

**Accounting I**  
**Chapter 9**  
**JOURNALIZING PURCHASES AND CASH PAYMENTS**

Assign Students to Read Ch. 9 and complete the terms p. 234

(Students may hand-write them on handout or do on word processor)

**Discuss Section 9-1: Journalizing Purchases**  
**Using a Purchases Journal**

Merchandise: Goods that a merchandising business purchases to sell

Merchandising Business: a business that purchases and sells goods.

Retail Merchandising Business: a merchandising business that sells to those who use or consume the goods.

Wholesale Merchandising Business: A business that buys and resells merchandise to retail merchandising businesses.

Forming a Corporation—a corporation exists independently of its owners.

Corporation—An organization with the legal rights of a persona and which many persons own.

Share of Stock—Each unit of ownership in a corporation

Capital Stock—Total share of ownership in a corporation

Stockholder—an owner of one or more shares of a corporation

A journal used to record only one kind of transaction is called a special journal. Five special journals are:

1. Purchases—for all purchases of merchandise on account
2. Cash Payments Journal—for all cash payments
3. Sales Journal—for all sales of merchandise on account
4. Cash Receipts Journal—for all cash receipts
5. General Journal—for all other transactions

Cost of Merchandise: the price a business pays for goods it purchases to sell.

Markup: amount added to the cost of merchandise to establish a selling price.

Vendor: a business from which merchandise is purchased or supplies or other assets are bought.

Purchases: Account used only for recording the cost of merchandise. A temporary cost account. Used ONLY to record the cost of merchandise purchased.

<u>Purchases</u>		
Bal		
+		-

*Historical Cost Concept: applied when the actual amount paid for merchandise or other items bought are recorded.*

Purchase on Account—A transaction in which the merchandise purchased is to be paid for later.

Purchases Journal—A special journal used to record ONLY purchases of merchandise on account

Special Amount Column—A journal amount column headed with an account title. Using a special amount column eliminates writing general ledger account titles in the account title column; saves time.

Purchase Invoice—an invoice used as a source document for recording a purchase on account transaction. (*Objective Evidence*) A purchase invoice lists the quantity, description, and price of each item and the total amount of the invoice.

Steps when receiving a purchase invoice (p. 238)

Terms of Sale—An agreement between buyer and seller about payment for merchandise.

\*\*\*\*Transaction 1: purchased merchandise for on account from Crown Distributing\*\*\*\*

Use Chart of Accounts p. 231

D-Purchases

C-Accounts Payable

Steps:

1. Date
2. Vendor name
3. Invoice Number
4. Amounts in Special Column

Always Rule the journal at the end of the month.

1. Single Rule
2. Date
3. Write "Total" in account credited column
4. Write total amount
5. Double Rule

Practice: Complete Work Together/On Your Own p. 241

### **Discuss Section 9-2: Journalizing Cash Payments Using a Cash Payments Journal**

Cash Payments Journal—A special journal used to record ONLY cash payment transactions

Cash Discount—A deduction that a vendor allows on the invoice amount to encourage prompt payment

Purchases Discount—A cash discount taken by a customer.

General Amount Column—a journal amount column that is not headed with an account title.

\*\*\*\*Transaction 2: Paid Cash for Advertising\*\*\*\*

D-Advertising Expense

C-Cash

Steps:

1. Date
2. Account Title
3. Check Number
4. Debit Amount (General Column)
5. Credit Amount (Cash Credit Column)

\*\*\*\*Transaction 3: Paid Cash for Office Supplies\*\*\*\*

D-Supplies-Office

C-Cash

List Price—The retail price listed in a catalog or web site.

Trade Discount—A reduction in the list price granted to customers

--used to quote different prices for different quantities

--invoice amount is amount after trade discount has been applied

--invoice amount is amount used to record cost in journal (*Historical Cost*)

\*\*\*\*Transaction 4: Purchased Merchandise for Cash\*\*\*\*

D-Purchases

C-Cash

(Use Cash Payments Journal)

A cash discount is stated as a percentage deducted from the invoice amount. 2/10, net/30 means that 2% of the invoice amount may be deducted if paid within ten days. Otherwise the total amount is due within 30 days.

Contra Account—an account that reduces a related account on financial statements.

Contra Account balances are opposite the normal balance of their related accounts. Purchases Discount would have a normal credit balance.

Steps to calculate purchase discount (p. 245)

\*\*\*\*Transaction 5: Paid Cash on Account less discount\*\*\*\*

D-Accounts Payable (for invoice amount)

C-Purchases Discount (for discount amount)

C-Cash (for amount owed less discount)

\*\*\*\*Transaction 6: Paid Cash on Account without discount\*\*\*\*

D-Accounts Payable

C-Cash

Practice: Complete Work Together/Own Your Own p. 247

### **Discuss Section 9-3: Performing Additional Cash Payments Journal Operations**

Cash Short and Over—a temporary account, no normal balance

Errors may be made when making payments from petty cash fund. A petty cash on hand amount that is less than a recorded amount is called cash short. A petty cash on hand amount that is more than a recorded amount is called cash over.

\*\*\*\*Transaction 7: Paid Cash to replenish petty cash fund\*\*\*\*

D-Supplies-Office \$32.33  
D-Advertising Expense \$50.00  
D-Miscellaneous Expense \$128.50  
C-Cash Over \$2.17  
C-Cash 208.66

Total, Prove, and Rule Cash Payments Journal/Carry Forward

A journal is proved whenever the journal page is filled (one line left for totals) and at end of month.

1. Single Rule
2. Date
3. Carried Forward
4. Check mark in PR Column
5. Column Totals below (Debits = Credits)
6. Double Rule

On next page

1. Journal Page number
2. Date
3. Brought Forward
4. Check mark in PR Column
5. Record Column Totals

Practice: Work Together/Own Your Own p. 253

### **Discuss Section 9-4: Journalizing Other Transactions Using a General Journal**

Not all transactions can be recorded in special journals. Those transactions are recorded in the general journal.

\*\*\*\*Transaction 8: Bought Store Supplies on Account\*\*\*\*

D-Supplies-Store  
C-Accounts Payable/Gulf Craft Supply

Purchases Return—Credit allowed for the purchase price of returned merchandise resulting in a decrease in the customer's accounts payable  
Purchase Allowance—credit allowed for part of the purchase price of merchandise that is not returned resulting in a decrease in the customer's accounts payable

Debit memorandum—A form prepared by the customer showing the price deduction taken by the customer for returns and allowances.

--debit memorandum is used as the source document for purchases returns and allowances (*Objective evidence*)

Purchases returns and allowances—separate account used to track the amount of purchase returns and allowances. It is a temporary account, a contra account to purchases, with a normal credit balance.

\*\*\*\*Transaction 9: Returned merchandise to Crown Distributing\*\*\*\*

D-Accounts Payable

C-Purchases Returns and Allowances

Practice: Complete Work Together/Own Your Own p. 258

\*\*\*\*\*

Formative Assessment:

Complete Applications 9-1, 9-2, 9-3, 9-4, 9-5, 9-6.

Complete Challenge Problem 9-7 Part 1 only

Prepare for Summative Assessment: Complete Study Guide 9

Review for Exam

Summative Assessment--Ch. 9 Quiz--Concept & Application