

Accounting for Sales and Cash Receipts

BEFORE YOU READ

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

What You'll Learn

1. Explain the difference between a service business and a merchandising business.
2. Analyze transactions relating to the sale of merchandise.
3. Explain the difference between a retailer and a wholesaler.
4. Record a variety of sales and cash receipt transactions in a general journal.
5. Define the accounting terms introduced in this chapter.

Why It's Important

- ▶ As a consumer, you have frequent contact with merchandising businesses.



Exploring the *Real World* of Business

ANALYZING SALES

Underground Station

If you are looking for the latest in urban-savvy footwear, **Underground Station** has you covered. From Puma to Fila, Phat Farm to GBX, this store has the brands that can take you from the basketball court to the dance floor.

Until recently **Underground Station** retail stores were found exclusively in malls. This changed with the grand opening of a large “street store” in the main shopping district in the heart of Brooklyn, New York. With the popularity of the brands it carries, **Underground Station** thinks the new sales strategy will be a good fit.

Underground Station wants to attract more women shoppers in the coming years. The company hopes that a new advertising campaign and more cutting-edge buyers in the shoe division will do the trick.

What Do You Think?

When shoppers purchase shoes at **Underground Station**, what general ledger accounts do you think are affected?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

Making sales is key to the financial success of a business. Sales dollars come from selling products or services to customers. Companies like Underground Station, Target, and Foot Locker buy merchandise and sell it to customers. Accurate tracking of sales transactions helps these businesses decide what merchandise to offer. Journalizing cash receipts is an essential part of recording sales revenue.

Personal Connection

1. Does your work or the work of friends or family involve selling merchandise?
2. What information from these sales do you think should be recorded in the accounting records?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 14**.



Accounting for a Merchandising Business

BEFORE YOU READ

Main Idea

A *wholesaler* sells to retailers, and a *retailer* sells to the final users.

Read to Learn...

- the operating cycle for a merchandising business. (p. 380)
- the accounts used in a merchandising business. (p. 382)
- issues relating to international sales. (p. 382)

Key Terms

retailer
wholesaler
merchandise
inventory
Sales

As you remember, a service business is one that provides a service to the public for a fee. In contrast a merchandising business buys goods (such as computers, clothing, and furniture) and then sells those goods to customers for a profit. You're probably familiar with merchandising businesses like Tower Records or Wal-Mart. Most merchandising businesses operate either as retailers or as wholesalers. Some merchandising businesses are both retailers and wholesalers. A **retailer** is a business that sells to the final user, that is, to you—the consumer. A **wholesaler** is a business that sells to retailers. In this chapter we will analyze transactions relating to the sale of merchandise for On Your Mark Athletic Wear, a retailer. Refer to the chart of accounts for On Your Mark Athletic Wear.

The Operating Cycle of a Merchandising Business

How Is the Operating Cycle Different from the Accounting Cycle?

Recall that the accounting cycle is a series of tasks performed in a single period to maintain records. The merchandising business *operating cycle* is a series of transactions, as illustrated in **Figure 14–1**.

The collection of cash from sales enables the business to purchase more items to sell, pay expenses, and make a profit. As long as the company is in business, this is a continuous, repeating sequence.

