

# Special Journals

## THE BASICS, PART 1

### LEARNING OBJECTIVES

- LO 1** Understanding the need for special journals as well as important factors that guide the design of a sales journal (p. 248)
- LO 2** Entering transactions into the sales journal, recording to the accounts receivable sub-ledger, and posting to general ledger accounts (p. 253)
- LO 3** Creating, recording, and posting a credit memorandum (p. 259)
- LO 4** Recording transactions in the cash receipts journal (including payments from customers taking a cash discount), recording to the AR sub-ledger, posting to general ledger accounts, and preparing a schedule of accounts receivable (p. 265).

Having a single journal (the general journal) can work satisfactorily for a very small company, but is not very efficient. As soon as a business grows to the size where more than one bookkeeper is needed, the general journal does not work at all—except for certain specialized transactions, such as adjusting and closing entries at year end.

This chapter explains how a small business can more easily cope with recording transactions using Sales and Cash Received. Even if the business uses a computer and accounting software such as Sage 50®, students will greatly benefit from knowing how

these two journals work and understanding their relationship with both the accounts receivable and the general ledger. The principles described in this chapter are not different when used in a computerized context.

Please be aware that we deliberately avoid the topic of taxes. Of course taxes on things bought and sold are an important reality in the business world, and Chapter 11 covers the necessary details quite thoroughly. For now, concentrate on learning the principles of how special journals work, and leave the topic of taxes for later.

## LEARNING UNIT 6-1

### Designing and Understanding Special Journals

LO 1

Understanding the need for special journals as well as important factors that guide the design of a sales journal

Thus far in our study of accounting, we have seen how a bookkeeper uses a general journal to record transactions for a business, and how the details recorded in that journal are transferred (or posted) to a general ledger. This was followed by studying how the information in the GL is used by an accountant to prepare financial statements. Finally, we have seen how the books of a business are closed each year to facilitate the recording of another year's worth of transactions. In other words, we know how the various steps in the accounting cycle are implemented. Nothing you will discover in this chapter and the next will change any of that, but to see a

more realistic view of how the accounting cycle is actually implemented in a business setting, we must extend and expand some of the procedural details.

One fundamental truth that we must face is that the use of only a general journal is much too inefficient to be useful in any realistic, day-to-day setting. If a business were to use just this one journal, then all transactions that happen each day would need to be recorded there, and that in turn means that only a single bookkeeper could use the journal at any one time. Most businesses—even a small one—would have dozens or hundreds of individual transactions in a day, and a business like WestJet might have tens of thousands. Clearly, almost every business needs a much more efficient way to record transactions. Not only must the recording method be efficient, it must also allow for several individuals to work together in capturing the many transaction details that happen each day.

## MAIN TYPES OF JOURNALS

Therefore, every reporting entity uses **special journals** to make the recording of business transactions efficient and “scalable,” meaning the ability to accommodate any size of business, from the small to the gigantic. Most of the transactions entered into by a business fall into four types of journals:

- ◆ The Sales Journal. In this journal a business will record the credit transactions that take place with its customers.
  - ◆ The Cash Receipts Journal. Here the business records all payments it receives—mostly perhaps from its customers, but occasionally from other sources as well.
- These two journals are covered in detail in this chapter.
- ◆ The Purchases Journal. This journal will include the details of all purchases made by a company from its suppliers, who are basically the companies that it buys goods and services from.
  - ◆ The Cash Payments Journal. All cheques written by the company (or funds transferred electronically) are recorded here. Most payments might go to suppliers, but there are many other types of funds distributed as well, and these will also be included in this journal.

Chapter 7 will describe the purchases and cash payments journals in detail.

## OTHER JOURNALS

Inquiring students are probably wondering whether there any other journals that are used by a company. The answer is, Yes. Several other types of journals are often seen in a business environment. These might include a payroll journal as well as a number of others, but the four mentioned above are common to most businesses and hence form the foundation of our study of this important subject. As we go through the material in these two chapters, other special journals will be mentioned, but only limited details will be provided. For most students, mastery of the four most common journals will be sufficient for the majority of businesses. If a student does work for a business where more than the basic special journals are needed, it should be a minor matter to think through how they work. After all, the principles of special journals are the same for all.

When you study chapters 9 and 10 dealing with payroll matters, the payroll journal will be illustrated. The majority of businesses have the need to pay their employees, and the payroll journal is a central feature in this part of the operations of most businesses.

## FUNDAMENTALS OF CUSTOMER RELATIONS

Before we begin to look at the details of what a sales journal is and how it is used, it is useful to mention some of the realities of how a business relates to its customers. Only if we have an understanding of this important relationship can the bookkeeping

details make total sense. Here are some of the factors that a business must keep in mind when designing and using a sales journal and a cash receipts journal:

1. Allowing a customer to purchase “on credit” (sometimes: “on account”) can be a risky decision. The business hopes that each customer will pay on time and in the correct amount, but sometimes they pay quite slowly, and on occasion do not pay at all. Slow or non-payment of agreed-to invoices is a costly matter, and steps should be taken to minimize these events. Steps often taken by a business include:
  - a. Investigating each possible customer’s credit rating. Only a customer that can demonstrate a history of paying their debts in a reliable way should be considered for credit sales. This is a matter where a lot of good judgment is often necessary. Sometimes you encounter a new customer which has no rating at all, or a credit check may reveal that a given customer usually pays a bit slowly, but always pays in the end. Because there is also a cost to not making a sale (the lost margin on a sale that might take place if a customer’s order is accepted), it then becomes a matter of judgment as to whether credit terms will be extended in a given case.
  - b. One very common way that a seller can try and speed up collections from its customers is to offer a cash discount. Various incentives can be offered to each customer to reward them for paying promptly. One very common set of terms is to offer a discount (a **sales discount**) of 2% if an invoice is paid within 10 days (the **discount period**), otherwise the whole amount is due in 30 days (the **credit period**.) There are many such terms that can be used, and each company may select a different one that best suits their business model. Note that it is possible for each customer to be granted a different terms offer, but this is a little unusual, and throughout this chapter we will use the so-called “2% 10 days, net 30” just described.
  - c. To make business dealings with customers go smoothly, but also to recognize that certain customers should pay a slightly different price, a seller will often use what is often called a **trade discount**. Each item sold is assigned a dollar value, sometimes referred to a “suggested list” or “retail price.” When items are purchased in relatively low quantities by smaller customers, they are offered a trade discount of 30%. Larger customers who purchase more items at a time may be granted a more generous trade discount of 40%. Certain other categories of customers, such as governments or educational institutions, may have special discounts as well. The exact number and details will vary a lot between businesses, but the intent here is to accommodate the reality of the need for different sets of prices for selected customers, while at the same time having and maintaining only one master price list for all of the seller’s products.

As a practical matter, the use of trade discounts does not cause any bookkeeping or accounting issues at all, since sales are simply recorded at the actual selling price for any given customer. It is true that the per-unit prices are different for selected customers, but this is just a detail, and so we will not spend more time considering this particular matter.

- d. One very important business reality is that some person or persons must be placed in charge of collecting money owed by customers. It is important to take precautions before any credit sale takes place, but once the sale is recorded it becomes necessary to ensure that all monies owed are collected as promptly as possible. In this chapter we illustrate the preparation of a monthly list of amounts due from customers, and that list is one of the crucial reports that can be used to help ensure that amounts due are collected with as little delay as possible. Note that this is one of the main advantages that a computerized accounting system can have, since it is a trivial matter for a computer to produce lists of amounts owed at a moment’s notice, and in differing levels of detail. We do not illustrate this

in the chapter, but all students should be aware of this important benefit of using a computer to record transactions.

- e. To help out in the process of proper business management, a sales journal can be designed to capture many helpful details. The exact nature of the details tracked will differ between companies, but in the next Learning Unit we will show a couple of common ways that a sales journal can be customized to provide helpful information. The first modification will be to include extra columns for selected product groupings. This can help to track which products are selling well and which may need some incentives to sell better. The second of our illustrations will involve tracking sales by salesperson, which can lead to increased direct supervision over the people who deal with customers on a daily basis. This can have added advantages as well, such as allowing each salesperson to have a sales quota that they are expected to reach during a given period—or even allow for direct monetary rewards for performance, sometimes called a sales commission. We not only show how this might be designed into the sales journal, but will use this information to show how it relates to a payroll journal in Chapter 9.

## LEARNING UNIT 6-1 REVIEW

**AT THIS POINT** you should be able to:

- ◆ State the names of at least five special journals. (p. 249)
- ◆ Discuss the factors that have a bearing on how a company sets up and monitors its credit sales. (p. 250)
- ◆ Explain why cash discount terms are needed, and give an example of one. (p. 250)
- ◆ Explain what a trade discount is, how it is used, and its relation to book-keeping. (p. 250)



### Self-Review Quiz 6-1

(The forms you need are on page 6-1 of the *Study Guide with Working Papers*.)

Which of the following statements are true?

1. Recording sales transactions in a general journal is considered efficient.
2. Most businesses will use at least six types of journals (Note—tricky!)
3. Allowing customers to buy on credit can be risky.
4. Cash discounts are rarely used to speed up cash collections from customers.
5. Trade discounts cause challenges when recording customer invoices.

### Solution to Self-Review Quiz 6-1

Numbers 2 and 3 are true. (Re.: number 2, remember that the general journal is also used.)

## LEARNING UNIT 6-2

### The Sales Journal and Accounts Receivable Subsidiary Ledger

Art's Clothing Company buys large quantities of various types of clothing at distributors' prices, and then sells the same items to its own customers at a higher price. Some would describe this company as a "distributor" while the company's customers might be known as "retailers" since they in turn sell to the general public. We will examine Art's Clothing Company to show how this business entity records its Sales, Sales Returns, and Cash Receipts transactions. As a reminder of how sales have been recorded up to this point, here are three journal entries that Art's would make in the absence of a sales journal:

ART'S CLOTHING COMPANY GENERAL JOURNAL												
April	2	Accounts Receivable, Hal's										
		Sales										
		Sales on account										
	6	Accounts Receivable, Bevans										
		Sales										
		Sales on account										
	19	Accounts Receivable, Roe										
		Sales										
		Sales on account										

It is pretty obvious that these journal entries are not too efficient—especially if Art's records dozens or hundreds of such transactions in a month. Also bear in mind that Art's company will also have many other types of transactions (like Purchases and Payroll), and therefore it is true that as the company grows larger it would not be possible for a single bookkeeper to manage to record all of the transactions in the general journal—there would simply be too many!

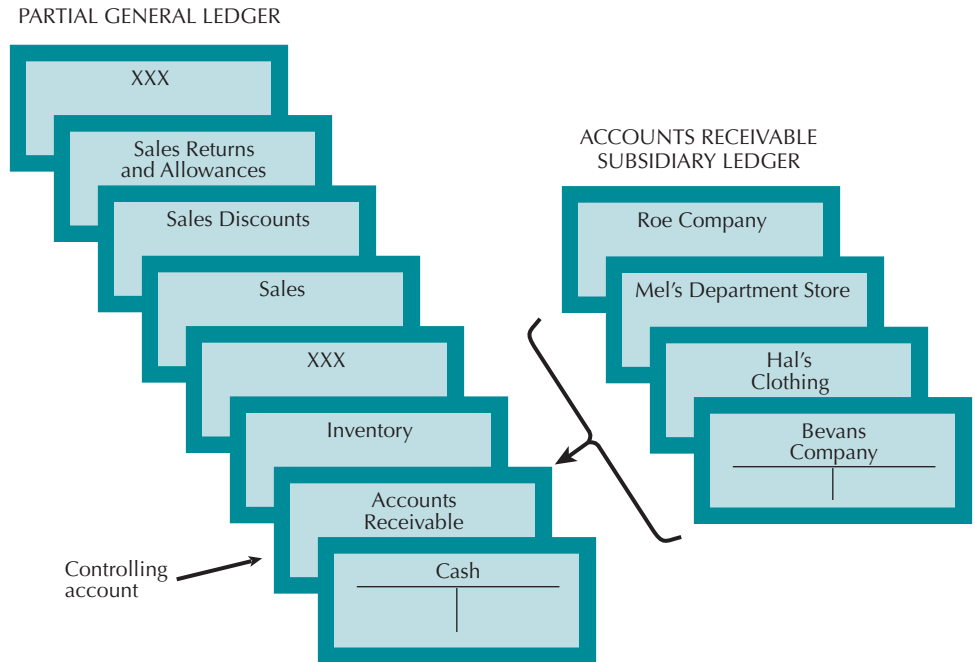
## SUBSIDIARY LEDGERS

In the same way that Art's Clothing Company needs more than just a general journal, the business needs more than just a general ledger. For example, so far in this text, the only title we have used for recording amounts owed to the seller has been Accounts Receivable. Art's could have replaced the Accounts Receivable title in the general ledger with the following list of customers that owe it money:

- ◆ Account Receivable, Bevans Company
- ◆ Account Receivable, Hal's Clothing
- ◆ Account Receivable, Mel's Department Store
- ◆ Account Receivable, Roe Company

As you can see, this would not be manageable if Art's had 1,000 or more credit customers. To solve this problem, Art's sets up a separate **accounts receivable subsidiary ledger**. Such a special ledger, often simply called a **subsidiary ledger**, contains a single type of account, such as "on account" or "credit" customers. A page is opened for each customer and the pages are usually arranged alphabetically by customer name.

**Figure 6-1**  
Partial General Ledger  
and Accounts Receivable  
Subsidiary Ledger of Art's  
Clothing Company



**Proving:** At the end of the month, the sum of the accounts receivable subsidiary ledger balances will equal the ending balance in Accounts Receivable, the controlling account in the general ledger.

The general ledger is *not* in the same book as the accounts receivable subsidiary ledger.

Making sure that the total of all customer accounts agrees with the controlling account is often called **reconciliation**.

Figure 6-1 shows how the accounts receivable subsidiary ledger fits in with the general ledger. To clarify the difference in updating the general ledger versus the subsidiary ledger, we will *post* to the general ledger and *record* in the subsidiary ledger. The word “post” refers to information that is moved from the journal to the general ledger; the word “record” refers to information that is transferred from the journal into the individual customer’s account in the subsidiary ledger.

The accounts receivable subsidiary ledger or any other subsidiary ledger can be in the form of a card file, a binder notebook, a formal, pre-printed ledger page or computer files on disks. It will not have page numbers, but each account may have a unique number to help identify it. The accounts receivable subsidiary ledger is organized alphabetically by customer name and address; new customers can be added and inactive customers deleted, once the balance in their account is zero.

When using an accounts receivable subsidiary ledger, Accounts Receivable in the general ledger is called the **controlling account** since it summarizes or controls the accounts receivable subsidiary ledger. At the end of the month, the total of the individual accounts in the accounts receivable ledger must equal the ending balance in Accounts Receivable in the general ledger.

Art’s Clothing Company will use the following subsidiary ledgers:

- |                                       |  |
|---------------------------------------|--|
| Accounts receivable subsidiary ledger | Records money owed by credit customers |
| Accounts payable subsidiary ledger    | Records money owed to creditors        |

Let’s now look more closely at the sales journal, general ledger, and subsidiary ledger for Art’s Wholesale Clothing Company to see how transactions are recorded in the special journal as well as posted and recorded to specific ledger accounts.

## THE SALES JOURNAL

The **sales journal** for Art’s Clothing Company records all sales made on account to customers. Figure 6-2 shows the sales journal at the end of the first month of operation, along with the recordings in the accounts receivable ledger and posting to the general ledger. Keep in mind that the reason the balances in the accounts receivable subsidiary ledger are *debit* balances is that the customers listed *owe* Art’s Clothing Company money. For some companies, a sales journal would have multiple revenue account columns, and this is illustrated later in this chapter.

