

Lesson 9-1: Subsidiary Ledgers & Controlling Accounts

Objectives: LO1: _____

LO2: _____

LO3: _____

A. Merchandising Business

- Merchandise:
- Merchandising Business:
 - Retail:
 - Give an example: _____
 - Wholesale:
 - Give an example: _____
- Service and merchandising businesses use many of the same accounts, but _____
_____ have additional accounts for Purchase and Sale of merchandise.

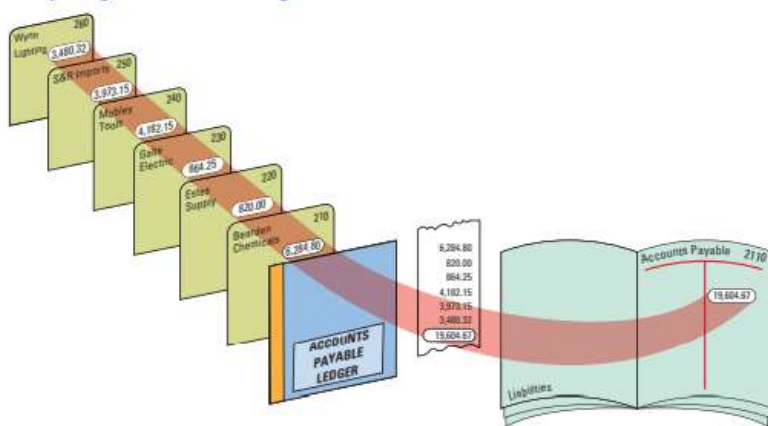
B. Forming a Corporation

- Why do some businesses choose a corporation versus a sole proprietorship?

- Corporation:
- Capital:
- Share of Stock:
- How is a corporation formed? _____
- Articles of Incorporation:
 - 1. What do articles of incorporation include? _____
- Charter:
- What is the main difference between accounting records of a proprietorship vs. a corporation?

- A _____ has separate _____
for the stock issued and for the _____ kept in the business.
 - a. *The Business – Threegreen Products Inc.*
 - Unlike a proprietorship, a corporation exists _____ of its owners.

C. Subsidiary Ledgers and Controlling Accounts



- A business can have several/only one (**circle one**) type(s) of ledger(s).
- Vendor:
 - Merchandising businesses have many different vendors, so they need to keep their bill with each one separate to ensure timely payment.
- Subsidiary Ledger:
- Accounts Payable Ledger:
- The total of all vendor accounts payable (subsidiary ledger) should be equal to the total of the Accounts Payable controlling account.
- Controlling account:

D. Subsidiary Ledger Form

DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE
NOV. 1	Balance	✓			5483.00

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE

1. Date
2. Account Number
3. Date
4. "BALANCE"
5. Checkmark in Post Ref
6. Account Balance

Check yourself!

1. What is the primary difference between retail and wholesale merchandising businesses?
2. What allows a corporation to own property, incur liabilities, and enter into contracts in its own name?
3. What is the principal difference between the accounting records of proprietorships and corporations?
4. What is the relationship between a controlling account and a subsidiary ledger?
5. What column on a general ledger form is not on an accounts payable ledger form?

Lesson 9-2: Accounting for Merchandise Purchases

Objectives: LO4: _____
LO5: _____
LO6: _____

A. Measuring Inventory

- Inventory:
- Merchandise Inventory:
 1. Perpetual Inventory
 - Perpetual inventory:
 - Provides a business with _____ for controlling cost of merchandise it sells.
 2. Periodic Inventory Method
 - Period Inventory:
 - Physical inventory:
 - The _____ inventory method is easier to maintain than the _____ method.

B. Cost of Good Sold

- Cost of Merchandise:
- When a period inventory system is used, purchases are recorded into the _____ account.
- Purchases has a normal debit/credit (**CIRCLE ONE**) balance.
- Freight charges paid to ship merchandise TO the company are recorded in Purchases, but freight (shipping) charges paid to ship TO customers is an expense.
- For a _____ inventory system, cost of merchandise purchased is recorded directly to _____.

C. Ordering Merchandise

PURCHASE ORDER				
<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>ThreeGreen Products, Inc. 255 Chestnut Street Harrisburg, PA 17101</p> <p>Purchase From: Wynn Lighting 1532 Industrial Parkway Birmingham, AL 35217</p> </div> <div style="width: 45%;"> <p>PO Number: 153 Date: 10/28/--</p> <p>Ship To: ThreeGreen Products, Inc. 255 Chestnut Street Harrisburg, PA 17101</p> </div> </div>				
Qty	Stock #	Description	Unit Price	Total
200	B-50	50 watt compact fluorescent lamp	\$3.05	\$610.00
150	B-100	100 watt compact fluorescent lamp	\$3.15	\$472.50
Total				\$1,082.50

- The process of ordering merchandise begins when an employee submits a _____.
- Requisition:
- Purchase order:
- Vendors use purchase orders to: 1. _____ 2. _____
- No transaction occurs until the customer _____, so we don't journalize when a purchase order is prepared.
- Many small businesses order their merchandise _____. This is faster and sometimes offers a discount.

