

CHAPTER ELEVEN

THE SALES CYCLE: SALES SALES RETURNS CASH COLLECTIONS

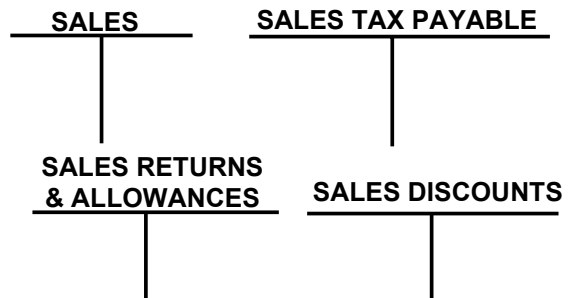
MERCHANDISING BUSINESS

- Purchase merchandise
- From vendors and suppliers
- Sell merchandise to customers
- "Sales Revenue" account
- Business-to-business sales usually on account

TYPES OF BUSINESSES

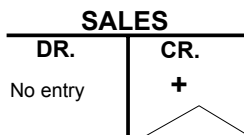
- **Wholesaler (distributor)**
 - Purchases from manufacturer
 - Sell to retailer
- **Retailer**
 - Purchase from manufacturer or wholesaler
 - Sell to consumer

MERCHANDISE REVENUE ACCOUNTS



SALES ACCOUNT

REVENUE account to record merchandise sales



Sales credited for selling price of merchandise sold

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		100 00	
2		Sales			100 00
3		Made cash sale			
4					
5					
6					
7					
8					
9					
10					
11					

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		100 00	
2		Sales			100 00
3		Made cash sale			
4					
5					
6					
7					
8					
9					
10					
11					

What if sale made on account?

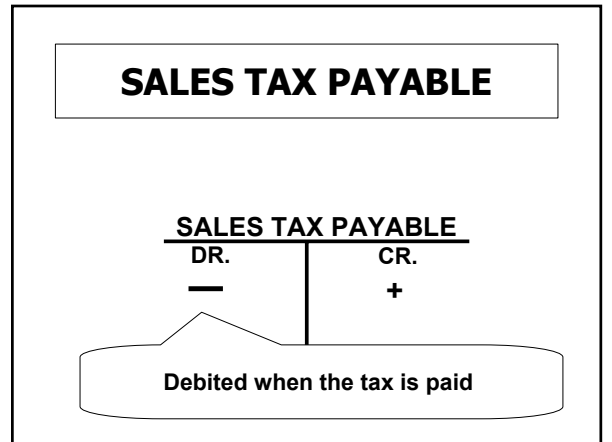
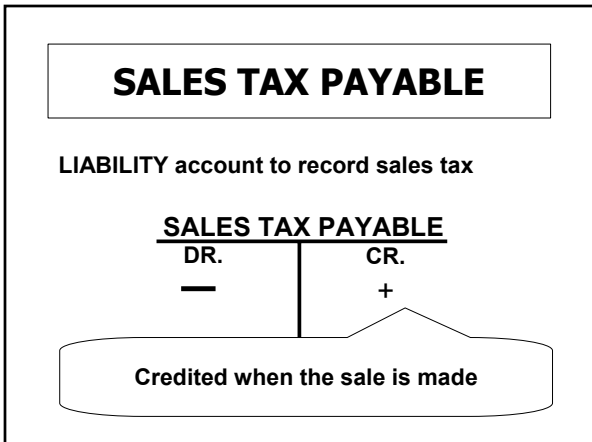
GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Accts. Rec./Customer		100 00	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Debit Accounts Receivable

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Accts. Rec./Customer		100 00	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Customers name entered after Accounts Receivable

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Accts. Rec./Customer		100 00	
2		Sales			100 00
3		Made credit sale			
4					
5					
6					
7					
8					
9					
10					
11					



GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

A cash sale for \$100 plus 5% sales tax.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		105 00	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Sales Tax \$5 = \$100 x 5%
Cash received \$105 = \$100 price + \$5 tax

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		105 00	
2		Sales			100 00
3					
4					
5					
6					
7					
8					
9					
10					
11					

Sales credited for selling price, not the amount of cash received

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		105 00	
2		Sales			100 00
3		Sales Tax Payable			5 00
4		Made cash sale			
5					
6					
7					
8					
9					
10					
11					

\$5 sales tax credited to Sales Tax Payable.

CREDIT MEMORANDUM

- Issued by seller
- Accounts Receivable credited
 - Return - Merchandise returned
 - Allowance - Price reduction because of defect or other problem

SALES RETURNS & ALLOWANCES

CONTRA-REVENUE account, deducted from Sales on the Income Statement

SALES RETURNS & ALLOWANCES	
DR. +	CR. Not used

Debited when customer returns merchandise or allowance granted.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Susan Chang, returns merchandise (selling price \$40 plus \$2 sales tax).