**L0 2**

Entering transactions into the sales journal, recording to the accounts receivable subsidiary ledger, and posting to general ledger accounts

**Figure 6-2**  
Sales Journal  
Recording and Postings

ART'S CLOTHING COMPANY SALES JOURNAL							
Page 1							
	2016 Date	Account Debited	Terms	Invoice Number	Post. Ref.	Dr. Accts. Rec.	Cr. Sales
	April 2	Hal's Clothing	2/10, n/30	1001	✓	800	00
	6	Bevans Company	2/10, n/30	1002	✓	1600	00
	19	Roe Company	2/10, n/30	1003	✓	2000	00
	23	Roe Company	2/10, n/30	1004	✓	500	00
	27	Mel's Department Store	2/10, n/30	1005	✓	900	00
	30	Mel's Department Store	2/10, n/30	1006	✓	700	00
	30					6500	00
						(113)	(411)

The ✓ in the sales journal Post. Ref. column indicates that the accounts receivable subsidiary ledger has been updated *during* the month by recording debits to the individual customers.

The total of \$6,500 is posted at the *end of the month* to Accounts Receivable (Dr.) and Sales (Cr.) in the general ledger. Note that the heading in the journal tells you whether it is a debit or credit.

References to ledger accounts mean that totals were posted at the end of the month to these accounts.

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER		
<b>Bevans Company</b>		
Dr.	Cr.	
4/6 SJ1	1,600	
<b>Hal's Clothing</b>		
Dr.	Cr.	
4/2 SJ1	800	
<b>Mel's Department Store</b>		
Dr.	Cr.	
4/27 SJ1	900	
4/30 SJ1	700	
<b>Roe Company</b>		
Dr.	Cr.	
4/19 SJ1	2,000	
4/23 SJ1	500	

Tells us from which page of the sales journal the information comes.

Tells us the invoice date

PARTIAL GENERAL LEDGER		
<b>Accounts Receivable 113</b>		
Dr.	Cr.	
4/30 SJ1	6,500	
<b>Sales 411</b>		
Dr.	Cr.	
	6,500	4/30 SJ1
<b>Sales Returns &amp; Allowances 412</b>		
Dr.	Cr.	
<b>Sales Discount 413</b>		
Dr.	Cr.	

Controlling account

Recording in the accounts receivable subsidiary ledger occurs daily.

Hal's Clothing	
Dr.	Cr.
4/2 SJ1	800

✓ in the journal means accounts receivable subsidiary ledger has been updated.

Look at the first transaction listed in the sales journal. It shows that on April 2, Art's Clothing Company sold merchandise on account to Hal's Clothing for \$800. The bill or **sales invoice** for this sale is shown in Figure 6-3.

### Recording from the Sales Journal to the Accounts Receivable Subsidiary Ledger

As shown on the first line of the sales journal in Figure 6-2, the information on the invoice is recorded in the sales journal. However, *the PR column is left blank*. As soon as possible, we now update the accounts receivable subsidiary ledger. To do

Invoice number	Sales Invoice No. 1001	Art's Clothing Company 1528 Belle Avenue Toronto, Ontario M5A 2L4																					
Name and address of customer	Sold to: Hal's Clothing 91 Century Avenue Winnipeg, MB R2C 4X7	Date: April 2, 2016 Your purchase order No: 430 Ship via: Acme Truck Co.	Date of sale																				
Credit terms	Shipped to: Same Terms: 2/10, n/30	Sold by: J.L.																					
<table border="1"> <thead> <tr> <th>Quantity</th> <th>Description</th> <th>Unit Price</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>20</td> <td>Men's dress shirts— code 16B</td> <td>\$20.00</td> <td>\$400.00</td> </tr> <tr> <td>10</td> <td>Ladies' designer jeans—code 18C</td> <td>35.00</td> <td>350.00</td> </tr> <tr> <td>10</td> <td>Baseball caps— code 22D</td> <td>5.00</td> <td>50.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td><u>\$800.00</u></td> </tr> </tbody> </table>				Quantity	Description	Unit Price	Total	20	Men's dress shirts— code 16B	\$20.00	\$400.00	10	Ladies' designer jeans—code 18C	35.00	350.00	10	Baseball caps— code 22D	5.00	50.00				<u>\$800.00</u>
Quantity	Description	Unit Price	Total																				
20	Men's dress shirts— code 16B	\$20.00	\$400.00																				
10	Ladies' designer jeans—code 18C	35.00	350.00																				
10	Baseball caps— code 22D	5.00	50.00																				
			<u>\$800.00</u>																				

Figure 6-3 Sales Invoice

Recording to the general ledger occurs at end of month and uses the journal total:

Accounts Receivable 113	
Dr.	Cr.
SJ1 4/30 6,500	
Sales 411	
Dr.	Cr.
	6,500 4/30 SJ1

this, we pull out the Hal's Clothing file card and update it: The debit side must show the \$800 owed to Art along with the date (April 2) and page of the sales journal (SJ1). Once that is done, place a ✓ in the posting reference column of the sales journal. The accounts receivable subsidiary ledger shows us Hal's outstanding balance at any moment in time. We do not have to go through all the invoices. Note that the sales journal needs only one line instead of the three lines that would have been required in a general journal.

### Posting at the End of the Month from the Sales Journal to the General Ledger

The sales journal is totalled (\$6,500) at the end of the month. Looking above, you can see that one heading of Art's sales journal is a debit to accounts receivable and a credit to sales. Therefore, at the end of the month, the \$6,500 total is posted to Accounts Receivable (debit) *and* to Sales (credit) in the general ledger. In the general ledger, we record the date (4/30), the initials of the journal (SJ), the page of the sales journal (1), and the appropriate debit or credit (\$6,500). Once the account in the general ledger is updated, we place below the totals in the sales journal the account numbers to which the information was posted (as in Figure 6-2, where these accounts are 113 and 411).

## MULTI-COLUMN SALES JOURNAL

Take a close look at the invoice shown above. Art's Clothing Company has decided that it is helpful to keep track of sales in three different categories:

- ◆ Men's clothing
- ◆ Ladies' clothing
- ◆ All other clothing

It is easy to see from invoice 1001 that \$400 of the total was for sales of Men's clothing; \$350 was for Ladies' clothing, and the balance, \$50, was for Other. To keep track of the three categories of sales, Art's designed a Sales Journal with more columns. It looks like Figure 6-4.

Please note that all of the recordings to the customers' accounts are exactly the same as before when the single-column form of sales journal was used, and the



**Figure 6-4**  
Multi-Column  
Sales Journal

ART'S CLOTHING COMPANY SALES JOURNAL									
Page 1									
2016 Date		Customer's Account	Invoice Number	Post. Ref.	Invoice Total-Dr.	Men's Clothing Sales - Cr.	Ladies' Clothing Sales - Cr.	Other Sales - Cr.	
April	2	Hal's Clothing	1001	✓	800 00	400 00	350 00	50 00	
	6	Bevans Company	1002	✓	1600 00	600 00	800 00	200 00	
	19	Roe Company	1003	✓	2000 00	1100 00	750 00	150 00	
	23	Roe Company	1004	✓	500 00	200 00	200 00	100 00	
	27	Mel's Department Store	1005	✓	900 00	460 00	380 00	60 00	
	29	Mel's Department Store	1006	✓	700 00	310 00	350 00	40 00	
	30	Monthly Totals		✓	6500 00	3070 00	2830 00	600 00	
					(113)	(411)	(412)	(413)	

same check mark is added once the entry is recorded in the customer's account. The main change is there are now three postings to the Sales accounts in the general ledger (to the 411, 412, & 413 accounts) instead of a single posting (to account 411) as shown earlier. Notice that the journal correctly **cross-adds**, which means that the debit to account 113 is exactly offset by the three credit entries to the Sales accounts 411, 412, and 412. Cross-adding is also referred to as cross-footing or cross-balancing. The bookkeeper must ensure that the journal is correct at the end of each month; in other words, that  $\$3,070 + \$2,830 + \$600 = \$6,500$ .

If that mathematical accuracy is not checked routinely, then the general ledger is sure to become out of balance, and a lot of work will need to be done to correct the error(s).

## MULTI-COLUMN SALES JOURNAL WITH SALES BY SALESPERSON

Another worthwhile addition that Art's Clothing Company might choose to include in the sales journal is the detail of which salesperson is associated with which sale. Notice that Figure 6-3 shows that invoice 1001 to Hal's Clothing was sold by a person with the initials "J. L." Let's assume that these initials stand for Jean Lamont, one of three sales representatives that take care of sales to specific customers of Art's Clothing Company. The other two sales reps are Pat Kingston (P. K.) and Melody Chui (M. C.). Since Art's company wants to keep a record of which sales invoices are associated with a specific sales rep, then a simple way to accomplish that might be to add one extra column that can include the sales person's initials, as shown in Figure 6-5

Realize that in most cases a sales journal will contain many more entries than are shown here. We have kept the size small so as to emphasize the principles involved.

Please note that the total sales by salesperson are *not posted* to the general ledger. This is just a notation in the journal that might be useful to management in keeping track of how productive each salesperson has been in a given month. As we will see in Chapter 9, this information can also be used to calculate sales commissions, if that is in part how employees are paid.

Also worth noting is how handy it would be to have all of the sales for a given month included in an Excel spreadsheet. This would allow sales to be analyzed in a number of different ways quite quickly. It is actually rather common to find a company's sales listed in a spreadsheet on a monthly basis, and where this is done, the printed spreadsheet can be used as the sales journal. If a company uses a computer with typical accounting software, then the use of a spreadsheet is generally avoided, because most accounting software is capable of generating any analysis that is needed.

ART'S CLOTHING COMPANY SALES JOURNAL										
Page 1										
2016 Date	Customer's Account	Sold By	Invoice Number	Post. Ref.	Invoice Total-Dr.	Men's Clothing Sales - Cr.	Ladies' Clothing Sales - Cr.	Other Sales - Cr.		
April 2	Hal's Clothing	JL	1001	✓	800 00	400 00	350 00	50 00		
6	Bevans Company	MC	1002	✓	1600 00	600 00	800 00	200 00		
19	Roe Company	PK	1003	✓	2000 00	1100 00	750 00	150 00		
23	Roe Company	PK	1004	✓	500 00	200 00	200 00	100 00		
27	Mel's Department Store	JL	1005	✓	900 00	460 00	380 00	60 00		
29	Mel's Department Store	JL	1006	✓	700 00	310 00	350 00	40 00		
30	Monthly Totals			✓	6500 00	3070 00	2830 00	600 00		
					(113)	(411)	(412)	(413)		
Sales by Salesperson:										
		JL			2400 00					
		MC			1600 00					
		PK			2500 00					
	Total Sales				6500 00					

Figure 6-5 Multi-Column Sales Journal with Sales by Salesperson

## LEARNING UNIT 6-2 REVIEW

**AT THIS POINT** you should be able to:

- ◆ Define and state the purposes of the accounts receivable subsidiary ledger. (p. 252)
- ◆ Define and state the purpose of the controlling account, Accounts Receivable. (p. 253)
- ◆ Journalize, record, and post sales on account to a sales journal and its related accounts receivable and general ledgers. (pp. 254–255)
- ◆ Define and use a multi-column Sales Journal to keep track of sales made in different categories. (p. 255)
- ◆ Show how additional details can be added to a Sales Journal, and determine whether this memorandum-only information is posted to General Ledger accounts. (p. 256)



### Self-Review Quiz 6-2

(The forms you need are on page 6-1 of the *Study Guide with Working Papers*.)

Which of the following statements are false?

1. A Sales Journal can be customized for each company.
2. Special journals aid the division of labour.
3. The subsidiary ledger makes the general ledger less manageable.
4. The subsidiary ledger is separate from the general ledger.

### Quiz Tip

The normal balance of each account in the accounts receivable subsidiary ledger is a debit.

5. The controlling account is located in the accounts receivable subsidiary ledger.
6. The total(s) of a sales journal is (are) posted to the general ledger at the end of the month.
7. The accounts receivable subsidiary ledger is arranged in alphabetical order.
8. Transactions recorded into a sales journal are recorded weekly to the accounts receivable subsidiary ledger.

### Solution to Self-Review Quiz 6-2

Numbers 3, 5, and 8 are false.

## LEARNING UNIT 6-3

### The Credit Memorandum

Merchandising businesses often use the **Sales Returns and Allowances** account to handle transactions involving returns or adjustments of goods that have already been sold to customers on account. For example, if a customer returns the goods he has bought, that account will be credited for the amount charged for the goods returned; if a customer gets an allowance because the goods she purchased were damaged, that account will be credited for the amount of the allowance. In both of these examples, the company's net sales revenue decreases. That is why the account is called a contra-revenue account: Sales revenue decreases and its normal balance is a debit.

A credit memorandum reduces accounts receivable.

Companies usually handle sales returns and allowances by means of a **credit memorandum**. Credit memoranda inform customers that the amount of the goods returned or the amount allowed for damaged goods has been subtracted from (credited to) the customer's ongoing account with the company.

A sample credit memorandum from Art's Clothing Company appears in Figure 6-6. It shows that on April 12, credit memo No. 1 was issued to Bevans Company for defective merchandise that had been returned. (Figure 6-2 on page 254 shows that Art's Clothing Company sold Bevans Company \$1,600 worth of merchandise on April 6.)

Sales Returns and Allowances	
Dr.	Cr.
+	-
A contra-revenue account	

Let's assume that Art's has high-quality goods and does not expect many sales returns and allowances. On this assumption, no special journal for sales returns and allowances will be needed. Instead, any returns and allowances will be recorded in the general journal, and all postings and recordings will be done when journalized. Let's look at a transaction analysis chart before we journalize, record, and post this transaction.

**Figure 6-6**  
Credit Memorandum

End result is that Bevans owes Art's Clothing Company less money.

Art's Clothing Company  
 1528 Belle Avenue  
 Toronto, ON M5A 2L4

Credit Memorandum No. 1

Date: April 12, 2016

Credit to: Bevans Company  
 110 Aster Road  
 Amherst, NS B4H 3A5

We credit your account as follows:  
 Merchandise returned 60 model 8B men's dress gloves—\$600

Note that the Sales Returns and Allowances account is increasing, which in turn reduces sales revenue and reduces the amount owed by the customer (accounts receivable).

Accounts Affected	Category	↑ ↓	Rules
Sales Returns and Allowances	Revenue (Contra)	↑	Dr.
Accounts Receivable, Bevans Co.	Asset	↓	Cr.

LO 3

Creating, recording, and posting a credit memorandum

Remember, sales discounts are *not* taken on returns.

## JOURNALIZING, RECORDING, AND POSTING THE CREDIT MEMORANDUM

The credit memorandum results in two postings to the general ledger and one recording in the accounts receivable subsidiary ledger (see Figure 6-7).

Note in the PR column next to Accounts Receivable, Bevans Co., that there is a diagonal line with the account number 113 above and a ✓ below. This is to show that the amount of \$600 has been credited to Accounts Receivable, the controlling account in the general ledger, *and* credited to the account of Bevans Company in the accounts receivable subsidiary ledger.

**Figure 6-7**  
Posting and Recording for the Credit Memorandum in the Subsidiary General Ledgers

Page 1									
Date		Account Titles and Description	PR	Dr.		Cr.			
2016	April	12							
		Sales Returns and Allowances	412	600	00				
		Accounts Receivable, Bevans Co.	113			600	00		
		Issued Credit Memo							

412 A debit of \$600 is recorded in Sales Returns and Allowances account (number 412) in the general ledger. When this is done, the account number is placed in the PR column of the journal.

113 The credit of \$600 is also posted to Accounts Receivable, the controlling account in the general ledger. When this is done, the account number (113) is placed in the PR column of the journal.