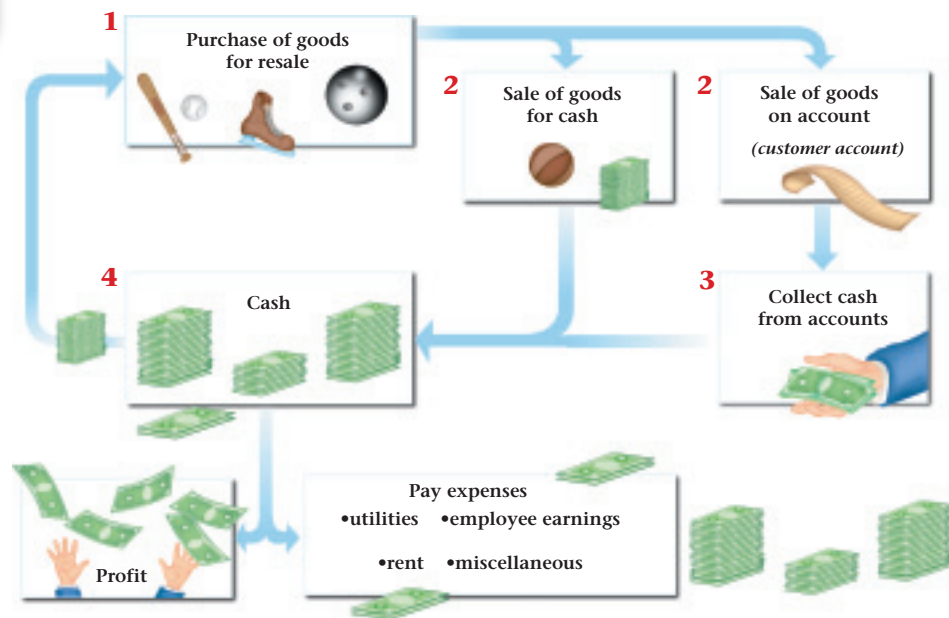


Figure 14–1 The Operating Cycle for a Merchandising Business



CHART OF ACCOUNTS

ASSETS

101 Cash in Bank	130 Supplies
105 Change Fund	135 Prepaid Insurance
110 Petty Cash Fund	140 Delivery Equipment
115 Accounts Receivable	142 Accumulated Depreciation—Delivery Equipment
117 Allowance for Uncollectible Accounts	145 Office Equipment
118 Notes Receivable	147 Accumulated Depreciation—Office Equipment
120 Interest Receivable	150 Store Equipment
125 Merchandise Inventory	152 Accumulated Depreciation—Store Equipment

LIABILITIES

201 Accounts Payable	212 Social Security Tax Payable
202 Notes Payable	213 Medicare Tax Payable
203 Discount on Notes Payable	214 Federal Unemployment Tax Payable
204 Federal Corporate Income Tax Payable	215 State Unemployment Tax Payable
205 Employees' Federal Income Tax Payable	220 Sales Tax Payable
211 Employees' State Income Tax Payable	

STOCKHOLDERS' EQUITY

301 Capital Stock	310 Income Summary
305 Retained Earnings	

REVENUE

401 Sales	410 Sales Returns and Allowances
405 Sales Discounts	415 Interest Income

COST OF MERCHANDISE

501 Purchases	510 Purchases Discounts
505 Transportation In	515 Purchases Returns and Allowances

EXPENSES

601 Advertising Expense	645 Loss/Gain on Disposal of Plant Assets
605 Bankcard Fees Expense	650 Maintenance Expense
610 Cash Short and Over	655 Miscellaneous Expense
612 Delivery Expense	657 Payroll Tax Expense
615 Depreciation Expense—Delivery Equipment	660 Rent Expense
620 Depreciation Expense—Office Equipment	665 Salaries Expense
625 Depreciation Expense—Store Equipment	670 Supplies Expense
630 Federal Corporate Income Tax Expense	675 Uncollectible Accounts Expense
635 Insurance Expense	680 Utilities Expense
640 Interest Expense	

▶ Accounts Receivable Subsidiary Ledger

BRE	Break Point Sports Club
DIM	Dimaio, Joe
GAL	Galvin, Robert
KLE	Klein, Casey
MON	Montero, Anita
RAH	Rahim, Shashi
RAM	Ramos, Gabriel
SOU	South Branch High School Athletics
SUL	Sullivan, Megan
TAM	Tammy's Fitness Club
WON	Wong, Kim
YOU	Young, Lara

▶ Accounts Payable Subsidiary Ledger

CHA	Champion Store Supply
COM	Computer Solutions
DAR	Dara's Delivery Service
FAS	FastLane Athletics
GEA	Geary Office Supply
PRO	Pro Runner Warehouse
SLF	Sports Link Footwear
SNS	Sports Nutrition Supply

Compare and Contrast

Merchandise Inventory and Sales Accounts

How are the two accounts, **Merchandise Inventory** and **Sales**, similar? How are they different?

