

CHAPTER 10 – JOURNALIZING SALES AND CASH RECEIPTS

-- **Purchases and sales of merchandise are the two main activities of a merchandising business.**

I. Sales of merchandise

- A. **Customer – A person or business to whom merchandise or services are sold.**
- B. Most states and some cities have laws requiring that a tax be collected on all sales. Usually sales tax rates are stated as a percentage of sales. Hobby Shack operates in a state that collects 6% in sales tax
- C. Hobby Shack uses special journals to record transactions related to sales
- D. **Sales tax – A tax on a sale of merchandise or services.**
 - 1. Businesses must file reports with the proper government unit and pay the amount of sales tax collected. Therefore, accurate records of the amount of total sales and total sales tax collected must be kept.
 - 2. The amount of sales tax collected is a liability until it is paid to the government. This liability account is titled Sales Tax Payable which has a normal credit balance because it is a liability.

Section 10-1 Journalizing Sales on Account Using a Sales Journal

- II. A sale of merchandise may be for cash or on account. Regardless of when payment is made, revenue is recorded at the time of a sale, not on the date cash is received (Concept: Realization of Revenue)
 - A. **Cash sale – A sale in which cash is received for the total amount of the sale at the time of the transaction.**
 - B. **Sale on Account** – cash will be received later for the sale (Also known as a Charge Sale)
 - 1. **Hobby Shack summarizes the total due from all charge customers in a general ledger account titled Accounts Receivable (asset – increased by a debit)**
 - 2. **Sales Journal** - Hobby Shack uses this special journal to record only sales of merchandise on account
The special amount columns in the journal are: Accounts receivable debit, sales credit, and sales tax payable credit – with these columns, transactions on account can be recorded on one line of the journal
 - 3. When merchandise is sold on account, the seller prepares a sales invoice (also known as sales ticket or sales slip) to show what was sold. (Concept: Objective Evidence)
Includes description of goods/services, quantity and price
- **The seller calls this a sales invoice; the purchaser calls it a purchase invoice.**
 - 4. Three copies of a sales invoice are prepared. The original copy is given to the customer, the second copy goes to Hobby Shacks shipping department, and the third copy is used as the source document for a sale on account.

5. Hobby Shack sells on account only to businesses. Other customers must either pay cash or use a credit card.

E. Receiving cash on account

1. When cash is received on account from a customer, prepares a receipt. Receipts are prepared in duplicate with the original copy going to the customer and the second copy used as the source document (Concept: Objective Evidence)

III. Proving and ruling a sales journal

A. A journal is totaled, proved and ruled whenever a journal page is filled and at the end of each month.

B. Must prove equality of debits and credits and rule the journal as with all journals

10-2 Journalizing Cash Receipts Using a Cash Receipts Journal

A. Credit card sale – A sale in which a credit card is used for the total amount of the sale at the time of the transaction.

1. Major bank-approved credit cards include VISA, MasterCard, and Discover card. Hobby Shack accepts all major bank-approved credit cards from customers.
2. A customer who uses a credit card promises to pay the amount due to the bank issuing the credit card.
3. Small businesses may use a traditional cash register where a sales clerk will enter prices marked. A button on the register will be pushed to total the sale including sales tax and it produces a receipt for the customer.
4. At the end of each day the register prints a summary of the sales recorded – used to journalize the sales transactions but does not provide what merchandise was sold, when it was sold and to which customers
5. Hobby Shack uses a modern cash register called a Point-Of-Sale (POS) terminal that collects, stores, and reports all the information of a sales transaction
6. Before any sale is entered, the number, description, price, and quantity on hand of each item are stored in the POS terminal
7. When processing a sale, the clerk uses a scanning device to scan the universal product code (UPC) symbol on the item
8. When all sales are entered for a customer the sales clerk enters the customer's method of payment – either cash or credit card. If cash, the amount is entered and the change needed will be displayed. If credit card – the card is swiped and the POS produces a receipt that contains detailed information about the sale

9. Terminal Summary is a report that periodically gets printed from the POS that summarizes all cash and credit card sales – Hobby Shack uses the terminal summary as the source document for recording cash and credit card sales in the cash receipts journal – examples on page 277
10. POS systems can produce a variety of reports for management:
 1. A report of sales by clerks to analyze a clerk's efficiency
 2. A report of sales by time of day for scheduling
 3. A report of merchandise having a quantity on hand below a predetermined reorder point alerts management to purchase additional merchandise