✓ The checkmark indicates that \$600 has been recorded as a credit to the account of Bevans Company in the accounts receivable subsidiary ledger.

If the accountant for Art's Clothing Company decided to develop a special journal for sales returns and allowances, the entry for a credit memorandum such as the one we've been discussing would look like this:

SALES RETURNS AND ALLOWANCES JOURNAL						
Date		Credit Memo No.	Account Credited	PR	Sales Returns and Allowances—Dr.	Accounts Receivable—Cr.
2016	April	12	1	Bevans Company	✓	600 00

During the month, the subsidiary ledger is updated, and the total would be posted at the end of the month to the general ledger.

Accountants do not completely agree about the accounting method shown next, but if proper controls are in place, it can be a very efficient way to enter credit memoranda. Please bear in mind that a credit memo reduces a customer's account balance, so any such document must be properly approved (likely by the sales manager or credit manager) before it is entered into the company's records. If there is a concern with the method shown below, it is that it might be very easy to insert non-approved credit memos into the sales journal and thereby escape close scrutiny. However, if a responsible official looks over the details in the sales journal each period, there is little cause for concern.

The actual method is very simple: Just insert the credit memo on an appropriate row in the Sales Journal as a negative amount—usually shown by being in brackets. Mostly, the credit memos are included in date order, just like the invoices. Shown below is the sales journal you have already looked at, but now including details of CM No. 1:

ART'S CLOTHING COMPANY									
SALES JOURNAL									
Page 1									
Date 2016	Customer's Account	Invoice Number	Post. Ref.	Invoice Total—Dr.	Men's Clothing Sales—Cr.	Ladies' Clothing Sales—Cr.	Other Sales—Cr.		
April 2	Hal's Clothing	1001	✓	800 00	400 00	350 00	50 00		
6	Bevans Company	1002	✓	1600 00	600 00	800 00	200 00		
12	Bevans Company	CM1	✓	(600 00)	(600 00)				
19	Roe Company	1003	✓	2000 00	1100 00	750 00	150 00		
23	Roe Company	1004	✓	500 00	200 00	200 00	100 00		
27	Mel's Department Store	1005	✓	900 00	460 00	380 00	60 00		
29	Mel's Department Store	1006	✓	700 00	310 00	350 00	40 00		
30	Monthly Totals—Note— These totals have changed due to the inclusion of CM-1.		✓	5900 00	2470 00	2830 00	600 00		
				(113)	(411)	(412)	(413)		

Notice that the journal still correctly cross-adds, which means that the debit to account 113 is exactly offset by the three credit entries to the Sales accounts 411, 412, and 412, although two of the amounts are now lower because of the inclusion of the credit memo. The bookkeeper must always ensure that the journal cross-adds at the end of each month—in other words, that  $\$2,470 + \$2,830 + \$600 = \$5,900$ .

# LEARNING UNIT 6-3 REVIEW

**AT THIS POINT** you should be able to:

- ◆ Explain, journalize, post, and record a credit memorandum. (pp. 259–260)



## Self-Review Quiz 6-3

(The forms you need are on pages 6-1 to 6-3 of the *Study Guide with Working Papers*.)

Journalize the following transactions in the sales journal or general journal for Moss Company. Record in the accounts receivable subsidiary ledger and post to general ledger accounts as appropriate. Use the same journal headings that we used for Art's Clothing Company. (All sales carry credit terms of 2/10, n/30.)

2015

- May
- Sold merchandise on account to Jane Company, invoice No. 1, \$600.
  - Sold merchandise on account to Ralph Company, invoice No. 2, \$2,500.
  - Issued credit memo No. 1 to Jane Company for \$200 for defective merchandise returned.



### Quiz Tip

Total of accounts receivable subsidiary ledger, \$400 + \$2,500, does indeed equal the balance (\$2,900) in the controlling account, Accounts Receivable, at the end of the month in the general ledger.

## Solution to Self-Review Quiz 6-3

MOSS COMPANY SALES JOURNAL							
							Page 1
Date	Account Debited	Terms	Invoice No.	Post. Ref.	Dr. Accts. Rec. Cr. Sales		
2015 May 1	Jane Company	2/10, n/30	1	✓	600	00	00
4	Ralph Company	2/10, n/30	2	✓	2500	00	00
31					3100	00	00
					(112)	(411)	

MOSS COMPANY GENERAL JOURNAL					
					Page 1
Date	Account Titles and Description	PR	Dr.	Cr.	
2015 May 18	Sales Returns and Allowances	412	2000	00	00
	Accounts Receivable, Jane Company	112 ✓			2000
	Issued credit memo #1				

PARTIAL GENERAL LEDGER									
Accounts Receivable								Acct. No. 112	
Date 2015	Explanation	Post. Ref.	Debit			Credit	DR or CR	Balance	
May 18		GJ1				200 00	CR	200 00	
May 31		SJ1	3	1	0	0	0	0	0
							DR	290 00	

Controlling Account. Note the unusual balance of \$200 (Cr.) because of the return. Why? Because the total of the sales journal is not posted until the end of the month.

Sales									
								Acct. No. 411	
Date 2015	Explanation	Post. Ref.	Debit			Credit	DR or CR	Balance	
May 31		SJ1				310 000	CR	310 000	

Sales Returns and Allowances									
								Acct. No. 412	
Date 2015	Explanation	Post. Ref.	Debit			Credit	DR or CR	Balance	
May 18		GJ1	2	0	0	0	DR	200 00	

ACCOUNTS RECEIVABLE LEDGER									
NAME Jane Company ADDRESS 1218 Broadview Avenue, Toronto, ON M5X 2A1									
Date 2015	Explanation	Post. Ref.	Debit			Credit	DR Balance		
May 1		SJ1	6	0	0	0	60 000		
May 18		GJ1				200 00	40 000		

Customers owe Moss money and thus each account has a debit balance.

NAME Ralph Company ADDRESS 1300 Marine Drive, West Vancouver, BC V6P 9B6									
Date 2015	Explanation	Post. Ref.	Debit			Credit	DR Balance		
May 4		SJ1	2	5	0	0	250 000		

# LEARNING UNIT 6-4

## Cash Receipts Journal and Schedule of Accounts Receivable

Besides the sales journal, another special journal often used in a merchandising operation is the cash receipts journal. The **cash receipts journal** records the receipt of cash (or cheques) from any source. The number of columns a cash receipts journal will have depends on how frequently certain types of transactions occur. For example, in the cash receipts journal for Art's Clothing Company, the accountant has developed the headings shown in Figure 6-8. Below each heading is a description of the purpose of that column and when to update the accounts receivable ledger as well as the general ledger.

The following transactions occurred in April for Art's and affected the cash receipts journal:

- 2016  
 April
- 1 Art Newner invested \$8,000 in the business.
  - 5 Received cheque from Hal's Clothing for payment of invoice No. 1001 less discount.
  - 15 Cash sales for first half of April, \$900.
  - 16 Received cheque from Bevans Company in settlement of invoice No. 1002 less returns and discount.
  - 22 Received cheque from Roe Company for payment of invoice No. 1003 less discount.
  - 26 Sold store equipment, \$500.
  - 30 Cash sales for second half of April, \$1,200.

Figure 6-8 Cash Receipts Journal

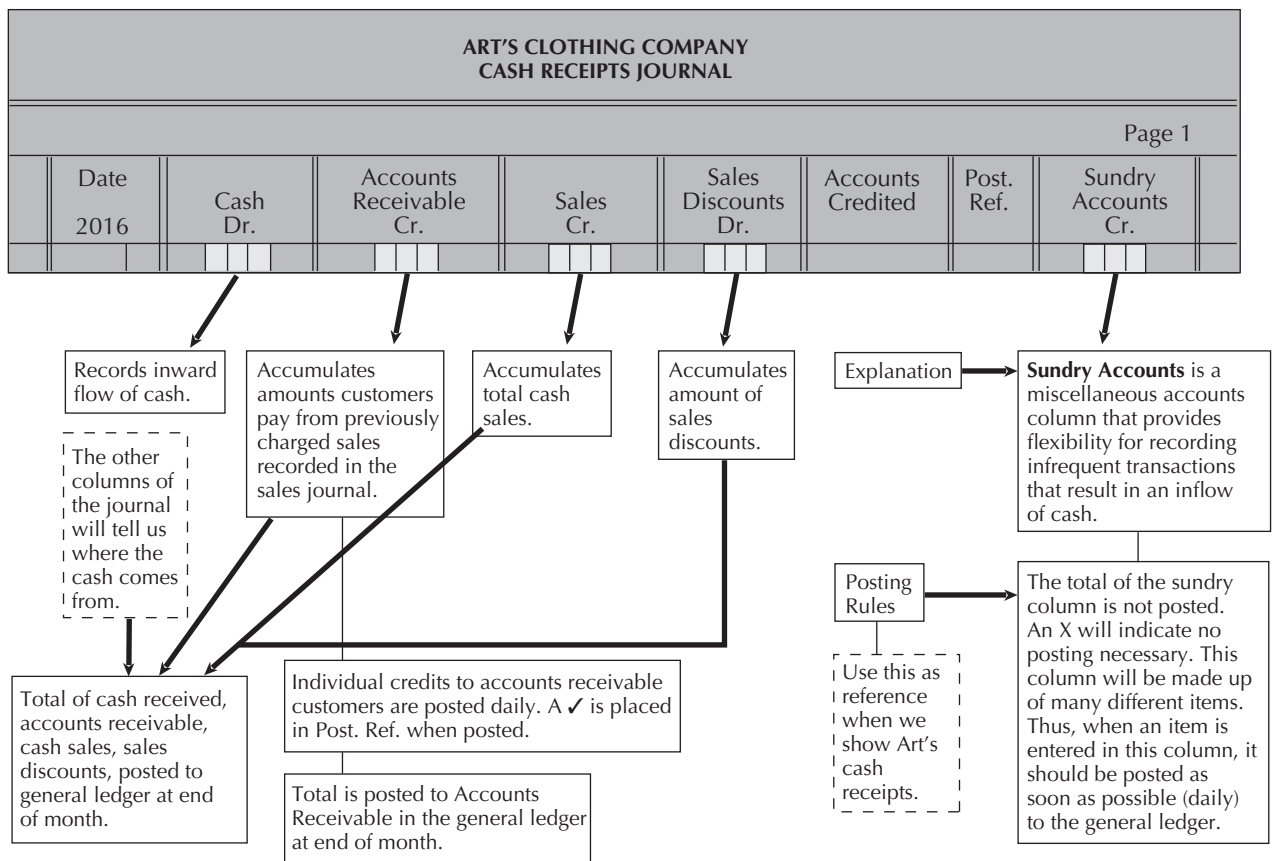




Figure 6-9 shows the completed cash receipts journal for the end of April, along with the recordings to the accounts receivable ledger and posting to the general ledger. Study the diagram; we will review it in a moment.

Figure 6-9 Cash Receipts Journal and Posting

CASH RECEIPTS JOURNAL									
Page 1									
Date 2016	Cash Dr.	Accounts Receivable Cr.	Sales Cr.	Sales Discount Dr.	Accounts Credited	PR	Sundry Accounts Cr.		
April 1	8 000 000				Art Newner, Capital	311	8 000 000		
5	7 840 000	8 000 000		1 600	Hal's Clothing	✓			
15	9 000 000		9 000 000		Cash Sales	✗			
16	9 800 000	1 000 000		2 000	Bevans Company	✓			
22	1 960 000	2 000 000		4 000	Roe Company	✓			
26	5 000 000				Store Equipment	121	5 000 000		
30	1 200 000		1 200 000		Cash Sales	✗			
30	1 432 400	3 800 000	2 100 000	7 600			8 500 000		
	(1 111)	(1 113)	(4 11)	(4 13)			(X)		

Totals posted to general ledger at end of month

Total not posted

ACCOUNTS RECEIVABLE LEDGER

PARTIAL GENERAL LEDGER

NAME Bevans Company ADDRESS 110 Aster Road, Amherst, NS B4H 3A5						
Date 2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance	
April 6		SJ1	1 600 000		1 600 000	
12		GJ1		6 000 000	1 000 000	
16		CRJ1		1 000 000	-0-	

NAME Hal's Clothing ADDRESS 91 Century Avenue, Winnipeg, MN R2C 4X7						
Date 2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance	
April 2		SJ1	8 000 000		8 000 000	
5		CRJ1		8 000 000	-0-	

NAME Mel's Department Store ADDRESS 181 Foss Road, Fredericton, NB E3A 2N8						
Date 2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance	
April 26		SJ1	9 000 000		9 000 000	
		SJ1	7 000 000		1 600 000	

NAME Roe Company ADDRESS 18 Rantool Street, Regina, SK S4P 3J7						
Date 2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance	
April 19		SJ1	2 000 000		2 000 000	
22		CRJ1		2 000 000	-0-	
23		SJ1	5 000 000		5 000 000	

NAME Hal's Clothing ADDRESS 91 Century Avenue, Winnipeg, MN R2C 4X7						
Date 2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance	
April 2		SJ1	8 000 000		8 000 000	
5		CRJ1		8 000 000	-0-	
10		CRJ1		8 000 000	(8 000 000)	

Note on accounts receivable: Very occasionally (because of an error, e.g., when a customer pays twice for the same invoice), a credit balance may be called for. Credit balances are opposite to the normal debit balance and are signified by placing the balance in brackets. For example, suppose that Hal's Clothing (see above) mistakenly paid its invoice twice. The account would then appear as follows:

Cash Acct. No. 111						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 30		CRJ1	14 324 000		DR.	14 324 000

Accounts Receivable Acct. No. 113						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 12		GJ1		6 000 000	CR.	6 000 000
30		SJ1	6 500 000		DR.	5 900 000
30		CRJ1		3 800 000	DR.	2 100 000

Store Equipment Acct. No. 121						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 1	Balance				DR.	4 000 000
26		CRJ1		5 000 000	DR.	3 500 000

Art Newner, Capital Acct. No. 311						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 1		CRJ1		8 000 000	CR.	8 000 000

Sales Acct. No. 411						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 30		SJ1		6 500 000	CR.	6 500 000
30		CRJ1		2 100 000	CR.	8 600 000

Sales Returns and Allowances Acct. No. 412						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 12		GJ1	6 000 000		DR.	6 000 000

Sales Discounts Acct. No. 413						
Date 2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance
April 30		CRJ1	7 600		DR.	7 600

Recording transactions in the cash receipts journal (including payments from customers taking a cash discount), recording to the AR sub-ledger, posting to general ledger accounts, and preparing a schedule of accounts receivable

## JOURNALIZING, RECORDING, AND POSTING FROM THE CASH RECEIPTS JOURNAL

On April 5, Art's Clothing Company received a cheque from Hal's Clothing for payment of invoice No. 1 less discount. Remember, it was in the sales journal that this transaction was first recorded (Figure 6-2). At that time, we updated the accounts receivable ledger, indicating that Hal's Clothing owed Art's \$800. Since Hal's Clothing is paying within the 10-day discount period, Art's Clothing Company offers a \$16 sales discount ( $\$800 \times 0.02$ ). (Remember, all credit sales carried terms of 2/10, n/30.)

Now, when payment is received, Art's Clothing Company updates the cash receipts journal (see page 264) by entering the date (April 5), cash debit of \$784, sales discounts debit of \$16, credit to accounts receivable of \$800, and which account name (Hal's Clothing) is to be credited. The terms of sale indicate that Hal's Clothing is entitled to the discount and no longer owes Art's Clothing Company the \$800 balance. *As soon as this line is entered into the cash receipts journal, Art's will update the ledger account of Hal's Clothing.* Note, in the accounts receivable ledger of Hal's Clothing, how the date (April 5), posting reference (CRJ1), and credit amount (\$800) are recorded. The balance in the accounts receivable ledger is zero. The last step of this transaction is to go back to the cash receipts journal and put a ✓ in the posting reference column.