Accounts Used by a Merchandising Business

What Accounts Does a Merchandising Business Use?

A merchandising business buys goods from a wholesaler or a manufacturing business and then sells these goods to its customers. Goods bought for resale are called **merchandise**. The items of merchandise the business has in stock are referred to as **inventory**.

Merchandise Inventory Account

The inventory of a business is represented in the general ledger by the asset account **Merchandise Inventory**. Increases to **Merchandise Inventory** are recorded as debits, and decreases are recorded as credits. The normal balance of the **Merchandise Inventory** account is a debit. At the beginning of each period, the dollar amount of merchandise in stock is indicated by the debit balance in **Merchandise Inventory**.

During the operating cycle, the business sells merchandise that is in stock and purchases new items to replace the inventory sold. The sale of merchandise and the purchase of new merchandise are recorded in separate accounts.

Sales Account

When a retail merchandising business sells goods to a customer, the amount of the merchandise sold is recorded in the **Sales** account. **Sales** is a revenue account. Increases to the **Sales** account are recorded as credits, and decreases are recorded as debits. The normal balance of the **Sales** account is a credit. Both cash sales and sales on account are recorded as credits to the **Sales** account.

Sales on account affect the **Accounts Receivable** account, and cash sales affect the **Cash in Bank** account.

International Sales

What Challenges Face a Company That Has International Sales?

When companies have sales transactions on an international level, many complexities arise. The obligations and rights of each party to the sale extend across borders and into different sets of legal requirements.

The *United Nations Convention on Contracts for the International Sales of Goods (CISG)* was created to provide guidelines and laws governing the international sale of goods. While “The Convention” does not cover sales of all goods, it governs most business-to-business transactions.

International sales also introduce the challenge of multiple currencies. Which currency will be used for the transaction? How will currency exchange rates affect revenue? These are just a few considerations that must be examined when conducting international sales.

Merchandise Inventory	
Debit + Increase Side Normal Balance	Credit - Decrease Side

Sales	
Debit - Decrease Side	Credit + Increase Side Normal Balance



AFTER
You READ**Reinforce the Main Idea**

Create a table similar to this one to describe service businesses and merchandising businesses.

Business Type	What is Sold?	Who is the Customer?
Service		
Retailer		
Wholesaler		

**Do the Math**

Alpine Outfitters estimates the annual cost of maintaining merchandise inventory to be 10% of the inventory value. Alpine's accountants are preparing a budget for the coming year, and they plan to maintain an inventory valued at \$1.5 million. Answer the following questions:

1. What is the estimated cost of maintaining the inventory?
2. If the inventory was valued at \$2 million, and the estimated rate of maintenance was 11%, what would be the estimated annual maintenance cost?

**Problem 14–1 Recording Merchandising Transactions**

Instructions Record the following transactions in T-account form in your working papers for Sharp Shot Camera Shop. A partial chart of accounts follows:

General Ledger
 Cash in Bank
 Accounts Receivable
 Merchandise Inventory
 Accounts Payable
 Sales

Date	Transactions
Apr. 4	Sold 10 Canon cameras on account for \$3,000, Sales Slip 224.
10	Sold 2 dozen photo albums for \$150, cash, Sales Slip 225.
20	Sold 4 rolls of 35mm film for \$24 cash, Sales Slip 226.
25	Sold a Canon camera to a customer for \$380 cash, Sales Slip 227.

Analyzing Sales Transactions

BEFORE YOU READ

Main Idea

In addition to using the general ledger, a business keeps a subsidiary ledger of individual customer accounts.

Read to Learn...

