

The Sales Journal and the Purchases Journal

CHAPTER REVIEW

1. Describe the specific accounts used by a merchandising firm.

The Merchandise Inventory account is an asset account representing the cost of goods bought for resale. The Sales Tax Payable account is a liability account representing amounts owed to each appropriate entity. The Sales account is a revenue account representing the total sales of merchandise. The Sales Returns and Allowances account is a deductions from the Sales account, representing amounts allowed for returns of merchandise and damaged goods. The Sales Discount account is a deduction from the Sales account, representing amounts deducted for prompt payments. The Purchases account is a cost (expense) account representing the costs of goods bought for resale. The Purchases Returns and Allowances account is a deduction from the Purchases account, representing the amounts granted by suppliers for the return of merchandise or damaged goods. The Purchases Discount account is a deduction from the Purchases account, representing amounts suppliers allow for prompt payments. The Freight In account is a cost representing the transportation charges on incoming merchandise.
2. Journalize transactions in a sales journal.

The sales journal is used to record sales of merchandise on account only.
3. Post sales journal transactions to an accounts receivable ledger and a general ledger.

During the month, as customers charge merchandise, the amounts must be posted to their individual accounts as debits and a running balance maintained. At the end of the month, the total of the amounts charged by customers for purchase of merchandise must be posted to the general ledger as a Credit to Sales and a Debit to Accounts Receivable.
4. Prepare a schedule of accounts receivable.

The schedule of accounts receivable consists of a listing of the individual account balances of the charge customers taken from the accounts receivable ledger.
5. Journalize sales returns and allowances, including credit memorandums and returns involving sales tax, in a general journal, and post to the accounts receivable and general ledger accounts.

When a customer returns merchandise, or when his or her bill is reduced owing to an allowance for defective or damaged merchandise, the Sales Returns and Allowances account is debited and the Accounts Receivable account is credited. The entry is recorded in the general journal and posted to both the general ledger and the accounts receivable ledger.
6. Journalize transactions in a three-column purchases journal.

The three-column journal handles the purchase of merchandise on account and freight charges that are prepaid by the seller and included in the invoice total.
7. Post purchases journal transactions to an accounts payable ledger and a general ledger.

Amounts in the Accounts Payable Credit column are posted daily to the accounts payable ledger. At the end of the month, the totals are posted to the general ledger as a debit to Purchases, a debit to Freight In, and a credit to Accounts Payable.

8. Prepare a schedule of accounts payable.

A schedule of accounts payable, listing the balance of each individual creditor's account, is prepared from the accounts payable ledger.

9. Journalize transactions involving purchases returns and allowances in a general journal, and post to the accounts payable and general ledger accounts.

When a credit memo is received for the return of merchandise or as an allowance for damaged merchandise, the buyer credits Purchases Returns and Allowances. If the merchandise was bought on account, the buyer debits Accounts Payable. The transaction is journalized in the general journal.

10. Describe the procedures for handling freight charges on merchandise and other goods.

The Freight In account is debited for most transportation charges on incoming merchandise intended for resale. Delivery Expense is used for the cost of transportation charge on merchandise sold and being delivered to customers. Freight costs that apply to assets purchased are added to the asset account which applies. For example, \$300 freight on a large freezer for a restaurant would be debited to that freezer account—part of the cost of that asset.