In studying this cash receipts journal, note that:

1. All totals of cash receipts in the journal columns except sundry were posted to the general ledger at the end of the month.
2. Art Newner, Capital, and Store Equipment were posted to the general ledger when entered in the sundry column. It is assumed that the equipment account had a beginning balance of \$4,000 in the general ledger.
3. The cash sales were not posted when entered (hence the X to show no posting is needed). The sales and cash totals are posted at the end of the month.
4. A ✓ means information was recorded daily to the customer's account in the accounts receivable ledger.
5. The Accounts Credited column describes each transaction.

We can prove the accuracy of recording transactions of the cash receipts journal by totalling the columns with debit balances and the columns with credit balances. This cross-adding (or cross-footing or cross-balancing), is done before the totals are posted. Also, if a bookkeeper were using more than one page for the cash receipts journal, the balances on the bottom of one page would be brought forward to the top of the next page. This verifying of totals would result in less work when trying to find journalizing or posting errors at a later date. Let's see how to cross-foot the cash receipts journal of Art's Clothing Company (Figure 6-7).

The last step is to put a check-mark in the PR column of the cash receipts journal to show the accounts receivable ledger is up to date.

Proving the cash receipts journal.

<b>Debit Columns</b>	<b>= Credit Columns</b>
Cash + Sales Discounts	= Accounts Receivable + Sales + Sundry
\$14,324 + \$76	= \$3,800 + \$2,100 + \$8,500
\$14,400	= \$14,400

## SCHEDULE OF ACCOUNTS RECEIVABLE

From Figure 6-9, let's list the customers that have an ending balance in the accounts receivable ledger of Art's Clothing Company. This listing is called a **schedule of accounts receivable**. The balance of the controlling account, Accounts Receivable (\$2,100), in the general ledger (see p. 264) does indeed equal the sum of the individual customer balances in the accounts receivable ledger (\$2,100), as shown below in the schedule of accounts receivable. The schedule of accounts

receivable can help forecast potential cash inflows as well as better inform possible credit and collection decisions.

Schedule is listed in alphabetical order.

Art's Clothing Company Schedule of Accounts Receivable April 30, 2016	
Mel's Department Store	\$1600.00
Roe Company	<u>500.00</u>
Total Accounts Receivable	<u>\$2100.00</u>

One excellent idea that can assist with collections (by allowing a collections officer to focus on amounts that have been outstanding the longest) is a schedule of accounts receivable that is aged (called an **aged schedule of accounts receivable**).

The example shown below illustrates the simple principle involved (Figure 6-10). Needless to say, this schedule can be prepared manually, but is an automatic feature of all computer software. It can also be helpful to view the percentages for each category.

Figure 6-10. Schedule of Accounts Receivable

An Example Company Schedule of Accounts Receivable As of July 31, 2017					
Customer	Outstanding Balance	0–30 Days	31–60 Days	61–90 Days	91 Days or More
Arrow Supply	1,400	900	500		
Carson Engineering	2,850	680	1,245	825	100
Gerrard Office Management	500				500
Harrowsmith Printing	4,360	2,300	2,060		
Markham Furnishers	3,875	640	2,100	1,135	
Jacobin and Company	1,340	140	700	500	
Marcell Outfitters	6,435	670	1,875	2,475	1,415
Turnbull Safety	2,750	2,750			
Williamson Consulting	4,375	2,450	1,585	240	100
Totals	<u>27,885</u>	<u>10,530</u>	<u>10,065</u>	<u>5,175</u>	<u>2,115</u>
Percentages		38%	36%	19%	8%

## LEARNING UNIT 6-4 REVIEW

**AT THIS POINT** you should be able to:

- ◆ Journalize, record, and post, transactions using a cash receipts journal. (p. 265)
- ◆ Prepare a schedule of accounts receivable. (p. 265)



### Self-Review Quiz 6-4

(The forms you need are on pages 6-4 to 6-6 of the *Study Guide with Working Papers*.)

Journalize, cross-add, record, and post when appropriate, the following transactions into the cash receipts journal of Moore Co. Use the same headings as for Art's Clothing Company.

#### Accounts Receivable Ledger

Name	Balance	Invoice No.
Irene Welch	\$500	1
Chantel Simard	200	2

#### Partial General Ledger

Account	Account No.	Balance
Cash	110	\$600
Accounts Receivable	120	700
Store Equipment	130	600
Sales	410	700
Sales Discounts	420	—

2016

- May 3 Received cheque from Irene Welch for invoice No. 1 less 2% discount.  
 7 Cash sales collected, \$400.  
 14 Received cheque from Chantel Simard for invoice No. 2 less 2% discount.  
 20 Sold store equipment at cost, \$300.

### Solution to Self-Review Quiz 6-4

MOORE COMPANY CASH RECEIPTS JOURNAL									
									Page 2
Date	Cash	Accounts	Sales	Sales	Description	Post.	Sundry		
2016	Dr.	Receivable	Cr.	Discounts	of Receipt	Ref.	Accounts		
		Cr.		Dr.			Cr.		
May 3	490.00	500.00		1.00	Irene Welch	✓			
7	400.00		400.00		Cash Sales	X			
14	196.00	200.00		4.00	Chantel Simard	✓			
20	300.00				Store Equipment	130	300.00		
31	<b>1386.00</b>	<b>700.00</b>	<b>400.00</b>	<b>14.00</b>			<b>300.00</b>		
	<b>(110)</b>	<b>(120)</b>	<b>(410)</b>	<b>(420)</b>			<b>(X)</b>		

Cross-adding: \$1,400.00 = \$1,400.00

PARTIAL GENERAL LEDGER

**! Quiz Tip**  
 The total of the Sundry column is not posted; only individual amounts are posted to the general ledger.

**! Quiz Tip**  
 Sum of all debits equals sum of all credits.

Cash								Acct. No. 110	
Date	2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May	1	Balance	✓			DR.	60000		
	31		CRJ2	138600		DR.	198600		

Accounts Receivable								Acct. No. 120	
Date	2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May	1	Balance	✓			DR.	70000		
	31		CRJ2		70000		-0-		

Store Equipment								Acct. No. 130	
Date	2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May	1	Balance	✓			DR.	60000		
	20		CRJ2		30000	DR.	30000		

Sales								Acct. No. 410	
Date	2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May	1	Balance	✓			CR.	70000		
	31		CRJ2		40000	CR.	110000		

Sales Discounts								Acct. No. 420	
Date	2016	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May	31		CRJ2	1400		DR.	1400		

ACCOUNTS RECEIVABLE LEDGER

NAME Irene Welch ADDRESS 10 Rong Road, Timmins, ON P4N 4M3									
Date	2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance			
May	1	Balance	✓			50000			
	3		CRJ2		50000	-0-			

NAME Chantel Simard ADDRESS 9017 Robitaille Road, Montreal, QC H1K 4R3									
Date	2016	Explanation	Post. Ref.	Debit	Credit	Dr. Balance			
May	1	Balance	✓			20000			
	14		CRJ2		20000	-0-			

# Chapter Assignments

## COMPREHENSIVE DEMONSTRATION PROBLEM WITH SOLUTION TIPS

(Students please note that this Comprehensive Problem is part one of a two-part series, and many instructors will want you to complete this part of the problem at the same time as the balance of the problem at the same point in Chapter 7. It can be done at this point, but will have a more comprehensive feel to it if it is completed at the same time as part two in the next chapter. In any event, the forms you need are on pages 7–5 to 7–10 of the *Study Guide with Working Papers*.)

- a. For the Walter Lantz Co. in July, 2016, journalize, record, and post the following transactions as needed to the sales, cash receipts, and general journals. All terms are 2/10, n/30.
- b. Prepare a schedule of accounts receivable and accounts payable.

		2016		
CRJ	July	2	Walter Lantz invested \$8,000 in the business.	
SJ		4	Sold merchandise on account to Panda Co., invoice No. 1—\$300.	
SJ		5	Sold merchandise on account to Buzzard Co., invoice No. 2—\$600.	
CR		6	Cash sale—\$400.	
GJ		8	Issued credit memorandum No. 1 to Panda Co. for defective merchandise—\$100.	
CRJ		11	Received cheque from Panda Co. for invoice No. 1 less returns and discount.	
CRJ		16	Cash sale—\$500.	
SJ		19	Sold merchandise on account to Panda Co.—\$550, invoice No. 3.	

WALTER LANTZ CO. SALES JOURNAL									
									Page 1
	Date	Account Debited	Terms	Invoice No.	Post. Ref.	Dr. Accts. Rec. Cr. Sales			
	2013 July 4	Panda Co.	2/10, n/30	1	✓	300	000	000	
		Buzzard Co.	2/10, n/30	2	✓	600	000	000	
		Panda Co.	2/10, n/30	3	✓	550	000	000	
	31					145	000	000	
						(112)	(411)		

Recorded immediately in subsidiary ledger.

Total posted at end of month to general ledger accounts.

Record in subsidiary ledger immediately.

WALTER LANTZ CO. CASH RECEIPTS JOURNAL											
											Page 1
Date	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Cr.	Sundry						
					Account Name	Post. Ref.	Amount Cr.				
2013 July 2	8 000 000					W. Lantz, Cap.	311	8 000 000			
6	4 000 000			4 000 000		Cash Sale	X				
11	1 960 000	400	2 000 000			Panda Co.	✓				
16	5 000 000			5 000 000		Cash Sale	X				
31	9 096 000	400	2 000 000	9 000 000						8 000 000	
	(111)	(413)	(112)	(411)						(X)	

Post totals to general ledger at end of month.

Don't post total.

GENERAL JOURNAL						Page 1
Date	Account Title and Description	PR	Dr.	Cr.		
2013 July 8	Sales Returns and Allowances	412	10 000			
	Accounts Receivable, Panda Co.	112 ✓		10 000		
	Issued credit memo					

Post immediately to general ledger.

Recorded immediately in subsidiary ledger.

Accounts receivable subsidiary ledger usually contains accounts with debit balances

**Accounts Receivable Subsidiary Ledger**

Buzzard Co.					
Date	PR	Debit	Credit	Dr. Balance	
2013 July 5	SJ1	6 000 000		6 000 000	

Panda Co.					
Date	PR	Debit	Credit	Dr. Balance	
2013 July 4	SJ1	3 000 000		3 000 000	
8	GJ1		1 000 000	2 000 000	
11	CRJ1		2 000 000	-0-	
19	SJ1	5 500 000		5 500 000	

**General Ledger**

Cash 111					
July 31	CRJ1	9,096	3,683	July 31	CPJ1
Balance		5,413			
Controlling account					
Accounts Receivable 112					
July 31	SJ1	1,450	100	July 8	GJ1
Balance		1,150	200	July 31	CRJ1
Walter Lantz, Capital 311					
		8,000		July 2	CRJ1
Sales 411					
		1,450		July 31	SJ1
		900		July 31	CRJ1
Balance		2,350			
Sales Returns and Allowances 412					
July 8	GJ1	100			
Sales Discounts 413					
July 31	CRJ1	4			

The controlling accounts for Accounts Receivable at the end of the month equal the sum of the accounts receivable subsidiary ledger.

WALTER LANTZ CO. SCHEDULE OF ACCOUNTS RECEIVABLE JULY 31, 2013				
Buzzard Co.	\$	600	000	
Panda Co.		550	000	
Total Accounts Receivable	\$	1150	000	

## SUMMARY OF KEY POINTS

### Learning Unit 6-1

1. Special journals increase efficiency and allow multiple clerks to work on record-keeping at the same time.
2. This chapter describes and illustrates the sales journal and the cash receipts journal. The purchases journal and the cash payments journal are covered in the next chapter. Other journals are also possible.
3. Proper management of a company involves care in selecting which customers will have the right to buy goods and/or services on credit, and also requires that collections be monitored to minimize losses from uncollected sales.
4. Use of trade discounts is an effective way to avoid costly routine alterations to price lists and also allows for an easy way to recognize customer differences by adjusting the allowed trade discount to recognize special situations—like customer loyalty or size.

### Learning Unit 6-2

1. The sales journal records details of sales to customers on account.
2. The accounts receivable subsidiary ledger replaces a single accounts receivable account in the general ledger with multiple accounts in a separate ledger.
3. The AR sub-ledger can be in the form of cards, paper in a binder, or a computer file—the principle is the same.
4. The sales journal can have one column or can have multiple columns if a company wants to keep details of sales by category or territory. Multiple-column journals must cross-add at period end.
5. A check mark in the Post. Ref. box means that the amount has been recorded to the customer's account in the AR sub-ledger.
6. Placing an account number underneath a column total at period end in a multiple-column journal means that total has been posted to the relevant GL account.

### Learning Unit 6-3

1. When a credit memorandum is issued, the result is that Sales Returns and Allowances is increasing and Accounts Receivable is decreasing. When we record this in a general journal, we assume that all parts of the transaction will be posted to the general ledger and recorded in the subsidiary ledger when the entry is journalized.



2. A credit memo can also be recorded in a special journal if the volume warrants it.
3. A credit memo can also be entered into the sales journal as a negative amount, but more care and control may be needed.

### Learning Unit 6-4

1. The cash receipts journal records receipt of cash from any source.
2. Post each item in the sundry column to record the credit part of a transaction that does not occur frequently. Never post the *total* of sundry. Post items in the sundry column to the general ledger when entered.
3. A ✓ in the posting reference column of the cash receipts journal means that the accounts receivable subsidiary ledger has been updated (recorded) with a credit.
4. An ✗ in the cash receipts journal posting reference column means no posting was necessary since the totals of these columns will be posted at the end of the month.
5. Cross-adding means proving that the total of debits and the total of credits are equal in the special journal, thus verifying the accuracy of recording.
6. A schedule of accounts receivable is a listing of the ending balances of customers in the accounts receivable subsidiary ledger. This total should be the same balance as found in the controlling account, Accounts Receivable, in the general ledger.
7. An aged schedule may be helpful in ensuring all accounts are collected at an early date.

## KEY TERMS

**Accounts receivable subsidiary ledger** A book or file that contains the individual records of amounts owed by various credit customers, usually in alphabetical order (p. 252)

**Aged schedule of accounts receivable** A detailed list of all customer accounts showing how long each balance has been outstanding (p. 266)

**Cash receipts journal** A special journal that records all transactions involving the receipt of cash from any source (p. 263)

**Controlling account** (AR) The Accounts Receivable account in the general ledger, after postings are complete, shows the total amount of money owed to a firm. This figure is broken down in the accounts receivable subsidiary ledger, where it indicates specifically who owes the money. (p. 253)

**Credit memorandum** A piece of paper sent by the seller to a customer who has returned merchandise previously purchased on credit. The credit memorandum indicates to the customer that the seller is reducing the amount owed by the customer. (p. 258)

**Credit period** Length of time allowed for payment of goods sold on account (p. 250)

**Cross-adding** The process of proving that the total debit columns of a special journal are equal to the total columns of that journal; also referred to as cross-footing or cross-balancing (p. 255)

**Discount period** A period during which a customer can take a cash discount to encourage early payment of bills. The discount period is shorter than the credit period. (p. 250)

**Sales discount** Cash discount granted to customers for payments made within a specific period of time. A contra-revenue account is used to record sales discounts granted. (p. 250)

**Sales invoice** A bill sent to a customer reflecting a sale, usually on credit (p. 254)

**Sales journal** A special journal used to record only sales made on account. May have one column, or many (p. 253)

**Sales Returns and Allowances** A contra-revenue account that records price adjustments and allowances granted on merchandise that is defective and has been returned. It has a debit balance. (p. 258)

**Schedule of accounts receivable** A list of the customers, in alphabetical order, that have an outstanding balance in the accounts receivable subsidiary ledger. This total should be equal to the balance of the Accounts Receivable controlling account in the general ledger at the end of the month. (p. 265)

**Special journal** A journal used to record similar groups of transactions. *Example:* the sales journal, which records all sales on account (p. 249)

**Subsidiary ledger** A ledger that contains accounts of a single type. *Example:* the accounts receivable subsidiary ledger, which records all customers that purchase goods on account (p. 252)

**Trade Discount** A device used to allow for one basic product price list but different selling prices for customers in different categories, such as size or loyalty. (p. 250)

**Sundry Accounts** Miscellaneous accounts column(s) in a special journal, which records transactions that do not occur often (p. 263)

## QUICK REVIEW

The following Tips are from Learning Units 6-1 to 6-4. Answer the Assess Your Progress questions and use the How Did You Do? at the bottom of the page to see how well you know the material. The Quick Review provides tips before each Assess Your Progress to help you avoid common accounting errors.