- what a sale on account involves. (p. 384)
- the purpose of the accounts receivable subsidiary ledger. (p. 385)
- how to journalize sales on account. (p. 386)
- how to journalize and post sales returns and allowances. (p. 389)

Key Terms

sale on account
charge customer
credit cards
sales slip
sales tax
credit terms
accounts receivable subsidiary ledger
subsidiary ledger
controlling account
sales return
sales allowance
credit memorandum
contra account

In a merchandising business, the most frequent transaction is the sale of merchandise. Some businesses sell on a cash-only basis. Others sell only on credit. Most businesses handle both cash and credit sales.

Sales on Account

What Does a Sale on Account Involve?

The sale of merchandise that will be paid for at a later date is called a **sale on account**, a *charge sale*, or a *credit sale*. The sale on account is made to a **charge customer**; this credit option is also called a *charge account*.

Store Credit Card Sales

Charge customers use **credit cards** issued by a business such as Target to make their purchases. A store credit card, imprinted with the customer's name and account number, facilitates the sale on account.

Nonbank Credit Card Sales

In the next section, you will learn about bank credit cards. We consider nonbank credit cards here because they are similar to a store credit card. A *nonbank credit card* is a credit card issued by corporations such as American Express and Diners Club. Nonbank credit card sales are considered a form of credit sales because payment is collected at a later date.

Items Related to Sales on Account

A charge sale involves a sales slip, which shows the amount of tax charged and the credit terms.

The Sales Slip. A **sales slip** is a form that lists these details: date of the sale; customer account identification; and description, quantity, and price of the item(s) sold.

The description may include the physical details (such as "white athletic socks"), a stock number, or both. A sales slip is usually prepared in multiple copies. The customer receives the original as a receipt and as proof of purchase. The number of copies kept by the business varies with its needs. A copy is always used for accounting purposes as the source document for recording the journal entry.

Prenumbered sales slips help businesses keep track of all sales made on account. On Your Mark uses prenumbered sales slips printed with its name and address. On Your Mark's sales slip is shown in **Figure 14-2**.

Notice that the total amount on the sales slip includes cost of the items sold and *sales tax*.

Sales Tax. Most states and some cities tax the retail sale of goods and services with a **sales tax**. Items subject to sales tax and sales tax rates vary from state to state. The sales tax rate is usually stated as a percentage of the sale, such as 5%. Sales tax rates are determined by the proper taxing authority.

The sales tax is paid by the customer and collected by the business. The business acts as the collection agent for the state or city government. (In the future we will refer only to the state government.) At the time of the sale, the business adds the sales tax to the total selling price of the goods. Periodically, the business sends the collected sales tax to the state. Until the state is paid, however, the sales tax collected from customers represents a liability of the business. The business keeps a record of the

sales tax owed to the state in a liability account called **Sales Tax Payable**. For **Sales Tax Payable**, the increase and balance side is a credit and the decrease side is a debit.

To calculate the sales tax, multiply the merchandise subtotal by the sales tax rate (see **Figure 14–2**). Casey Klein bought \$200 worth of merchandise. The sales tax rate is 6%. The sales clerk multiplied \$200 by 6% (.06) to compute the \$12 sales tax. The total transaction amount is \$212.

Not all sales of retail merchandise are taxed. In most states, sales to tax-exempt organizations, such as schools, are not taxed. For example, South Branch High School purchased \$1,500 worth of merchandise on account. Schools are tax exempt, so no sales tax is added to the amount of the sale.

Credit Terms. The sales slip in **Figure 14–2** has space to indicate the credit terms of the sale. **Credit terms** state the time allowed for payment. The credit terms for the sale to Casey Klein are n/30. The “n” stands for the *net*, or total, amount of the sale. The “30” stands for the number of days the customer has to pay for the merchandise. Casey Klein owes On Your Mark \$212 (the net amount) by December 31 (30 days after December 1).