D. Using Special Journals

- To increase efficiency, separate journals were developed to record _____.
- Special Journal:
TYPES:
 1. _____
 2. _____
 3. _____
 4. _____
 5. _____

E. Purchases Journal

- **ONLY** used for purchases of merchandise **ON ACCOUNT**. (NOT if cash is paid for merchandise.)
- Purchase on account:
- Purchases journal:
- Each purchase of merchandise is recorded on **ONE/TWO (circle one)** line(s) of the purchases journal.
- _____ is recorded in the "account credited" column.
- _____ is debited. _____ is credited.
- Special amount column:

F. Purchase Invoice

Wynn Lighting
1532 Industrial Parkway
Birmingham, AL 35217

Protecting Our Environment

Ship To:
ThreeGreen Products, Inc.
255 Chestnut Street
Harrisburg, PA 17101

Invoice

Invoice #: 15648
Date: 11/4/--

Stamp: REC'D ACL, DATE 11/6, DOC 525

Packed by	Shipping Method	Ship Date	Delivery Date	Terms	Payment Due
JBL	UPS	11/2/--	11/6/--	n/30	12/4/--

Qty	Item #	Description	Unit Price	Total
200	B-50	50 watt compact fluorescent lamp	\$ 3.05	\$ 610.00
150	B-100	100 watt compact fluorescent lamp	\$ 3.15	\$ 472.50
Total				\$ 1,082.50

Thank you for your business!

Receiving a Purchase Invoice

- 1 Record the initials of the employee processing the invoice, **ACL**, date received, **11/6/--**, and ThreeGreen's purchase invoice number, **525**, in the stamp.
- 2 Place a check mark by each of the amounts in the Total column to show that the items have been received and that amounts have been checked and are correct.
- 3 Review the vendor's terms and the payment due date.

- Purchase invoice:
 - This provides _____.
- Use the "DOC" id and date listed on the **STAMP** (gray stamp on image above) for the Purch. No. and date to journalize.

G. Purchasing Merchandise on Account

November 6. Purchased merchandise on account from Wynn Lighting, \$1,082.50. Purchase Invoice No. 525.

PURCHASES JOURNAL						PAGE 11
DATE	ACCOUNT CREDITED	PURCH. NO.	POST. REF.	PURCHASES DR. ACCTS. PAY. CR		
Nov. 6	Wynn Lighting	525		1 0 8 2 50	1	
					2	
					3	

1 Date 2 Vendor Name Purchase Invoice Number 3 Amount 4

Check yourself!

1. What is the difference between a periodic inventory system and a perpetual inventory system?
2. When the perpetual inventory system is used, in what account are purchases recorded? In what account are purchases recorded when the periodic inventory system is used?
3. Identify the four special journals typically used by a business.
4. How are special amount columns used in a journal?
5. Why are there two account titles in the amount column of the purchases journal?
6. What is the advantage of having special amount columns in a journal?
7. What information is contained on a purchase invoice?

Lesson 9-3: Posting from the Purchases Journal

Objectives: L07: _____

A. Posting from a Purchases Journal to an Accounts Payable Ledger

PURCHASES JOURNAL						PAGE 11
DATE	ACCOUNT CREDITED	PURCH. NO.	POST. REF.	PURCHASES DR. ACCTS. PAY. CR		
1 Nov. 6	Wynn Lighting	525	260	1 0 8 2 50	1	
2					2	
3					3	

VENDOR Wynn Lighting						VENDOR NO. 260
DATE	ACCOUNT CREDITED	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
1 Nov. 1	Balance	✓			2 5 4 4 00	
6		P11		1 0 8 2 50	3 6 2 6 50	

Diagram labels: 1 Date, 2 Journal Page Number, 3 Credit, 4 Account Balance, 5 Vendor Number

- Each entry in the purchases journal affects the _____.
- What is the abbreviation for the Purchases Journal? _____
- We do NOT post to Purchases/Accounts Payable YET!**

B. Totaling and Ruling a Purchases Journal

PURCHASES JOURNAL						PAGE 11
DATE	ACCOUNT CREDITED	PURCH. NO.	POST. REF.	PURCHASES DR. ACCTS. PAY. CR		
1 Nov. 6	Wynn Lighting	525		1 0 8 2 50	1	
2 8	Galle Electric	526		6 4 0 0 00	2	
3 13	Bearden Chemicals	527		6 2 8 4 80	3	
4 15	Mobley Tools	528		4 1 8 2 15	4	
5 21	Wynn Lighting	529		3 4 8 0 32	5	
6 22	Galle Electric	530		1 0 8 0 00	6	
7 27	S&R Imports	531		3 9 7 3 15	7	
8 29	Galle Electric	532		8 6 4 2 5	8	
9 30	Total			21 5 8 7 17	9	

Diagram labels: 1 Single Line, 2 Date, 3 "Total", 4 Total Column, 5 Total Amount, 6 Double Lines

- Totaling and Ruling a Purchases Journal**
- Rule a single line across the amount column under the last entry.
 - Write the date, **30**, in the Date column.
 - Write the word **Total** in the Account Credited column.
 - Add the amount column. Verify the total by re-adding the column in reverse order.
 - Write the total, **\$21,587.17**, directly below the single line in the amount column.
 - Rule double lines across the amount column directly below the total amount to show that the total has been verified as correct.