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Sales Returns & Allowances debited for selling price.

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Sales Tax Payable debited for sales tax collected

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Accounts Receivable credited for \$42.

SALES DISCOUNTS

CONTRA-REVENUE account to record discounts given to customers

SALES DISCOUNTS	
DR.	CR.
+	No entry

Debited for amount of Cash Discount

CREDIT TERMS

2/10, n/30

2% discount off sales price

CREDIT TERMS

2/10, n/30

If paid within 10 days
of invoice date

CREDIT TERMS

2/10, n/30

Or the total
amount is due

CREDIT TERMS

2/10, n/30

30 days after
invoice date

CREDIT TERMS

2/10, n/30

Read as: "Two ten, net thirty"

When customers purchase on open
account, they may be offered a sales
discount to encourage early payment.

CREDIT TERMS

2/10, n/30

Discount
Percentage

Days in
Discount
Period

Otherwise,
the Full
Amount Is
Due

Maximum
Days in
Credit
Period

CREDIT TERMS

1/10, n/30

1% off if paid in 10 days
or
Total amount due in 30 days.

CREDIT TERMS

2/eom, n/60

2% off if paid before
the end of the month
or
Total amount due in 60 days.

CREDIT TERMS

3/10 eom, n/60

3% off if paid within 10 days
after the end of month
or
Total amount due in 60 days.

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				

**Merchandise sold for \$100
credit terms 2/10, n/30
cash received within
discount period**

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	A/R – Customer Name		100 00	
2	Sales			100 00
3				
4				
5				
6				
7				
8				
9				
10				
11				

Made sale on account.
Next, record cash collection
during discount period

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	A/R – Customer Name		100 00	
2	Sales			100 00
3				
4	Cash		98 00	
5	Sales Discounts		2 00	
6	A/R – Customer Name			100 00
7				
8				
9				
10				
11				

\$100 sale x 2% discount

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	A/R – Customer Name		105 00	
2	Sales			100 00
3	Sales Tax Payable			5 00
4				
5				
6				
7				
8	Cash		103 00	
9	Sales Discounts		2 00	
10	A/R – Customer Name			105 00
11				

Assume sales tax rate of 5%
Sales terms 2/10 n/30
Discount calculated on Sales

POST TO ACCOUNTS RECEIVABLE

ACCOUNTS RECEIVABLE

DR.	CR.
1596.00	

As we have always done...

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	April 4	Accts. Rec./Lorenzo		1,596.00	
2		Sales			1,520.00
3		Sales Tax Payable			76.00
4		Sale No. 133c			
5					
6					
7					
8					
9					
10					
11					

Now we need to post to the individual customer account.

POST TO CUSTOMER LEDGER

ACCOUNTS RECEIVABLE ENRICO LORENZO

DR.	CR.
1596.00	

When Accounts Receivable debited
customer ledger debited

SCHEDULE OF ACCOUNTS RECEIVABLE

- Listing of customers and balances
- Prepared end of month
- Total of customer balances must equal Accounts Receivable account

Northern Micro Schedule of Accounts Receivable April 30, 20--

Helen Avery	\$2,302
Susan Chang	651
Heidi Schwitzer	3,563
Ken Ulmet	3,315
Vivian Winston	4,500
	<u>\$14,331</u>

Should equal Accounts Receivable
General Ledger account balance

BANK CREDIT CARD SALES

- Similar to cash sales
- Cash available to business through electronic deposit
- Usually one to three days
- Business receives amount of sale minus processing fee (1% to 5%)

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2					
3		Sales			100.00
4		Sales Tax Payable			5.00
5					
6					
7					
8					
9					
10					
11					

Merchandise sold \$100, Sales tax 5%

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1					
2		Bank Credit Card Exp.		4.20	
3		Sales			100.00
4		Sales Tax Payable			5.00
5					
6					
7					
8					
9					
10					
11					

**Merchandise sold \$100, Sales tax 5%
Credit card fee 4% (\$4.20 = \$105.00 x 4%)**

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1		Cash		100.80	
2		Bank Credit Card Exp.		4.20	
3		Sales			100.00
4		Sales Tax Payable			5.00
5					
6					
7					
8					
9					
10					
11					

**Merchandise sold \$100, Sales tax 5%
Credit card fee 4% (\$4.20 = \$105.00 x 4%)
Cash collected \$100.80 = \$105.00 - \$4.20**

Textbook page 377

End of Chapter 11