### LU 6-1 Designing and Understanding Special Journals

Tips: Special journals are used to make the record-keeping tasks of a business more efficient, and also allow more than one person to work on the company's records at the same time. One special journal is called the sales journal, and recorded here are credit sales to a company's customers. Several other special journals are commonly used by a business. This chapter describes the sales journal and the cash receipts journal, while the next chapter details the purchases journal and the cash payments journal. A company might have a need for other special journals as well—the payroll journal is one example.

Businesses need to control the process of selling on credit to customers, as well as the ultimate collection of monies owed. Controlling sales is often done by designating certain persons as sales managers—possibly one person for each territory or product line. To assist with collections, a cash discount can be used. It also helps to have some person or persons made responsible for

effective collection of all monies owed. The sales journal can be designed to capture helpful information to help with these tasks.

#### Assess Your Progress

Answer true or false to the following statements:

1. Special journals allow more than one bookkeeper to work on a company's records.
2. A customer relations manager helps to manage the sales function.
3. Cash discounts cost money and should be avoided.
4. Having a lot of details about a company's sales helps in managing the company.
5. A trade discount applies to all customers equally.

### LU 6-2 The Sales Journal and Accounts Receivable Subsidiary Ledger

Tips: Making a single journal entry in the general journal for every sale made by a company each period is very inefficient, and should be avoided if possible. Similarly, it is quite confusing to have

a separate account in the general ledger for each customer. To help with these problems, most businesses use a sales journal and an accounts receivable subsidiary ledger. The controlling account, Accounts Receivable, in the general ledger will equal the sum of individual Accounts Receivable accounts in the subsidiary ledger at the end of the month. The normal balance of each account in the subsidiary ledger is a debit. A company's sales journal is a list of all invoices for a period, usually with several important details included, such as an invoice number, terms, and so on. A multiple-column sales journal can also contain extra columns—one for each desired category of sales. Some sales journals also include details regarding the identity of each salesperson. At the end of each period, the sales journal is totalled, and if it is multi-columned, the column totals must cross-add to prove that the debits equal the credits. These column totals are posted to the general ledger at period-end. Details of each invoice are recorded to each customer's account in the accounts receivable subsidiary ledger, which may be designed to capture other details as well, such as salesperson, terms, and more.

### Assess Your Progress

Answer true or false to the following statements:

1. The controlling account is located in the subsidiary ledger.
2. A check mark in the posting reference column means the controlling account has been updated.
3. Accounts in subsidiary ledgers can be listed alphabetically.
4. All subsidiary ledgers consist of pages in a bound volume.
5. Details of sales by salesperson are always posted to the general ledger.

### LU 6-3 The Credit Memorandum

Tips: Companies usually handle sales returns and allowances by means of a credit memorandum. When a credit memorandum is issued, Sales Returns and Allowances will increase with a debit, and an Accounts Receivable controlling account, as well as the specific customer's account in the subsidiary ledger, will be reduced by a credit. If the number of credit memos is large, a company might use a special journal to record them all. The chapter shows how a credit memo is recorded using the general journal, and this can work well if the number of credit memos is low. Some companies allow credit memos to be recorded as negative amounts in the sales journal. This is a very efficient way to record these documents, but added controls

might be needed to help ensure that all such entries are legitimate.

### Assess Your Progress

Answer true or false to the following statements:

1. A credit memorandum only affects the controlling account.
2. Sales discounts are taken on the original sale less any applicable credit memos.
3. Sales Returns and Allowances is a contra revenue account.
4. A company should always use the general journal to enter credit memos.
5. It is acceptable to enter credit memos as negative amounts in the sales journal.

### LU 6-4 Cash Receipts Journal and Schedule of Accounts Receivable

Tips: All normal cash received by a business in a period should be entered in the cash receipts journal. Most of the amounts should come from customers, and any payments made by credit customers must be recorded to that customer's account. Some cash receipts from non-customers are received periodically, and the cash receipts journal has a sundry column to accommodate these unusual events. Sales discounts should never be allowed on sales returns, of course, and also should be subject to approval by the sales manager or credit manager, and then entered as part of each transaction on a separate row in the cash receipts journal. When all postings are done, the sum of the subsidiary ledger should equal the ending balance in the controlling account. It is the schedule of accounts receivable that lists each customer with its ending balance and proves this equality. To assist in effective collection of all amounts owed, the schedule of accounts receivable at period end can be constructed with additional detail, showing the length of time each amount making up each customer's total has been unpaid.

### Assess Your Progress

Answer true or false to the following statements:

1. The schedule of accounts receivable lists debits first.
2. The normal balance of an Accounts Receivable account is a credit.
3. The controlling account does not match the total of the schedule of accounts receivable at the end of the month.
4. Sales Discounts is a contra-asset.
5. There are three possible ways to enter a credit memo.

## How Did You Do: Answers to the Assess Your Progress Questions

### LU 6-1

1. True.
2. False—Such person is usually called the sales manager.
3. False—on balance. True, they cost some money, but help save on bad debts in the long run.
4. True.
5. False—An advantage of trade discounts is that they can be altered for each customer.

### LU 6-2

1. False—It is included in the general ledger.
2. False—A check mark means that the amount has been recorded to the customer account.
3. True—However, some companies may arrange things differently. Using account numbers is one example.
4. False—That is one way, but the accounts can be on cards or exist as files in a computer.
5. False—Details of sales by salesperson are not posted to the general ledger.

### LU 6-3

1. False—A credit memorandum affects both the controlling account and the subsidiary ledger.
2. True.
3. True.
4. False—this is a good way, but a bit inefficient. A special journal is helpful when the number of CMs are large, or a CM can be entered into the sales journal as a negative amount.
5. True—so long as good controls are in place.

### LU 6-4

1. False—There are no debits on the schedule of accounts receivable.
2. False—The normal balance of an accounts receivable account is a debit.
3. False—The controlling account must match the total of the schedule of accounts receivable at the end of the period.
4. False—Sales Discounts is a contra-revenue account.
5. True.

## BLUEPRINT OF SALES AND CASH RECEIPT JOURNALS

### Summary of How to Post and Record Single-Column Sales Journal

SALES JOURNAL				
Date	Description	PR	Dr. Accts. Rec.	Cr. Sales
		✓	~~~~	
		✓	~~~~	
		✓	~~~~	
		✓	~~~~	
		✓	~~~~	

Posted  
end of month  
Total of column is posted to general ledger accounts, Accounts Receivable, and Sales.

Recorded  
during the month  
Accounts receivable subsidiary ledger is updated as soon as transaction is entered in sales journal. A ✓ indicates that recording is complete to the accounts receivable ledger customer account.

( ) ( )

### Recording a Credit Memo in a General Journal

GENERAL JOURNAL				
Date	Account Title and Description	PR	Dr.	Cr.
	Sales Returns and Allowances	~ ~ ~	~~~~	
	Accounts Receivable, J. Doe	~ ✓		~~~~
	Issued credit memo			

Posted when transaction entered  
Three postings:  
1. Post to SRA in general ledger.  
2. Post to asset account in general ledger.  
3. Record in J. Doe account in accounts receivable ledger.

MULTI-COLUMN SALES JOURNAL									
Date	Customer's Account	Sold By	Invoice Number	Post. Ref.	Invoice Total-Dr.	Sales No. 1 Cr.	Sales No. 2 Cr.	Sales No. 3 Cr.	Page
2016				✓					1
				✓					
				✓					
				✓					
				✓					
				✓					
	Monthly Totals				(111)	(222)	(333)	(444)	
	Sales by Salesperson:				X XX XX				
		SP1			X XX XX				
		SP2			X XX XX				
		SP3			X XX XX				
	Total Sales				X XX XX				

**Annotations:**

- Initials of salesperson optional → Invoice Number
- Date of each invoice → Date
- Customer's Account
- Sold By
- Invoice Number
- Post. Ref.
- Invoice Total-Dr.
- Sales No. 1 Cr.
- Sales No. 2 Cr.
- Sales No. 3 Cr.
- Page 1
- Total amount of Invoice
- Amount of each product sold
- Each Invoice takes one row.
- Place check mark here when recorded to customer's account, which should be just after the invoice is entered.
- Total each column at the end of each month, and cross-add to ensure accuracy
- Insert the G/L account numbers as totals are posted at end of month
- Totals in these columns are posted to sales accounts in the G/L by category at month-end.
- This total is posted to the A/R Controlling Account in the G/L at month-end.
- Some companies may need these totals each month, but they are not posted anywhere

Page 1

Date 2016	Cash Dr.	Accounts Receivable Cr.	Sales Cr.	Sales Discounts Dr.	Accounts Credited	Post. Ref.	Sundry Accounts Cr.
						xxx	111111
						X	
						✓	
						✓	
						✓	
Monthly Totals							

**Annotations:**

- Date of each deposit:** Points to the Date column.
- Amount of cash received:** Points to the Cash Dr. column.
- The credit here is the total the customer no longer must pay:** Points to the Accounts Receivable Cr. column.
- Amount for any casual sales:** Points to the Sales Cr. column.
- Amount of discount taken by a customer for each payment:** Points to the Sales Discounts Dr. column.
- Usually, the name of the customer. May also be a G/L account name or explanation:** Points to the Accounts Credited column.
- Each receipt (or deposit) takes one row:** Points to a row in the table.
- Insert here an account number for each sundry entry as it is posted to the G/L:** Points to the Sundry Accounts Cr. column.
- Insert an "X" here if no posting to a customer's account is needed, e.g., cash sales:** Points to the Post. Ref. column.
- Place check mark here when recorded to a customer's account, which should be just**
- This total is posted to the Cash account in the G/L at month-end, after the journal is cross-added. The G/L acct. no. is added at the bottom to signify that the amount was posted.** Points to the Cash Dr. column.
- Totals in these columns are posted to the appropriate G/L accounts at month-end. G/L acct. nos. are added once postings are made.** Points to the Sales Cr. and Sales Discounts Dr. columns.
- This total is posted to the A/R Controlling Account in the G/L at month-end. Add G/L acct. no. at bottom when posted.** Points to the Accounts Receivable Cr. column.
- This column has a total, but it is not posted anywhere. The individual amounts are posted instead.** Points to the Accounts Credited column.


## QUESTIONS, CLASSROOM DEMONSTRATION EXERCISES, EXERCISES, AND PROBLEMS

### Discussion Questions and Critical Thinking/Ethical Case

1. Explain the purpose of a contra-revenue account.
2. What is the normal balance of sales discounts?
3. Give two examples of contra-revenue accounts.
4. What is the difference between a discount period and a credit period?
5. Explain the terms (a) 2/10, n/30; (b) n/10, EOM.
6. If special journals are used, what purpose will a general journal serve?
7. Compare and contrast the controlling account Accounts Receivable with the accounts receivable subsidiary ledger.
8. Explain how to calculate net sales.
9. Why is the accounts receivable subsidiary ledger organized in alphabetical order?
10. What is an invoice? What purpose does it serve?
11. When a seller issues a credit memorandum, what accounts will be affected?
12. Explain the purpose of a schedule of accounts receivable.

13. Amy Jak is the National Sales Manager of Rowe Co. In order to get sales up to the projection for the old year, Amy asked the accountant to put the first two weeks of sales in January back into December. Amy told the accountant that this secret would be between them. Should Amy move the new sales into the old sales year? You make the call. Write down your specific recommendations to Amy.

## MyAccountingLab

Make the grade with MyAccountingLab! The exercises and problems marked  can be found on MyAccountingLab. You can practise them as often as you want, and many of them feature step-by-step guided solutions to help you find the right answer. You can also find working papers for selected problems in the Multimedia Library on MyAccountingLab.

### Classroom Demonstration Exercises

(The forms you need are on pages 6-17 and 6-21 of the *Study Guide with Working Papers*.)

#### Overview

Recording transactions  
2 3 (6 min)

1. Complete the following table for Sales, Sales Returns and Allowances, and Sales Discounts:

Accounts Affected	Category	↑↓	Rules	Temporary or Permanent

#### Calculating Net Sales

Net sales  
2 3 (6 min)

2. Given the following, calculate net sales:
- |                              |      |
|------------------------------|------|
| Gross sales                  | \$30 |
| Sales returns and allowances | 8    |
| Sales discounts              | 2    |

#### Sales Journal and General Journal

Sales transactions  
2 3 (10 min)

3. Beside each of the three transactions below the box, enter the number of any of the following six treatments that apply. (More than one number can be used.)
- Journalize into sales journal.
  - Record immediately to subsidiary ledger.
  - Post totals from sales journal at end of month to general ledger.
  - Journalize in general journal.
  - Record and post immediately to subsidiary and general ledger.
  - Journalize into cash receipts journal.
    - \_\_\_\_\_ Sold merchandise for cash to Ree Co., invoice No. 1—\$50.
    - \_\_\_\_\_ Sold merchandise on account to Flynn Co., invoice No. 2—\$1,000.
    - \_\_\_\_\_ Issued credit memorandum No. 1 to Flynn Co. for defective merchandise—\$25.

Entering basic sales invoices  
2 (10 min)

### Single-Column Sales Journal

4. Enter each of the following invoices into a single-column sales journal. Total the entries and place appropriate general ledger account numbers below to show where the total would be posted. There is no need to record any details to individual customer accounts. The company uses 120 as their general ledger account number for Accounts Receivable, and the Sales account number is 400. Each sale carries terms of net 30 days.

2017

- May
- 4 Invoice 801 Sold \$200 to Francine Company on account.
  - 7 Invoice 802 Sold \$300 to Joshua Enterprises on account.
  - 13 Invoice 803 Sold \$100 to Charlize Company on account.
  - 22 Invoice 804 Sold \$350 to Francine Company on account.
  - 25 Invoice 805 Sold \$400 to Kirkhouse Consulting on account.
  - 30 Invoice 806 Sold \$250 to Charlize Company on account.

Entering sales invoices in a multicolumn sales journal  
2 (18 min)

### Multi-Column Sales Journal

5. Enter each of the following invoices into a multi-column sales journal. Driscoll Company sells two kinds of safety equipment: helmets (H) and safety shoes (S). Terms are all 2% 10 days, net 30. Total all the columns and cross-add the journal. Place appropriate account numbers at the bottom of each column to show where the totals would be posted. No need to record to individual accounts. Driscoll uses 1400 as their Accounts Receivable controlling account in the general ledger, 4100 for Helmet Sales, and 4200 for Safety Shoe Sales.

