

## Lesson 9-1: Subsidiary Ledgers & Controlling Accounts

Objectives: LO1: Distinguish among service, retail merchandising, and wholesale merchandising businesses.  
LO2 Identify differences between a sole proprietorship and a corporation.  
LO3 Explain the relationship between a subsidiary ledger and a controlling account.

### A. Merchandising Business

- Merchandise: Goods that a business purchases to sell
- Merchandising Business: A business that purchases and resells goods
  - Retail: A merchandising business that sells to those who use or consume the goods
    - Give an example: Target
  - Wholesale: buys and resells merchandise primarily to other merchandising businesses
    - Give an example: US Foods
- Service and merchandising businesses use many of the same accounts, but merchandising businesses have additional accounts for Purchase and Sale of merchandise.

### B. Forming a Corporation

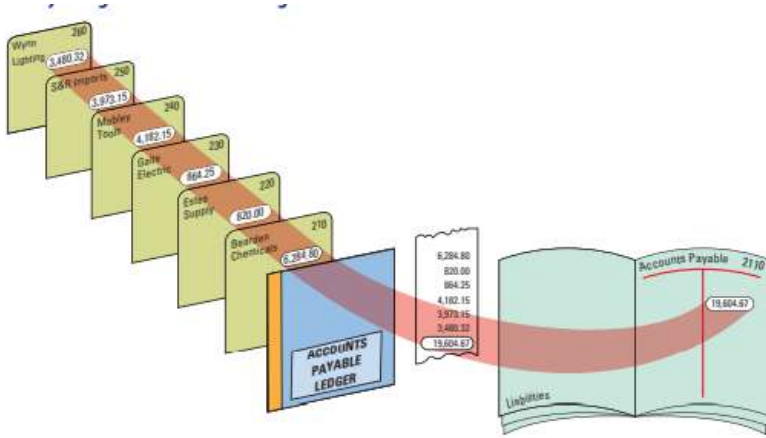
- Why do some businesses choose a corporation versus a sole proprietorship? They need amounts of capital that cannot be easily acquired by a partnership.
- Corporation: an organization with the legal rights of a person which many persons or other corporations may own
- Capital: The assets or other financial resources available to a business.
- Share of Stock: Unit of ownership in a corporation.
- How is a corporation formed? Apply at a state government
- Articles of Incorporation: a legal document that identifies basic characteristics of a corporation, is a part of the application submitted to a state to become a corporation.
  - What do articles of incorporation include? the name and address of the business, its purpose for operating, any limitations on its activities, and rules for dissolving the corporation. The articles of incorporation also describe how the business is to be governed and how capital may be acquired.
- Charter: issued by the state, the legal right for a business to conduct operations as a corporation.
- What is the main difference between accounting records of a proprietorship vs. a corporation? The capital accounts. Proprietorships have one capital account for the owner. A corporation has separate accounts for stock issued and earnings kept in the business.

- A **corporation** has separate **capital accounts** for the stock issued and for the **earnings** kept in the business.

a. *The Business – Threegreen Products Inc.*

- Unlike a proprietorship, a corporation exists **independent** of its owners.

C. *Subsidiary Ledgers and Controlling Accounts*



- A business can have **several**/only one (**circle one**) type(s) of ledger(s).
- Vendor: **A business from which merchandise, supplies, or other assets are purchased**
  - Merchandising businesses have many different vendors, so they need to keep their bill with each one separate to ensure timely payment.
- Subsidiary Ledger: **A ledger that is summarized in a single general ledger account**
- Accounts Payable Ledger: **The subsidiary ledger containing vendor accounts**
- The total of all vendor accounts payable (subsidiary ledger) should be equal to the total of the Accounts Payable controlling account.
- Controlling account: **An account in a general ledger that summarizes all accounts in a subsidiary ledger**

## D. Subsidiary Ledger Form

The diagram illustrates a Subsidiary Ledger Form with two main sections: a Vendor ledger and an Accounts Payable ledger.

**Vendor Ledger (Top Section):**

- Header:** VENDOR *Bearden Chemicals* VENDOR NO. *210*
- Columns:** DATE, ITEM, POST. REF., DEBIT, CREDIT, CREDIT BALANCE.
- Row 1:** NOV. 1, Balance, [checkmark], [blank], [blank], 5483.00.

**Accounts Payable Ledger (Bottom Section):**

- Header:** ACCOUNT *Accounts Payable* ACCOUNT NO. *2110*
- Columns:** DATE, ITEM, POST. REF., DEBIT, CREDIT, BALANCE (DEBIT, CREDIT).

**Numbered Callouts:**

1. Account Name
2. Account Number
3. Date
4. "Balance"
5. Check Mark
6. Account 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?  
A retail merchandising business sells to those who use or consume the goods. A wholesale merchandising business buys and resells merchandise primarily to other merchandising businesses.
2. What allows a corporation to own property, incur liabilities, and enter into contracts in its own name?  
A corporation, through the rights granted in its charter, has the legal rights of a person.
3. What is the principal difference between the accounting records of proprietorships and corporations?  
Proprietorships have a single capital and drawing account for the owner. A corporation has separate capital accounts for the stock issued and for the earnings kept in the business.
4. What is the relationship between a controlling account and a subsidiary ledger?  
The sum of the subsidiary ledger accounts is equal to the balance in the general ledger controlling account.
5. What column on a general ledger form is not on an accounts payable ledger form?  
Debit Balance

## 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><b>ThreeGreen Products, Inc.</b>  255 Chestnut Street  Harrisburg, PA 17101</p> <p><b>Purchase From:</b>  Wynn Lighting  1532 Industrial Parkway  Birmingham, AL 35217</p> </div> <div style="width: 45%;"> <p>PO Number: <b>153</b>  Date: 10/28/--</p> <p><b>Ship To:</b>  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
<b>Total</b>				<b>\$1,082.50</b>

- 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/--

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		
Nov. 6	Wynn Lighting	525	260	1 0 8 2 50	1	
					2	
					3	

VENDOR Wynn Lighting						VENDOR NO. 260
DATE	ACCOUNT CREDITED	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
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		
Nov. 6	Wynn Lighting	525		1 0 8 2 50	1	
8	Galle Electric	526		6 4 0 0 00	2	
13	Bearden Chemicals	527		6 2 8 4 80	3	
15	Mobley Tools	528		4 1 8 2 15	4	
21	Wynn Lighting	529		3 4 8 0 32	5	
22	Galle Electric	530		1 0 8 0 00	6	
27	S&R Imports	531		3 9 7 3 15	7	
29	Galle Electric	532		8 6 4 2 5	8	
30	Total			21 5 8 7 17	9	

**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.

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

- 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)

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	

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	

Date ①

Journal Number ②

③ Debit or Credit

Account Balance ④

Account Number ⑤

#### 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