVISION →	LICENSE NUMBER
	217539
—IMPORTANT— ANY CHANGE IN OWNERSHIP REQUIRES A NEW LICENSE:	

STATE TAX COMMISSION
 SALES AND USE TAX DIVISION
 DRAWER 20
 CAPITAL CITY, STATE 78711
 RETURN REQUESTED

January 31, 20--

 —Sales for period ending—

Sales Tax Computation

Taxable Gross Sales for January 8% Sales Tax Rate Sales Tax Due	$ \begin{array}{r} \$27,350.00 \\ \times \quad 0.08 \\ \hline \$ 2,188.00 \end{array} $
--	--

COMPUTATION OF SALES TAX	For Taxpayer's Use	Do Not Use This Column
1. TOTAL Gross proceeds of sales or Gross Receipts (to include rentals)	27,350.00	
2. Add cost of personal property purchased on a RETAIL LICENSE FOR RESALE but USED BY YOU or YOUR EMPLOYEES, including GIFTS and PREMIUMS	-0-	
3. USE TAX—Add cost of personal property purchased outside of STATE for your use, storage, or consumption	-0-	
4. Total (Lines 1, 2, and 3)	27,350.00	
5. LESS ALLOWABLE DEDUCTIONS (Must be itemized on reverse side)	-0-	
6. Net taxable total (Line 4 minus Line 5)	27,350.00	
7. Sales and Use Tax Due (8% Line 6)	2,188.00	

Thank You

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