2016

- Feb.
- 3 Inv. 301 Sold \$200 (H) plus \$100 (S) to Parkay Management.
  - 7 Inv. 302 Sold \$350 (H) plus \$250 (S) to Ferlow Inspections.
  - 11 Inv. 303 Sold \$150 (H) plus \$550 (S) to Merlet Waste Management.
  - 15 Inv. 304 Sold \$600 (H) plus \$300 (S) to Parkay Management.
  - 19 Inv. 305 Sold \$700 (S) to Arkadia Company. (No helmet sales for this invoice.)
  - 24 Inv. 306 Sold \$400 (H) plus \$150 (S) to Snake Creek & Co.
  - 28 Inv. 307 Sold \$500 (H) plus \$250 (S) to Merlet Waste Management.

Entering transactions into the cash receipts journal  
4 (15 min)

### The Cash Receipts Journal

6. Please refer to the information contained in question 5 above. During February 2016, Driscoll Company deposited four cheques as follows:

- Feb.
- 5 Peter Driscoll wrote a personal cheque for \$10,000 and deposited it in the company bank account. This is a contribution by owner.
  - 12 Deposited a cheque from Parkay Management, paying invoice No. 301, taking discount.
  - 20 Deposited a cheque from Merlet Waste Management, paying invoice No. 303, taking discount.
  - 27 Deposited a cheque from Ferlow Inspections, paying invoice No. 302. No Discount.



Enter each deposit into a cash receipts journal, and cross-add the journal at month end. No need to record to individual customer accounts or to the general ledger accounts, but please insert the correct general ledger account numbers in the appropriate places as if the posting was done. Driscoll's Owner's Equity account number is 3000. The Sales Discounts account number is 4500. The Bank account number is 1000. The Accounts Receivable account number is 1200.

Preparation of a schedule of accounts receivable  
4 (10 min)

### Preparing a Schedule of Accounts Receivable

7. From the following, prepare a schedule of accounts receivable for AVE Co. for May 31, 2015:

#### Accounts Receivable Subsidiary Ledger

Bliss Co.			
5/12	SJ1	50	5/25 CRJ1 20
Rowe Co.			
5/18	SJ1	60	

#### Partial General Ledger

Accounts Receivable 1200			
5/31	SJ1	110	5/31 CRJ1 20

## Exercises

(The forms you need are on pages 6-22 to 6-24 of the *Study Guide with Working Papers*.)

### Set A

Recording and posting from the sales journal

2 4 (10 min)

- 6-1A. From the sales journal below, record in the accounts receivable subsidiary ledger and post to the general ledger accounts as appropriate.

SALES JOURNAL						
						P. 1
	Date	Account Debited	Invoice No.	PR	Dr. Accts. Receivable Cr. Sales	
	2016 April 18	Kevin Stone Co.	1		600	00
		Bill Valley Co.	2		900	00
		Total			<u>1500</u>	<u>00</u>

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER
Kevin Stone Co.
Bill Valley Co.

PARTIAL GENERAL LEDGER
Accounts Receivable 112
Sales 412

Journalizing, recording, and posting sales and cash receipts journal; schedule of accounts receivable

1 2 3 4 (20 min)

- 6-2A. From the following transactions for Edna Co., when appropriate, journalize, record, post, and prepare a schedule of accounts receivable. Use the same journal headings (all page 1) and chart of accounts that Art's Clothing used in the text (use Edna Cares, Capital). You will have to set up your own accounts receivable subsidiary ledger and partial general ledger as needed. All sales terms are 2/10, n/30.

2017

- June
- 2 Edna Cares invested \$5,000 in the business.
  - 3 Sold merchandise on account to Boston Co., invoice No. 218, \$700.
  - 3 Sold merchandise on account to Gary Co., invoice No. 219, \$1,100.
  - 6 Cash sale, \$200.
  - 9 Issued credit memorandum No. 24 to Boston Co. for defective merchandise, \$200.
  - 10 Received cheque from Boston Co. for invoice No. 218 less returns and discount.
  - 16 Cash sale, \$400.
  - 17 Sold merchandise on account to Boston Co., invoice No. 220, \$600.

Calculate net receipts, enter credit memo

3 (5 min)

- 6-3A. From the following, calculate what amount Blue Co. can expect to receive from Frost Foundation with respect to invoice No. 6051, dated March 5, 2015. The total was \$3,200 and terms are 3% 15 days, net 45 days. On March 7, credit memorandum No. 103 was issued to Frost Foundation in the amount of \$400 for some minor damage to the items sold. Frost was expected to pay within the

Enter sales, credit memo,  
and cash receipts

1 2 3 4 (18 min)

Entering sales into a  
multicolumn journal

2 (20 min)

Recording to the cash receipts  
journal

4 (15 min)

discount period. In addition, record the credit memorandum using the general journal. No need to post it or record to the accounts receivable sub-ledger.

**6-4A.** On January 11, 2016, Glassiere Co. sold a Model 3146 home theatre equipment cabinet to the HLJ Company on invoice No. 3275. The unit has a list price of \$4,600, and this customer receives a trade discount of 35%. All sales invoices are sold on terms of 2% 10 days, net 30. Due to a manufacturing defect, the colour of the stain used on this unit was slightly different from normal, and HLJ asked for and got a credit memorandum (No. 202) in the amount of \$300 net, dated January 14, (which means this is deducted from the actual total of this invoice, not the list price). HLJ paid invoice No. 3275 less the trade discount and credit memorandum January 20. Record the sale, the credit memorandum, and the cash receipt in appropriate journals and record to the customer's account as necessary. Because the sales and cash receipts journals are only posted at month end, you may skip the general ledger postings for these two journals.

**6-5A.** Enter each of the following invoices into a multi-column sales journal. Airwell Company sells three kinds of machining equipment: lathes (L), milling (M), and surfacing (S). Terms are all 2% 10 days, net 30. Total all columns and cross-add the journal. Place appropriate account numbers at the bottom of each column to show where the totals have been posted. Record to individual accounts in the accounts receivable sub-ledger as well as the general ledger accounts. Airwell uses 1200 as their Accounts Receivable controlling account in the general ledger, and 4010 for Lathes Sales; 4020 for Milling Sales, and 4030 for Surfacing Sales.

2017

Aug.

- 2 Inv. 601 Sold \$3,000 (L), \$4,200 (M), and \$2,500 (S) to Amaxe Engineering.
- 5 Inv. 602 Sold \$2,650 (L), \$1,800 (M), and \$900 (S) to Willow Productions.
- 9 Inv. 603 Sold \$4,100 (L), \$3,600 (M), and \$2,800 (S) to Stencle Machinery.
- 11 Inv. 604 Sold \$2,700 (M) and \$4,300 (S) to Macro-El Holdings.
- 14 Inv. 605 Sold \$3,600 (L), \$2,700 (M), and \$1,700 (S) to Amaxe Engineering.
- 19 Inv. 606 Sold \$5,700 (L) and \$6,200 (M) to Naroco Company.
- 22 Inv. 607 Sold \$3,300 (L), \$3,500 (M), and \$2,800 (S) to Willow Productions.
- 24 Inv. 608 Sold \$3,200 (L), \$800 (M), and \$2,700 (S) to Macro-El Holdings.
- 29 Inv. 609 Sold \$2,500 (M) and \$2,900 (S) to Amaxe Engineering.

**6-6A.** Please refer to the information contained in the question 6-5A above. During August, 2017, Airwell Company deposited four cheques and made one additional deposit as follows:

- Aug. 3 The owner arranged for a bank loan of \$30,000 to finance inventory purchases. This amount was deposited in the company bank account.
- 11 Deposited a cheque from Amaxe Engineering paying invoice No. 601, taking discount.
- 19 Deposited a cheque from Stencle Machinery paying invoice No. 603, taking discount.

- 25 Deposited a cheque from Willow Productions paying invoice No. 602. No discount.
- 27 Deposited a cheque from Naroco Company paying invoice No. 606, taking discount.

Required: Enter each deposit into a cash receipts journal, and cross-add the journal at month end. Record to individual customer accounts as well as to the general ledger accounts, inserting the correct general ledger account numbers in the appropriate places as the posting is done. Airwell's Bank Loan Payable general ledger account number is 2200. The Sales Discounts account number is 4450. The Bank account number is 1100. Remember, the Accounts Receivable account number is 1200.

### Set B

**Recording and posting from the sales journal**  
 2 4 (10 min)

**6-1B.** From the sales journal below, record in the accounts receivable subsidiary ledger and post to the general ledger accounts as appropriate.

SALES JOURNAL						
						Page 1
	Date	Account Debited	Invoice No.	PR	Dr. Accts. Receivable	
					Cr. Sales	
	2016 April 18	Kevin Stone Co.	1		800	00
	19	Bill Valley Co.	2		700	00
		Total			<u>1500</u>	<u>00</u>

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER
Kevin Stone Co. <hr style="width: 50%; margin: 5px auto;"/> Bill Valley Co.

PARTIAL GENERAL LEDGER
Accounts Receivable 112 <hr style="width: 50%; margin: 5px auto;"/> Sales 412

**Journalizing, recording, and posting sales and cash receipts journal; schedule of accounts receivable**  
 1 2 3 4 (20 min)

**6-2B.** From the following transactions for Edna Co., when appropriate, journalize, record, post, and prepare a schedule of accounts receivable. Use the same journal headings (all page 1) and chart of accounts that Art's Clothing used in the text (use Edna Cares, Capital). You will have to set up your own accounts receivable subsidiary ledger and partial general ledger as needed. All sales terms are 2/10, n/30.

2017  
 June

- 2 Edna Cares invested \$6,000 in the business.
- 3 Sold merchandise on account to Boston Co., invoice No. 218, \$800.
- 3 Sold merchandise on account to Gary Co., invoice No. 219, \$1,200.
- 6 Cash sale, \$300.
- 9 Issued credit memorandum No. 24 to Boston Co for defective merchandise, \$150.
- 10 Received cheque from Boston Co. for invoice No. 218 less returns and discount.

- 16 Cash sale, \$500.
- 17 Sold merchandise on account to Boston Co., invoice No. 220, \$700.

**Calculate net receipts, enter credit memo**

**3** (5 min)

**6-3B.** From the following, calculate what amount Blue Co. can expect to receive from Frost Foundation with respect to invoice No. 6051, dated March 5, 2015. The total was \$4,600 and terms are 3% 15 days, net 45 days. On March 7, credit memorandum No. 103 was issued to Frost Foundation in the amount of \$500 for some minor damage to the items sold. Frost was expected to pay within the discount period. In addition, record this transaction using the general journal. No need to post it or record to the accounts receivable sub-ledger.

**Enter sales, credit memo, and cash receipts**

**1 2 3 4** (18 min)

**6-4B.** On January 11, 2016, Glassiere Co. sold a Model 3146 home theatre equipment cabinet to the HLJ Company on invoice No. 3275. The unit has a list price of \$3,800 and this customer receives a trade discount of 40%. All sales invoices are sold on terms of 2% 10 days, net 30. Due to a manufacturing defect, the colour of the stain used on this unit was slightly different from normal, and KLJ asked for and got a credit memorandum (No. 202) in the amount of \$200 net, dated January 14 (which means this is deducted from the actual total of this invoice, not the list price). HLJ Company paid the invoice less the trade discount and credit memorandum on January 20. Record the sale, the credit memorandum, and the cash receipt in appropriate journals and record to the customer's account as necessary. Because the sales and cash receipts journals are only posted at month end, you may skip the general ledger postings for these two journals.

**Entering sales into a multicolumn journal**

**2** (20 min)

**6-5B.** Enter each of the following invoices into a multi-column Sales Journal. Airwell Company sells three kinds of machining equipment: lathes (L), milling (M), and surfacing (S). Terms are all 2% 10 days, net 30. Total all columns and cross-add the journal. Place appropriate account numbers at the bottom of each column to show where the totals have been posted. Record to individual accounts in the accounts receivable sub-ledger. Airwell uses 1200 as their Accounts Receivable controlling account in the general ledger; 4010 for Lathes Sales; 4020 for Milling Sales; and 4030 for Surfacing Sales.

2017

Aug.

- 2 Inv. 601 Sold \$4,000 (L), \$5,400 (M), and \$1,900 (S) to Amaxe Engineering.
- 5 Inv. 602 Sold \$3,850 (L), \$2,700 (M), and \$800 (S) to Willow Productions.
- 9 Inv. 603 Sold \$3,700 (L), \$5,600 (M), and \$1,800 (S) to Stencle Machinery.
- 11 Inv. 604 Sold \$3,600 (M) and \$5,400 (S) to Macro-El Holdings.
- 14 Inv. 605 Sold \$4,300 (L), \$3,200 (M), and \$2,500 (S) to Amaxe Engineering.
- 19 Inv. 606 Sold \$4,800 (L) and \$5,700 (M) to Naroco Company.
- 22 Inv. 607 Sold \$4,200 (L), \$2,900 (M), and \$1,860 (S) to Willow Productions.
- 24 Inv. 608 Sold \$4,400 (L), \$2,300 (M), and \$1,800 (S) to Macro-El Holdings.
- 29 Inv. 609 Sold \$3,300 (M) and \$2,700 (S) to Amaxe Engineering.

Recording to the cash receipts journal

4 (15 min)

6-6B. Please refer to the information contained in the question 6-5B above. During August, 2017, Airwell Company deposited four cheques and made one additional deposit as follows:

- Aug. 3 The owner arranged for a bank loan of \$25,000 to finance inventory purchases. This amount was deposited in the company bank account.
- 11 Deposited a cheque from Amaxe Engineering paying invoice No. 601, taking discount.
- 19 Deposited a cheque from Stencle Machinery paying invoice No. 603, taking discount.
- 25 Deposited a cheque from Willow Productions paying invoice No. 602. No discount.
- 27 Deposited a cheque from Naroco Company paying invoice No. 606, taking discount.

Required: Enter each deposit into a cash receipts journal, and cross-add the journal at month end. Record to individual customer accounts as well as to the general ledger accounts, inserting the correct general ledger account numbers in the appropriate places as the posting is done. Airwell's Bank Loan Payable general ledger account number is 2200. The Sales Discounts account number is 4450. The Bank account number is 1100. The Accounts Receivable account number is 1200.

Group A Problems

(The forms you need are on pages 6-25 to 6-38 of the *Study Guide with Working Papers*.)

Single-column journal: journalizing and posting to general ledger and recording to accounts receivable subsidiary ledger and preparing a schedule of accounts receivable

1 2 3 (25 min)

Check Figure

Schedule of Accounts Receivable \$3,230.00

6A-1. Rita Hayle has opened Food on the Go, a wholesale grocery and pizza company, in Edmonton. The following transactions occurred in June:

- 2016
- June 1 Sold merchandise to Joe Kase Co. on account, \$400, invoice No. 702.
- 4 Sold merchandise to Sue Moore Co. on account, \$600, invoice No. 703.
- 8 Sold merchandise to Long Co. on account, \$700, invoice No. 704.
- 11 Issued credit memorandum No. 34 to Joe Kase Co. for \$150 worth of grocery merchandise returned because of spoilage.
- 15 Sold merchandise to Sue Moore Co. on account, \$180, invoice No. 705.
- 18 Sold merchandise to Long Co. on account, \$300, invoice No. 706.
- 25 Sold merchandise to Joe Kase Co. on account, \$1,200, invoice No. 707.

Required

- a. Journalize the transactions in the appropriate journals.
- b. Record in the accounts receivable subsidiary ledger and post to the general ledger as appropriate.
- c. Prepare a schedule of accounts receivable.