Processing Credit Cards

- A. Sales information for credit card sales is stored in a POS
 1. When a terminal summary is printed – a report of credit card sales also prints – called a Batch Report
 - A. Batch Report – can include a detailed report showing each separate CC sale or a summary of the number and total sales by CC type
 - B. Batching Out – the process of preparing a batch report of CC sales from a POS terminal
 - C. Hobby Shack contracts with its bank, First American, to process its credit card sales
 - When HS batches out, the POS electronically transmits a summary batch report to the bank
 - The bank combines the batch reports for all of its customers and submits the information to the nearest Federal Reserve Bank.
 - The funds are transferred among the banks issuing the CC
- B. Cash Receipts Journal
1. Hobby Shack has many transactions that involve the receipt of cash
 2. Cash Receipts Journal – a special journal used to record ONLY cash receipts
 - A. Special amount columns in a cash receipts journal include: cash debit, accounts receivable credit, sales credit, sales tax payable credit, and sales discount debit
 - B. Sales Discount – used to encourage early payment for customers who **purchase merchandise on account**; deduction from invoice amount; cash discount on sales taken by a customer
 - When a sales discount is taken, the customer pays less than the invoice amount previously recorded in the sales account
 - Sales discounts reduce the amount of cash received on sales on account
- C. Cash and credit card sales
1. Hobby Shacks bank accepts credit cards slips the same way it accepts cash. Therefore, Hobby Shack combines all cash and credit card sales and records the two revenue items as a single cash sales transaction.
 2. At the end of each week, Hobby Shack batches out and prints a terminal summary and is assigned a sequential number. This terminal summary tape is the source document for cash and credit card sales (Concept: Objective Evidence).

3. Sales are also totaled at the end of month to analyze monthly sales
4. Management is responsible for determining how often they should batch out, deposit cash, and record sales in the sales journal – most businesses do this at the end of every business day
5. Cash is debited for the total sales and sales tax; sales is credited for the total price of all goods sold; sales tax payable is credited for the total sales tax collected

D. Cash Receipts on Account

1. When cash is received on account from a customer, a receipt is prepared
 - A. Pre-numbered receipts that are prepared in duplicates – original is given to the customer; copy is used as the source document for the cash receipt transaction
 - B. This transaction reduces amount to be rec'd in the future so is a credit to A/R and a debit to cash
 - C. To encourage early payment for a sale on account, a deduction on the invoice amount may be allowed – known as a cash discount
 - D. Sales Discount – a cash discount on sales – customer pays less than was originally recorded in the sales account
 - E. Hobby Shack gives credit terms 2/10, n/30 – when the customer pays the amount owed within 10 days, the sales invoice amount is reduced by 2%. Otherwise, the net amount is due in 30 days
 - F. Sales discounts are recorded in a general ledger account titled Sales Discounts – it decreases sales and is a contra account to sales (recorded as a debit)

E. Totaling, proving, and ruling a cash receipts journal

1. Same as all journals – must prove equality of debit and credit columns at the end of the month
2. Proving cash at the end of the month – after CR journal is proved at the end of each month, cash is proved

10-3 Recording Transactions Using a General Journal

- A. When a customer receives the wrong item or damaged goods – it may be returned for a credit on account or a cash refund
 1. Credit allowed a customer for the sales price of returned merchandise resulting in the decrease in the vendor's A/R is called a Sales Return
 2. Credit may be allowed without requiring the return of merchandise or because of a shortage in shipment – credit allowed a customer for part of the sales price of merchandise that is not returned, resulting in a decrease in the vendor's A/R is called a sales allowance
 3. Vendors usually inform a customer in writing when a sales return or allowance is granted using a form called a credit memorandum – original is given to the customer – copy is used as a source document for recording the sales return and allowances transaction
 4. Sales returns and allowances decrease the sales account – contra account to sales – normal balance is a debit to record the decrease in sales
 5. Sales returns and allowances would be debited; sales tax payable would be debited; accounts receivable would be credited – 3 liner in general journal