The Accounts Receivable Subsidiary Ledger

What Is a Subsidiary Ledger?

Businesses with few charge customers usually include an Accounts Receivable account for each customer in the general ledger. A large business, however, with many charge customers sets up a separate ledger that contains an account for each charge customer. This ledger is called the **accounts receivable subsidiary ledger**. A **subsidiary ledger** is a ledger, or book, that contains detailed data summarized to a controlling account in the general ledger. For example, the accounts receivable subsidiary ledger contains details of all the individuals and businesses that owe money to a company. Summary information about accounts receivable appears in the **Accounts Receivable** account in the general ledger. **Accounts Receivable** is a

ON YOUR MARK ATHLETIC WEAR 595 Leslie Street, Dallas, TX 75207			
DATE: December 1, 20--		NO. 50	
SOLD TO	Casey Klein 3345 Spring Creek Parkway Plano, Texas 75074		
CLERK B.E.	CASH	CHARGE ✓	TERMS n/30
QTY.	DESCRIPTION	UNIT PRICE	AMOUNT
1	Pair Running Shoes	\$ 100.00	\$ 100 00
6	Pair Athletic Socks	10.00	60 00
1	Vinyl Jacket/Pants	40.00	40 00
		SUBTOTAL	\$ 200 00
		SALES TAX	12 00
		TOTAL	\$ 212 00
<i>Thank You!</i>			

Figure 14–2 On Your Mark Athletic Wear Sales Slip

+/- MATH HINTS

Combining Math Functions

When combining mathematical functions such as calculating and adding sales tax to a sale amount, keep the order of operations in mind: multiply first, then add.

Compute the transaction amount of a \$184 sale of merchandise with a 6% sales tax:

- multiply first
 $(\$184.00 \times 0.06) = \11.04
- then add
 $(\$184.00 + \$11.04) = \$195.04$

controlling account because its balance equals the total of all account balances in the subsidiary ledger. The balance of **Accounts Receivable** thus serves as a control on the accuracy of the balances in the accounts receivable subsidiary ledger after all posting is complete.

General Ledger		
Accounts Receivable—controlling account		<u>\$10,000</u>
Accounts Receivable Subsidiary Ledger		
Individual Accounts Within Ledger:		
Brown, Joshua	\$2,000	
Clark, Gillian	3,000	
Greene, Jason	1,000	
Perez, Sarita	4,000	
Total	<u>\$10,000</u>	

Controlling account balance equals total of accounts in subsidiary ledger.

Figure 14–3 shows the accounts receivable subsidiary ledger form used by On Your Mark. The subsidiary ledger account form has lines at the top for the name and address of the customer. In a manual accounting system, subsidiary ledger accounts are arranged in alphabetical order. They are not usually numbered. In a computerized system, however, each charge customer is assigned a specific account number.

Notice that the subsidiary ledger account form has only three amount columns. The Debit and Credit columns are used to record increases and decreases to the customer’s account. There is only one Balance column. Since **Accounts Receivable** is an asset account, the normal balance is a debit, so one balance amount is sufficient.

NAME _____						
ADDRESS _____						
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	

Figure 14–3 Subsidiary Ledger Account Form

Recording Sales on Account

How Are Sales on Account Recorded?

According to the revenue recognition principle, revenue for a sale on account is recognized and recorded at the time of the sale, when it is earned. Revenue must also be *realizable*, which means that it is expected to be converted to cash. Look at On Your Mark’s sale on account to Casey Klein in the next business transaction.

Notice that the debit in the general journal entry is to “Accounts Receivable/Casey Klein.” The slash indicates that two accounts are debited: **Accounts Receivable** (controlling) and **Accounts Receivable—Casey Klein** (subsidiary).

As mentioned earlier, when merchandise is sold to tax-exempt organizations, such as school districts, sales tax is not charged. An example of such a transaction follows on page 388.