**Comprehensive problem: recording transactions in sales, cash receipts, and general journals; recording in accounts receivable subsidiary ledger and posting to general ledger; preparing a schedule of accounts receivable**  
**1 2 3 4 (70 min)**

*Check Figure*

**Schedule of Accounts Receivable \$5,700.00**

**6A-2.** Mark Peaker owns Peaker's Sneaker Shop of Dartmouth. (In your working papers, balances as of May 1 are provided for the accounts receivable and general ledger accounts.) The following transactions occurred in May:

- 2015  
 May
- 1 Mark Peaker invested an additional \$12,000 in the sneaker store.
  - 4 Sold \$900 worth of merchandise on account to B. Dale, sales invoice No. 160, terms 1/10, n/30.
  - 4 Sold \$500 worth of merchandise on account to Ron Lester, sales invoice No. 161, terms 1/10, n/30.
  - 8 Sold \$200 worth of merchandise on account to Jim Zon, sales invoice No. 162, terms 1/10, n/30.
  - 11 Received cash from B. Dale in payment of May 4 transaction, sales invoice No. 160, less discount.
  - 21 Sold \$3,000 worth of merchandise on account to Pam Pry, sales invoice No. 163, terms 1/10, n/30.
  - 22 Received cash payment from Ron Lester in payment of May 4 transaction, sales invoice No. 161.
  - 22 Collected cash sales, \$3,000.
  - 25 Issued credit memorandum No. 31 to Pam Pry for \$2,000 worth of merchandise returned from May 21 sales on account.
  - 25 Collected cash sales, \$7,000.
  - 28 Received cash from Pam Pry in payment of May 21 sales invoice No. 163. (Don't forget about the credit memo and discount.)
  - 28 Sold sneaker rack equipment for \$300 cash. (Beware.)
  - 29 Sold merchandise, priced at \$4,000, on account to Ron Lester, sales invoice No. 164, terms 1/10, n/30.
  - 31 Issued credit memorandum No. 32 to Ron Lester for \$700 worth of merchandise returned from May 29 transaction, sales invoice No. 164.

**Required**

- a. Journalize the transactions.
- b. Record in the accounts receivable subsidiary ledger and post to general ledger as needed.
- c. Prepare a schedule of accounts receivable as of May 31.

**6A-3.** Wilson Chan has just taken over a business started by his aunt in Sarnia, Ontario, and moved the company to Regina, Saskatchewan. The company is called Chan's Imported Technology (CIT for short) and has all new customers in the Regina region. CIT specializes in the sale of three types of advanced electronic devices: cell phones (CP), tablet computers (TC), and portable music players (MP). Wilson wants to keep track of each type of sale in total for each month of operations. Wilson employs two salespersons to oversee relations with their customers, and also wants to know the total of sales by salesperson each month. CIT's normal terms are 2% 10 days, net 30 days, but a couple of customers have been granted special terms of 3% 15 days, net 45 days. Here are the sales and

**Journalizing, recording, and posting sales and general journals; preparing a schedule of accounts receivable**  
**1 2 3 (45 min)**

sales-related transactions for CIT during their first month of operations in August 2016:

**Check Figure**

**Total of Schedule of Accounts  
Receivable \$69,165.00**

2016

- Aug. 2 Sold \$4,000 (CP) and \$5,500 (TC) to JIW Enterprises. Invoice No. 2001. Normal terms. Sold by Heidi Wong (HW hereafter).
- 4 Sold \$3,200 (CP), \$1,600 (TC), and \$2,600 (MP) to Case-5 Electronics. Invoice No. 2002. Special terms. Sold by Paul Jeffries (PJ hereafter).
- 5 Sold \$2,900 (TC) and \$1,200 (MP) to Advanced Technologies in Motion. Invoice No. 2003. Normal terms. Sold by PJ.
- 6 JIW Enterprises messaged that there was a minor problem with the screens of two of the cell phones they purchased on August 2. Wilson agreed to a credit allowance of \$150 and issued credit memorandum No. 101 dated this date. Wilson decided not to keep track of credits by product category or by salesperson.
- 10 Sold \$3,000 (CP), \$4,750 (TC), and \$1,700 (MP) to Manfred Communications. Invoice No. 2004. Normal terms. Sold by HW.
- 13 Sold \$1,400 (CP), \$3,500 (TC), and \$850 (MP) to JIW Enterprises. Invoice No. 2005. Normal terms. Sold by HW.
- 17 Sold \$930 (CP), \$1,400 (TC), and \$1,100 (MP) to Advanced Technologies in Motion. Invoice No. 2006. Normal terms. Sold by PJ.
- 20 The purchasing manager for Manfred Communications dropped by to mention that there was a memory flaw in one of the portable music players sold to them on August 10. Manfred had already replaced the memory component with their own supply, and so an adjustment in price of \$75 was agreed to. Issued credit memorandum No. 102 to Manfred Communications this date.
- 22 Sold \$4,200 (CP), \$3,800 (TC), and \$1,300 (MP) to WMJ Sales. Invoice No. 2007. Special terms. Sold by HW.
- 26 Sold \$6,200 (TC) to Case-5 Electronics. Invoice No. 2008. Special terms. Sold by PJ.
- 28 Sold \$2,550 (CP), \$4,400 (TC), and \$1,780 (MP) to Manfred Communications. Invoice No. 2009. Normal terms. Sold by HW.
- 30 Sold \$1,430 (CP), \$2,800 (TC), and \$1,300 (MP) to Advanced Technologies in Motion. Invoice No. 2010. Normal terms. Sold by PJ.

**Required:**

- a. Enter the above transactions in both a 4-column sales journal and the general journal.
- b. Record all transactions to the customers' accounts in the accounts receivable subsidiary ledger.
- c. Ensure that the sales journal is completed (including details of salespersons) and cross-added for the month.
- d. Post all transactions to the relevant general ledger accounts at month-end. See account numbers below.



- e. Prepare a schedule of accounts receivable as of August 31. Please note—if you are also required to complete problem 6-A4 (see following), then you should only prepare this schedule once, after all cash receipts have been recorded.

Here are the general ledger account numbers used by CIT:

Accounts Receivable	1300	CP Sales	4100
Sales Returns and Allowances	4500	TC Sales	4200
Sales Discounts	4550	MP Sales	4300

**Journalizing, recording, and posting a cash receipts journal; preparing a schedule of accounts receivable**

**4** (45 min)

*Check Figure*

**Total of Schedule of Accounts Receivable \$25,110.00**

- 6A-4.** Please refer to problem 6-A3. The sales data listed there form the basis for much of this problem.

The following cash was received by CIT during August, 2016:

2016

- Aug. 3 W. Chan contributed \$50,000 and deposited this in the CIT bank account.
- 11 JIW Enterprises paid Invoice No. 2001, less the credit memo, taking discount.
- 14 Advanced Technologies in Motion paid Invoice No. 2003, taking discount.
- 18 Case-5 Electronics paid Invoice No. 2002, taking their special discount.
- 21 Manfred Communications dropped off a cheque in full payment of Invoice No. 2004, less the credit memo, and taking the discount. Although a day late, the discount was approved by W. Chan.
- 23 JIW Enterprises paid Invoice No. 2005, taking discount.
- 26 Advanced Technologies in Motion paid Invoice No. 2006, taking discount.
- 31 WMJ Sales paid half of Invoice 2007, taking the special cash discount on the amount paid.

**Required:**

- Enter the above transactions in the cash receipts journal.
- Record all transactions to the customers' accounts in the AR subsidiary ledger.
- Ensure that the cash receipts journal is completed and cross-added for the month.
- Post all transactions to the relevant GL accounts at month-end. See account numbers below.
- Prepare a schedule of accounts receivable as of Aug. 31, and ensure that the total agrees with G/L account number 1300.

The company uses these additional GL account numbers:

Cash	1100
Owner's Equity, W. Chan	3000

## Group B Problems

(The forms you need are on pages 6-25 to 6-38 of the *Study Guide with Working Papers*.)

Single-column journal: journalizing and posting to general ledger, recording in accounts receivable subsidiary ledger, and preparing a schedule of accounts receivable

1 2 3 (25 min)

Check Figure

Schedule of Accounts Receivable \$3,040.00

**6B-1.** The following transactions occurred for Food on the Go of Edmonton for the month of June:

2016

- June
- 3 Sold merchandise to Joe Kase Co. on account, \$800, invoice No. 1.
  - 4 Sold merchandise to Sue Moore Co. on account, \$550, invoice No. 2.
  - 7 Sold merchandise to Long Co. on account, \$900, invoice No. 3.
  - 11 Issued credit memorandum No. 1 to Joe Kase Co. for \$160 worth of merchandise returned because of spoilage.
  - 14 Sold merchandise to Sue Moore Co. on account, \$700, invoice No. 4.
  - 18 Sold merchandise to Long Co. on account, \$250, invoice No. 5.

### Required

- a. Journalize the transactions in the appropriate journals.
- b. Record in the accounts receivable subsidiary ledger and post to the general ledger as appropriate.
- c. Prepare a schedule of accounts receivable.

**6B-2.** (In your working papers, all the beginning balances needed are provided for the accounts receivable subsidiary and general ledgers.) The following transactions occurred for Peaker's Sneaker Shop of Dartmouth:

2015

- May
- 1 Mark Peaker invested an additional \$14,000 in the sneaker store.
  - 3 Sold \$2,000 worth of merchandise on account to B. Dale, sales invoice No. 60, terms 1/10, n/30.
  - 4 Sold \$900 worth of merchandise on account to Ron Lester, sales invoice No. 61, terms 1/10, n/30.
  - 8 Sold \$600 worth of merchandise on account to Jim Zon, sales invoice No. 62, terms 1/10, n/30.
  - 11 Received cash from B. Dale in payment of May 3 transaction, sales invoice No. 60, less discount.
  - 18 Sold \$4,000 worth of merchandise on account to Pam Pry, sales invoice No. 63, terms 1/10, n/30.
  - 21 Received cash payment from Ron Lester in payment of May 4 transaction, sales invoice No. 61.
  - 22 Collected cash sales, \$6,000.
  - 25 Issued credit memorandum No. 1 to Pam Pry for \$500 worth of merchandise returned from May 18 sale.
  - 25 Received cash from Pam Pry in payment of May 18 sales invoice No. 63. (Don't forget about the credit memo and discount.)
  - 28 Collected cash sales, \$12,000.
  - 28 Sold sneaker rack equipment for \$200 cash. (Beware.)
  - 29 Sold \$6,000 worth of merchandise on account to Ron Lester, sales invoice No. 64, terms 1/10, n/30.

Comprehensive problem: recording transactions in sales, cash receipts, and general journals; recording in accounts receivable subsidiary ledger and posting to general ledger; preparing a schedule of accounts receivable

1 2 3 4 (70 min)

Check Figure

Schedule of Accounts Receivable \$8,000.00

- May 31 Issued credit memorandum No. 32 to Ron Lester for \$800 worth of merchandise returned from May 29 transaction, sales invoice No. 64.

**Required**

- a. Journalize the transactions in the appropriate journals.
- b. Record and post as appropriate.
- c. Prepare a schedule of accounts receivable as of May 31.

**Journalizing, recording, and posting sales and general journals; preparing a schedule of accounts receivable**

**1 2 3 (45 min)**

**6B-3.** Wilson Chan has just taken over a business started by his aunt in Sarnia, Ontario, and moved the company to Regina, Saskatchewan. The company is called Chan's Imported Technology (CIT for short) and has all new customers in the Regina region. CIT specializes in the sale of three types of advanced electronic devices: cell phones (CP), tablet computers (TC), and portable music players (MP). Wilson wants to keep track of each type of sale in total for each month of operations. Wilson employs two salespersons to oversee relations with their customers, and also wants to know the total of sales by salesperson each month. CIT's normal terms are 2% 10 days, net 30 days, but a couple of customers have been granted special terms of 3% 15 days, net 45 days. Here are the sales and sales-related transactions for CIT during their first month of operations in August 2016:

2016

- Aug. 2 Sold \$3,000 (CP) and \$4,600 (TC) to JIW Enterprises. Invoice No. 4001. Normal terms. Sold by Heidi Wong (HW hereafter).
- 5 Sold \$2,600 (CP), \$3,600 (TC), and \$800 (MP) to Case-5 Electronics. Invoice No. 4002. Special terms. Sold by Paul Jeffries (PJ hereafter).
- 6 Sold \$3,700 (TC) and \$1,400 (MP) to Advanced Technologies in Motion. Invoice No. 4003. Normal terms. Sold by PJ.
- 8 JIW Enterprises messaged that there was a minor problem with the screens of two of the cell phones they purchased on August 2. Wilson agreed to a credit allowance of \$220 and issued credit memorandum No. 101 dated this date. Wilson decided not to keep track of credits by product category or by salesperson.
- 10 Sold \$2,800 (CP), \$4,800 (TC), and \$1,200 (MP) to Manfred Communications. Invoice No. 4004. Normal terms. Sold by HW.
- 12 Sold \$1,750 (CP), \$2,900 (TC), and \$960 (MP) to JIW Enterprises. Invoice No. 4005. Normal terms. Sold by HW.
- 16 Sold \$1,700 (CP), \$2,400 (TC), and \$1,200 (MP) to Advanced Technologies in Motion. Invoice No. 4006. Normal terms. Sold by PJ.
- 21 The purchasing manager for Manfred Communications dropped by to mention that there was a memory flaw in one of the portable music players sold to them on August 10. Manfred had already replaced the memory component with their own supply, and so an adjustment in price of \$60 was agreed to. Issued credit memorandum No. 102 to Manfred Communications this date.

**Check Figure**

**Total Schedule of Accounts Receivable \$69,580.00**

- 23 Sold \$3,700 (CP), \$4,800 (TC), and \$1,500 (MP) to WMJ Sales. Invoice No. 4007. Special terms. Sold by HW.
- 26 Sold \$5,300 (TC) to Case-5 Electronics. Invoice No. 4008. Special terms. Sold by PJ.
- 29 Sold \$3,150 (CP), \$4,600 (TC), and \$1,460 (MP) to Manfred Communications. Invoice No. 4009. Normal terms. Sold by HW.
- 30 Sold \$1,840 (CP), \$2,700 (TC), and \$1,400 (MP) to Advanced Technologies in Motion. Invoice No. 4010. Normal terms. Sold by PJ.

**Required:**

- a. Enter the above transactions in both a 4-column sales journal and the general journal.
- b. Record all transactions to the customers' accounts in the accounts receivable subsidiary ledger.
- c. Ensure that the sales journal is completed (including details of salespersons) and cross-added for the month.
- d. Post all transactions to the relevant general ledger accounts at month-end. See account numbers below.
- e. Prepare a schedule of accounts receivable as of August 31. Please note—if you are also required to complete problem 6-B4 (see following), then you should only prepare this schedule once, after all cash receipts have been recorded.

Here are the general ledger account numbers used by CIT:

Accounts Receivable	1300	CP Sales	4100
Sales Returns and Allowances	4500	TC Sales	4200
Sales Discounts	4550	MP Sales	4300

**6B-4.** Please refer to problem 6-B3. The sales data listed there form the basis for much of this problem.

The following cash was received by CIT during August, 2016:

- 2016
- Aug. 3 W. Chan contributed \$40,000 and deposited this in the CIT bank account.
- 10 JIW Enterprises paid Invoice No. 4001, less the credit memo, taking discount.
- 14 Advanced Technologies in Motion paid Invoice No. 4003, taking discount.
- 18 Case-5 Electronics paid Invoice No. 4002, taking their special discount.
- 22 Manfred Communications dropped off a cheque in full payment of Invoice No. 4004, less the credit memo, and taking the discount. Although two days late, the discount was approved by W. Chan.
- 22 JIW Enterprises paid Invoice No. 4005, taking discount.
- 25 Advanced Technologies in Motion paid Invoice No. 4006, taking discount.
- 31 WMJ Sales paid half of Invoice 4007, taking the special cash discount on the amount paid.