- ThreeGreen rules its purchases journal whenever a _____.
- This way, we only have to post to Purchases and Accounts Payable once every journal page.
- REMEMBER your RULES (Single and Double) when totaling your Purchases Journal!
 - Single rule = calculation of above data.
 - Double rule = verification of a total

C. Posting the Total of a Purchases Journal to a General Ledger (GL)

PURCHASES JOURNAL										PAGE 11	
DATE	ACCOUNT CREDITED				PURCH. NO.	POST. REF.	PURCHASES DR. ACCTS. PAY. CR				
29	Galle Electric				532		8	6	4	25	
30	Total						21	5	8	7 17	
							(5110)	(2110)			

1

2

3

5

ACCOUNT Purchases										ACCOUNT NO. 5110		
DATE	ITEM	POST. REF.	DEBIT				CREDIT				BALANCE	
											DEBIT	CREDIT
Nov. 1	Balance	✓									214	8 6 7 09
9		CP21	4	8	0	00					215	3 4 7 09
30		P11	21	5	8	7 17					236	9 3 4 26

4

ACCOUNT Accounts Payable										ACCOUNT NO. 2110		
DATE	ITEM	POST. REF.	DEBIT				CREDIT				BALANCE	
											DEBIT	CREDIT
Nov. 1	Balance	✓									16	8 9 3 00
21		CP21	11	8	2	4 00					5	0 6 9 00
30		P11					21	5	8	7 17	26	6 5 6 17

1

2

3

4

5

Date

Journal Number

Debit or Credit

Account Balance

Account Number

Posting the Total of a Purchases Journal to the General Ledger Accounts

- Write the date, **30**, in the Date columns of the accounts.
- Write the purchases journal page number, **P11**, in the Post. Ref. columns of the accounts. The abbreviation **P11** means page 11 of the purchases journal.
- For each account, write the purchases journal column total, **\$21,587.17**, in the Debit or Credit column.
- For each account, calculate and write the new account balance in the Balance Debit or Credit column.
- Return to the purchases journal and write the Purchases general ledger account number, **(5110)**, and the Accounts Payable general ledger account number, **(2110)**, in parentheses below the column total.

- The total of the purchases journal is posted to these two GL accounts:

- DEBIT - _____
- CREDIT - _____

Check yourself!

1. Why should a business frequently post from the purchases journal to the accounts payable ledger??
2. Why is it important to record a posting reference in the accounts payable ledger?
3. Why is the vendor number written in the post. ref. column of the purchases journal?

Lesson 9-4: Accounting for Cash Payments

Objectives: LO8: _____
LO9: _____

A. Cash Payments Journal

CASH PAYMENTS JOURNAL													PAGE	
				1		2		3		4		5		
DATE		ACCOUNT TITLE		CK. NO.	POST. REF.	GENERAL				ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
						DEBIT		CREDIT						
1														1
2														2
3														3

- Cash payments journal:
- Which three GL accounts have special amount columns on the Cash Payments (CP) Journal?
 - _____
 - _____
 - _____
- We use the GENERAL debit/credit columns and the Account Title account if we need an account other than the three special amount columns.

1. Trade Discount

- List price:
- Trade discount:
- Net price:
- **No journal entry is made to show the trade discount – just NET PRICE (invoice amount).**

2. Cash Discount

- To encourage early payment, a vendor may allow a _____.
- Cash discount:
 - This IS recorded in the journal as _____.
- General amount column:
 - What is an example of an account that would use the General Journal/Account Title columns (HINT: any account NOT listed in a special amount column)? _____.
- The source doc for most cash payments is? _____

B. Cash Payment of an Expense

November 3. Wrote a check to Kelser Promotions for advertising, \$600.00. Check No. 689.

CASH PAYMENTS JOURNAL												PAGE 21
	DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE		PURCHASES		CASH	
					DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
1	Nov. 3	Advertising Expense	689		600	00					600	00
2	6	Supplies—Office	690		56	20					56	20
3												
4												

1 Date

2 Account Title

3 Check Number

4 Debit

5 Credit

- Because accounts other than AP are being used, we must use the GENERAL and ACCOUNT TITLE columns.
- Cash is credited on the SAME LINE as the debit in a special journal.**

C. Buying Supplies for Cash

November 6. Wrote a check to Wells Office Supply for store supplies, \$56.20. Check No. 690.

- (SEE ABOVE FOR journalizing this transaction)

D. Cash Payments for Purchases