As You
READ

Key Point

Sale on Account The accounts receivable part of the journal entry is posted to two places:

- general ledger controlling account
- subsidiary ledger customer account



Business Transaction

On December 1 On Your Mark sold merchandise on account to Casey Klein for \$200 plus sales tax of \$12, Sales Slip 50.

ON YOUR MARK ATHLETIC WEAR 595 Leslie Street, Dallas, TX 75207			
DATE: December 1, 20--		NO. 50	
SOLD TO	Casey Klein 3345 Spring Creek Parkway Plano, Texas 75074		
CLERK B.E.	CASH	CHARGE ✓	TERMS n/30
QTY.	DESCRIPTION	UNIT PRICE	AMOUNT
1	Pair Running Shoes	\$ 100.00	\$ 100 00
6	Pair Athletic Socks	10.00	60 00
1	Vinyl Jacket/Pants	40.00	40 00
Thank You!			SUBTOTAL \$ 200 00
			SALES TAX 12 00
			TOTAL \$ 212 00

ANALYSIS Identify

1. The accounts affected are **Accounts Receivable** (controlling), **Accounts Receivable—Casey Klein** (subsidiary), **Sales**, and **Sales Tax Payable**.

Classify

2. **Accounts Receivable** (controlling) and **Accounts Receivable—Casey Klein** (subsidiary) are asset accounts. **Sales** is a revenue account. **Sales Tax Payable** is a liability account.

+/-

3. **Accounts Receivable** (controlling) and **Accounts Receivable—Casey Klein** (subsidiary) are increased by the total amount, \$212 (the dollar amount of merchandise sold plus sales tax). **Sales** is increased by the dollar amount of merchandise sold, \$200. **Sales Tax Payable** is increased by the amount of sales tax charged, \$12.

DEBIT-CREDIT RULE

4. Increases to asset accounts are recorded as debits. Debit **Accounts Receivable** (controlling) for \$212. Also debit **Accounts Receivable—Casey Klein** (subsidiary) for \$212.

5. Increases to revenue and liability accounts are recorded as credits. Credit **Sales** for \$200 and **Sales Tax Payable** for \$12.

T ACCOUNTS



Accounts Receivable		Sales	
Debit	Credit	Debit	Credit
+	-	-	+
212			200

Accounts Receivable Subsidiary Ledger Casey Klein		Sales Tax Payable	
Debit	Credit	Debit	Credit
+	-	-	+
212			12

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 20--						1
2 Dec. 1	Accts. Rec./Casey Klein	/	212 00			2
3	Sales			200 00		3
4	Sales Tax Payable			12 00		4
5	Sales Slip 50					5

Business Transaction

On December 3 On Your Mark sold merchandise on account to South Branch High School Athletics for \$1,500, Sales Slip 51.

JOURNAL ENTRY

ON YOUR MARK ATHLETIC WEAR 595 Leslie Street, Dallas, TX 75207			
DATE: December 3, 20--		NO. 51	
SOLD TO	South Branch High School Athletics 1750 Rutgers Dr. Dallas, TX 75207		
CLERK B.E.	CASH	CHARGE <input checked="" type="checkbox"/>	TERMS 2/10, n/30
QTY.	DESCRIPTION	UNIT PRICE	AMOUNT
15	Baseball Uniforms	\$ 40.00	\$ 600 00
15	Baseball Caps	20.00	300 00
15	Baseball Mitts	35.00	525 00
2	Baseballs	15.00	30 00
3	Baseball Bats	15.00	45 00
		SUBTOTAL	\$ 1,500 00
		SALES TAX	0 00
		TOTAL	\$ 1,500 00
Thank You!			

GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
6	3 Accts. Rec./So. Branch H.S.	/	1 500 00		6
7	Sales			1 500 00	7
8	Sales Slip 51				8
9					9

This transaction is analyzed and recorded in the same manner as the December 1 entry for Casey Klein *except* there is no sales tax. On Your Mark's accountant debits **Accounts Receivable/South Branch High School Athletics** for \$1,500 and credits the **Sales** account for \$1,500.