**Journalizing, recording, and posting a cash receipts journal; preparing a schedule of accounts receivable**

**4 (45 min)**

**Check Figure**

**Total of Schedule of Accounts Receivable \$25,450.00**

**Required:**

- a. Enter the above transactions in the cash receipts journal.
- b. Record all transactions to the customers' accounts in the AR subsidiary ledger.
- c. Ensure that the cash receipts journal is completed and cross-added for the month.
- d. Post all transactions to the relevant GL accounts at month-end. See account numbers below.
- e. Prepare a schedule of accounts receivable as of Aug. 31, and ensure that the total agrees with G/L account number 1300.

The company uses these additional GL account numbers:

Cash	1100
Owner's Equity, W. Chan	3000

### Group C Problems

(The forms you need are on pages 6-39 to 6-53 of the *Study Guide with Working Papers*.)

**6C-1.** The following transactions occurred for Lodge Co. of St. Albert for the month of July:

2016

July

- 2 Sold upholstery merchandise to Joan Timkins Co. on account, \$1,600, invoice No. 115, terms: net 30 days.
- 5 Sold carpet merchandise to Chris Cowan Co. on account, \$825, invoice No. 116, terms: net 30 days.
- 9 Sold upholstery merchandise to Cross & Co. on account, \$1,950, invoice No. 117, terms: net 30 days.
- 12 Issued credit memorandum No. 1 to Joan Timkins Co. for \$400 worth of merchandise returned because of faulty colouring match.
- 15 Sold carpet merchandise to Chris Cowan Co. on account, \$925, invoice No. 118, terms: net 30 days.
- 19 Sold upholstery merchandise to Cross & Co. on account, \$930, invoice No. 119, terms: net 30 days.
- 23 Sold carpet merchandise to Joan Timkins Co. on account, \$2,025, invoice No. 120, terms: net 30 days.

**Required**

- a. Journalize the transactions in the appropriate journals.
- b. Record in the accounts receivable ledger and post to the general ledger as appropriate.
- c. Prepare a schedule of accounts receivable as of July 31.

**6C-2.** (In your working papers, all the beginning balances needed are provided for the accounts receivable and general ledger.) The following transactions occurred for Bedford Sausage Supply Co.:

2017

Sept.

- 2 Karen Blum, owner, invested an additional \$15,000 in the business.
- 3 Sold \$1,850 worth of merchandise on account to Petra's Meat Market, sales invoice No. 460, terms 1/10, n/30.
- 5 Sold \$825 worth of merchandise on account to Chapman's Deli, sales invoice No. 461, terms 1/10, n/30.

**Multicolumn journal:**  
journalizing and posting to the general ledger, recording in the accounts receivable ledger, and preparing a schedule of accounts receivable

① ② ③ (50 min)

*Check Figure*

Schedule of Accounts  
Receivable \$7,855.00

**Comprehensive problem:**  
recording transactions into sales, cash receipts, and general journals; recording to accounts receivable and posting to general ledger; preparing a schedule of accounts receivable

① ② ③ ④ (70 min)

**Check Figure**

**Schedule of Accounts  
Receivable \$6,084.60**

- 8 Sold \$930 worth of merchandise on account to Valemont Variety Meats Co., sales invoice No. 462, terms 1/10, n/30.
- 12 Received cash from Petra's Meat Market in payment of September 3 transaction, sales invoice No. 460, less discount.
- 19 Sold \$1,500 worth of merchandise on account to Discount Meats, sales invoice No. 463, terms 1/10, n/30.
- 22 Received cash payment from Chapman's Deli in payment of September 5 transaction, sales invoice No. 461.
- 23 Collected cash sale, \$638.
- 23 Issued credit memorandum No. 101 to Discount Meats for \$300 worth of merchandise returned from September 19 sales on account.
- 25 Received cash from Discount Meats in payment of September 19 sales invoice No. 463. (Don't forget about the credit memo and discount.)
- Sept. 25 Collected cash sales, \$813.
- 26 Sold meat cooling equipment for \$900 cash. (Beware.)
- 29 Sold \$1,620 worth of merchandise on account to Chapman's Deli, sales invoice No. 464, terms 1/10, n/30.
- 30 Issued credit memorandum No. 102 to Chapman's Deli for \$420 worth of merchandise returned from September 29 transaction, sales invoice No. 464.

**Required**

- a. Journalize the transactions in the appropriate journals.
- b. Record and post as appropriate.
- c. Prepare a schedule of accounts receivable as of Sept. 30.

**Journalizing, recording, and posting sales and general journals; preparing a schedule of accounts receivable**

**1 2 3 4 (45 min)**

- 6C-3.** Martha Kuerti has started up a new company called Calgary Camera Company (CCC for short) in the Calgary region. CCC specializes in the sale of four types of cameras to customers in "industrial" settings (means they usually buy several items at a time). The four categories of cameras that CCC sells are: point and shoot (PS), digital single-lens reflex (DS), surveillance cameras (SC), and video cameras (VC). Martha wants to keep track of each type of sale in total for each month of operations. She employs three salespersons to manage relations with customers, and also wants to know the total of sales by salesperson each month. CCC's normal terms are 2% 10 days, net 30 days, but a couple of customers have been granted special terms for selected purchases of 3% 12 days, net 36 days. Here are the sales and sales-related transactions for CCC during their first month of operations in November 2016:

2016

Nov.

- 1 Sold \$3,542 (PS), \$3,670 (DS), and \$5,734 (VC) to West Calgary Tribal Council. Invoice No. 5001. Normal terms. Sold by Fred Jacobs (FJ hereafter).
- 2 Sold \$5,730 (PS), \$2,825 (DS), \$6,340 (SC), and \$1,641 (VC) to KGC Investigations. Invoice No. 5002. Special terms. Sold by Chris Thomas (CT hereafter).
- 4 Sold \$7,420 (PS) and \$4,725 (DS) to South Calgary School District. Invoice No. 5003. Special terms. Sold by Grigov Mahlen (GM hereafter).
- 6 Sold \$4,630 (DS) and \$3,760 (VC) to Leisure Light Technologies. Invoice No. 5004. Normal terms. Sold by CT.

**Check Figure**

**Total of Schedule of Accounts  
Receivable \$157,194.00**

- 8 KGC Investigations sent an e-mail that there was a minor problem with the lens of several surveillance cameras they purchased on November 2. Martha agreed to a credit allowance of \$480 and issued credit memorandum No. 1001 dated this date. Martha decided not to keep track of sales returns by product or by salesperson.
- 10 Sold \$3,742 (PS), \$4,896 (DS), and \$2,750 (VC) to West Calgary Tribal Council. Invoice No. 5005. Normal terms. Sold by FJ.
- 12 Sold \$4,830 (PS), \$3,764 (DS), and \$2,467 (VC) to North Calgary College. Invoice No. 5006. Normal terms. Sold by GM.
- 14 Sold \$2,418 (PS), \$3,465 (DS), \$3,480 (SC), and \$1,837 (VC) to South Calgary School District. Invoice No. 5007. Special terms. Sold by GM.
- 16 Sold \$2,830 (PS), \$3,560 (DS), and \$4,706 (VC) to Leisure Light Technologies. Invoice No. 5008. Normal terms. Sold by CT.
- 18 Sold \$4,626 (PS), \$2,416 (SC) and \$1,825 (VC) to KGC Investigations. Invoice No. 5009. Normal terms. Sold by CT.
- 21 The Program Director for North Calgary College explained that there was a flaw in the GPS devices in a camera they purchased on November 12. The camera is otherwise useable, so an adjustment in price of \$165 was agreed to. Issued credit memorandum No. 1002 this date.
- 23 Sold \$2,840 (PS), \$3,582 (DS), and \$1,694 (VC) to SKH Management Company. Invoice No. 5010. Special terms. Sold by FJ.
- 25 Sold \$4,608 (PS) and \$6,448 (DS) to South Calgary School District. Invoice No. 5011. Special terms. Sold by GM.
- 26 Sold \$4,006 (PS) and \$4,376 (DS) to KGC Investigations. Invoice No. 5012. Special terms. Sold by CT.
- 29 Sold \$7,836 (PS), \$3,570 (DS), and \$2,330 (VC) to West Calgary Tribal Council. Invoice No. 5013. Normal terms. Sold by FJ.
- 30 Sold \$2,418 (PS), \$4,660 (DS), \$5,002 (SC), and \$840 (VC) to Leisure Light Technologies. Invoice No. 5014. Normal terms. Sold by CT.

**Required:**

- a. Enter the above transactions in both a 5-column sales journal and the general journal.
- b. Record all transactions to the customers' accounts in the accounts receivable subsidiary ledger.
- c. Ensure that the sales journal is completed (including details of salespersons) and cross-added for the month.
- d. Post all transactions to the relevant general ledger accounts at month-end. See account numbers below.
- e. Prepare a schedule of accounts receivable as of November 30. Please note—if you are also required to complete problem 6-C4 (see following),

then you should only prepare this schedule once, after all cash receipts have been recorded.

Here are the general ledger account numbers used by CCC:

Accounts Receivable	1500	PS Sales	4000
Sales Returns and Allowances	4900	DS Sales	4100
Sales Discounts	4950	SC Sales	4200
		VC Sales	4300

**Journalizing, recording, and posting a cash receipts journal and preparing a schedule of accounts receivable**

**4** (45 min)

*Check Figure*

**Total of Schedule of Accounts Receivable \$65,572.01**

**6C-4.** Please refer to problem 6-C3. The sales data listed there form the basis for much of this problem.

The following cash was received by CCC during November, 2016:

- 2016
- Nov. 3 M. Kuerti contributed \$45,000 and deposited this in the CCC bank account.
- 10 West Calgary Tribal Council paid Invoice No. 5001, taking discount.
- 11 KGC Investigations paid Invoice No. 5002, after deducting credit memo, taking discount.
- 16 South Calgary School District paid Invoice No. 5003, taking their special discount.
- 21 West Calgary Tribal Council paid Invoice No. 5005, taking the discount. Although a day late, the discount was approved by M. Kuerti.
- 22 North Calgary College paid Invoice No. 5006, less the credit memo, taking discount.
- 25 Leisure Light Technologies paid Invoice No. 5004 in full.
- 26 A major supplier, International Cameras, dropped off a cheque for \$5,000. This is their agreed share of an advertising campaign. M. Kuerti agreed that the Advertising Expense account was to be credited.
- 28 South Calgary School District paid Invoice 5007, taking special discount.
- 30 KGC Investigations paid Invoice 5009 after deducting a discount of 3%. M. Kuerti did not approve the discount anyhow as it is two days late.

**Required:**

- Enter the above transactions in the cash receipts journal.
- Record all transactions to the customers' accounts in the AR subsidiary ledger.
- Ensure that the cash receipts journal is completed and cross-added for the month.
- Post all transactions to the relevant GL accounts at month-end. See account numbers below.
- Prepare a schedule of accounts receivable as of Nov. 30, and ensure that the total agrees with G/L account number 1500.

The company uses these additional GL account numbers:

Cash	1100
Owner's Equity, M. Kuerti	3300
Advertising Expense	5001



## On-the-Job Training

(The forms you need are on page 6-54 of the *Study Guide with Working Papers*.)

The Schedule of Accounts Receivable and the controlling account must match and the trial balance must balance

1 3 (30 min)

- T-1.** The bookkeeper of Floore Company records credit sales in a sales journal and returns in a general journal. The bookkeeper did the following:
1. Recorded an \$18 credit sale as \$180 in the sales journal.
  2. Correctly recorded a \$40 sale in the sales journal but posted it to B. Blue's account as \$400 in the accounts receivable ledger.
  3. Made an addition error in determining the balance of J. B. Window Co. in the accounts receivable ledger.
  4. Posted a sales return that was recorded in the general journal to the Sales Returns and Allowance account and the Accounts Receivable account but forgot to record it to the B. Katz Co.
  5. Added the total of the sales column incorrectly.
  6. Posted a sales return to the Accounts Receivable account but not to the Sales Returns and Allowances account. Accounts receivable ledger was recorded correctly.

Could you inform the bookkeeper in writing as to when each error will be discovered?

**Comprehensive problem:  
journalizing and posting to  
the general and subsidiary  
ledgers.**

**1 2 3 4** (120 min)

## CONTINUING PROBLEM

This chapter will require you to record and post the sales and cash receipts transactions shown below.

A month has elapsed since Precision Computer Centre's year-end. Tony Freedman will use four specialized journals for recording business transactions in the month of September—two in this chapter, and two in Chapter 7. To assist you in recording the following transactions, the schedule of accounts receivable as of August 31 is shown below. An updated chart of accounts with the current balance listed for each account is provided on page 298.

The partial September transactions are as follows:

2016

- Sept. 3 Sold \$700 worth of merchandise to Taylor Golf on credit, sales invoice No. 12680; terms are 2/10, n/30.
- 9 Received from Taylor Golf balance owing as of August 31.
- 10 Sold \$3,000 worth of merchandise on account to Anthony Pitale, sales invoice No. 12681; terms are 2/10, n/30.
- 10 Collected \$12,000 for cash sales for the week of September 10.
- 17 Collected balance in full from invoice No. 12681, Anthony Pitale.
- 23 Sold \$4,000 worth of merchandise on account to Vita Needle, sales invoice No. 12682; terms are 4/10, n/30.
- 27 Issued credit memorandum to Taylor Golf for \$400 worth of merchandise returned, invoice No. 12680.
- 30 Sold \$1,600 worth of merchandise to Anthony Pitale, invoice No. 12683; terms 2/10, n/30.
- 30 Collected full payment from Vita Needle, invoice No. 12682.

**Schedule of Accounts Receivable  
Precision Computer Centre  
August 31, 2016**

Taylor Golf	\$2,500.00
Carson Engineering	<u>6,240.00</u>
<b>Total Amount Due</b>	<b>\$8,740.00</b>

**Assignment:**

(See pages 6-49 to 6-53 in your *Study Guide with Working Papers*.)

1. Journalize the transactions in the appropriate journals (cash receipts, sales, or general journal).
2. Record in the accounts receivable subsidiary ledger and post to the general ledger as appropriate. A partial general ledger is included in the *Study Guide with Working Papers*.
3. Prepare a schedule of accounts receivable, as of September 30, 2016.

**PRECISION COMPUTER CENTRE  
CHART OF ACCOUNTS AND CURRENT BALANCES AS OF 8/31/2016**

Account #	Account Name	Debit Balance				Credit Balance			
1000	Cash	1	1	9	5	0	0		
1020	Accounts Receivable	8	7	4	0	0	0		
1025	Prepaid Rent								
1030	Supplies		4	5	0	0			
1040	Merchandise Inventory		7	1	0	0			
1080	Computer Shop Equipment		3	8	0	0			
1081	Accumulated Amortization, Computer Shop Equipment							9	9
1090	Office Equipment		1	0	5	0			
1091	Accumulated Amortization, Office Equipment							2	0
2000	Accounts Payable							1	0
2030	Other Amounts Payable							1	8
3000	T. Freedman, Capital							7	4
3010	T. Freedman, Withdrawals								
3020	Income Summary		2	0	1	5	0		
4000	Service Revenue								
4010	Sales							2	0
4020	Sales Returns and Allowances							1	4
4030	Sales Discounts								
5010	Advertising Expense		4	8	0	0			
5020	Rent Expense		4	0	0	0			
5030	Utilities Expense			9	5	0			
5040	Phone Expense		1	4	6	0			
5050	Supplies Expense								
5060	Insurance Expense								
5070	Postage Expense			2	5	0			
5080	Amortization Expense, Computer Shop Equipment								
5090	Amortization Expense, Office Equipment								
5100	Miscellaneous Expense			1	0	0			
5110	Wages Expense		5	0	2	0	0		
5120	Payroll Benefits Expense			0	0	0			
5130	Interest Expense								
5140	Bad Debt Expense								
5600	Purchases								
5610	Purchases Returns and Allowances								
5620	Purchases Discounts								
5630	Freight-In								
	Totals	3	0	5	2	6	0	3	0