Sales Returns and Allowances

All merchandising businesses expect that some customers will be dissatisfied with their purchases. The reasons for dissatisfaction vary. An item may be damaged or defective. The color or size may be incorrect. Whatever the reason, merchants usually allow dissatisfied customers to return merchandise. Any merchandise returned for credit or a cash refund is called a **sales return**.

Sometimes a customer discovers that merchandise is damaged or defective but still usable. When this happens, the merchant may reduce the sales price for the damaged merchandise. A price reduction granted for damaged goods kept by the customer is called a **sales allowance**.

The Credit Memorandum. If the sales return or allowance occurs on a charge sale, the business usually prepares a credit memorandum. A **credit memorandum** lists the details of a sales return or allowance. The charge customer's account is credited (decreased) for the amount of the return or allowance.

Figure 14-4 shows a credit memorandum, or credit memo, used by On Your Mark. The credit memo was prepared when Gabriel Ramos returned merchandise that he bought on account on November 29. Note that the credit memo includes a description of the returned item, the reasons for the return, and the amount to be credited to Gabriel Ramos' account.

On Your Mark's credit memo also includes spaces for the date and sales slip number of the original sale. Notice too that the total on the credit memo includes the sales tax charged on the original sale.

The same form is used if Gabriel Ramos is instead given a sales allowance. Of course, the amount credited to his account would be less. The credit granted for an allowance is the difference between the original sales price and the reduced price.

As You READ

In Your Experience

Sales Returns Have you ever tried to return something you bought? Why did you want to return it? What was the result?

On Your Mark's credit memos are prenumbered and prepared in duplicate. The original is given to the customer. The copy is kept by the business and is the source document used for the journal entry to record the transaction.

The Sales Returns and Allowances Account.

Sales returns and allowances decrease the total revenue earned by a business. This decrease, however, is not recorded in the Sales account. Instead, a separate account called **Sales Returns and Allowances** is used. **Sales Returns and Allowances** summarizes the total returns and allowances for damaged, defective, or otherwise unsatisfactory merchandise. If the **Sales Returns and Allowances** account balance is large in proportion to the **Sales** account balance, there may be merchandising problems. The **Sales Returns and Allowances** account is carefully analyzed to detect any trouble.

The **Sales Returns and Allowances** account is a contra account. As a **contra account**, its balance decreases the balance of its related account. **Sales Returns and Allowances** is more specifically classified as a *contra revenue* account because it is related to a revenue account, **Sales**. Since the normal balance side of **Sales** is a credit, the normal balance side of **Sales Returns and Allowances** is a debit. This relationship is shown here:

Sales		Sales Returns and Allowances	
Debit – Decrease Side	Credit + Increase Side Normal Balance	Debit + Increase Side Normal Balance	Credit – Decrease Side

Cash Refunds

Sometimes a merchant will give a customer a cash refund instead of a credit. On Your Mark's store policy is to give a cash refund only if the original sale was a cash sale. For cash refunds the **Cash in Bank** account is credited instead of **Accounts Receivable**.

Posting to the Accounts Receivable Subsidiary Ledger

How Do You Post to the Accounts Receivable Subsidiary Ledger?

Refer to **Figure 14–5** on page 391. Look at the general journal entry. The credit is to **Accts Rec./Gabriel Ramos**. The slash indicates that both **Accounts Receivable** (controlling) and **Accounts Receivable—Gabriel Ramos** (subsidiary) are

ON YOUR MARK
ATHLETIC WEAR
595 Leslie Street, Dallas, TX 75207

DATE: December 4, 20--

NAME: Gabriel Ramos

ADDRESS: 278 Summit Avenue
Dallas, TX 75206

Gabriel Ramos
CUSTOMER SIGNATURE

CREDIT MEMORANDUM NO. 124

ORIGINAL SALES DATE Nov. 29, 20--	ORIGINAL SALES SLIP No. 35	APPROVAL J.R.	<input checked="" type="checkbox"/> MDSE RET
QTY	DESCRIPTION	AMOUNT	
1	Athletic Suit	\$ 150	00
REASON FOR RETURN wrong color		SUB TOTAL	\$ 150 00
THE TOTAL SHOWN AT THE RIGHT WILL BE CREDITED TO YOUR ACCOUNT.		SALES TAX	9 00
		TOTAL	\$ 159 00

Figure 14–4
Credit Memorandum

As You READ

Key Point

Contra Accounts

The normal balance of a contra account is the opposite of its related account.



Business Transaction

On December 4 On Your Mark issued Credit Memorandum 124 to Gabriel Ramos for the return of merchandise purchased on account, \$150 plus \$9 sales tax.

ON YOUR MARK ATHLETIC WEAR 595 Leslie Street, Dallas, TX 75207		CREDIT MEMORANDUM		NO. 124	
DATE: December 4, 20--	NAME: Gabriel Ramos	ADDRESS: 278 Summit Avenue Dallas, TX 75206	ORIGINAL SALES DATE: Nov. 29, 20--	ORIGINAL SALES SLIP No. 35	APPROVAL J.R.
			QTY	DESCRIPTION	AMOUNT
			1	Athletic Suit	\$ 150 00
			REASON FOR RETURN wrong color		SUB TOTAL \$ 150 00
			THE TOTAL SHOWN AT THE RIGHT WILL BE CREDITED TO YOUR ACCOUNT.		SALES TAX 9 00
			GABRIEL RAMOS CUSTOMER SIGNATURE		TOTAL \$ 159 00

ANALYSIS Identify

Classify

+/-

- The accounts affected are **Accounts Receivable** (controlling), **Accounts Receivable—Gabriel Ramos** (subsidiary), **Sales Returns and Allowances**, and **Sales Tax Payable**.
- Accounts Receivable** (controlling) and **Accounts Receivable—Gabriel Ramos** (subsidiary) are asset accounts. **Sales Returns and Allowances** is a contra revenue account. **Sales Tax Payable** is a liability account.
- Sales Returns and Allowances** is increased by \$150. **Sales Tax Payable** is decreased by \$9. **Accounts Receivable** (controlling) and **Accounts Receivable—Gabriel Ramos** (subsidiary) are decreased by \$159.

DEBIT-CREDIT RULE

- Increases to a contra revenue account are recorded as debits. Debit **Sales Returns and Allowances** for \$150. Decreases to liability accounts are recorded as debits. Debit **Sales Tax Payable** for \$9.
- Decreases to asset accounts are recorded as credits. Credit **Accounts Receivable** (controlling) for \$159. Also credit **Accounts Receivable—Gabriel Ramos** (subsidiary) for \$159.

T ACCOUNTS

Accounts Receivable		Sales Returns and Allowances	
Debit +	Credit -	Debit +	Credit -
	159	150	

Accounts Receivable Subsidiary Ledger Gabriel Ramos		Sales Tax Payable	
Debit +	Credit -	Debit -	Credit +
	159	9	

JOURNAL ENTRY

GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
9	4 Sales Returns and Allowances		150 00		9
10	Sales Tax Payable		9 00		10
11	Accts. Rec./Gabriel Ramos			159 00	11
12	Credit Memorandum 124				12
13					13

credited. Notice that a diagonal line is entered in the Post. Ref. column. This diagonal line indicates that the amount, \$159, is posted in *two* places: *first* to the **Account Receivable** controlling account in the general ledger and *then* to the **Gabriel Ramos** account in the accounts receivable subsidiary ledger.

After the amount is posted to the Accounts Receivable controlling account, the account number (115) is entered to the *left* of the diagonal line in the Posting Reference column. After the amount is posted to the subsidiary ledger account, Gabriel Ramos, a check mark (✓) is entered to the *right* of the diagonal line.

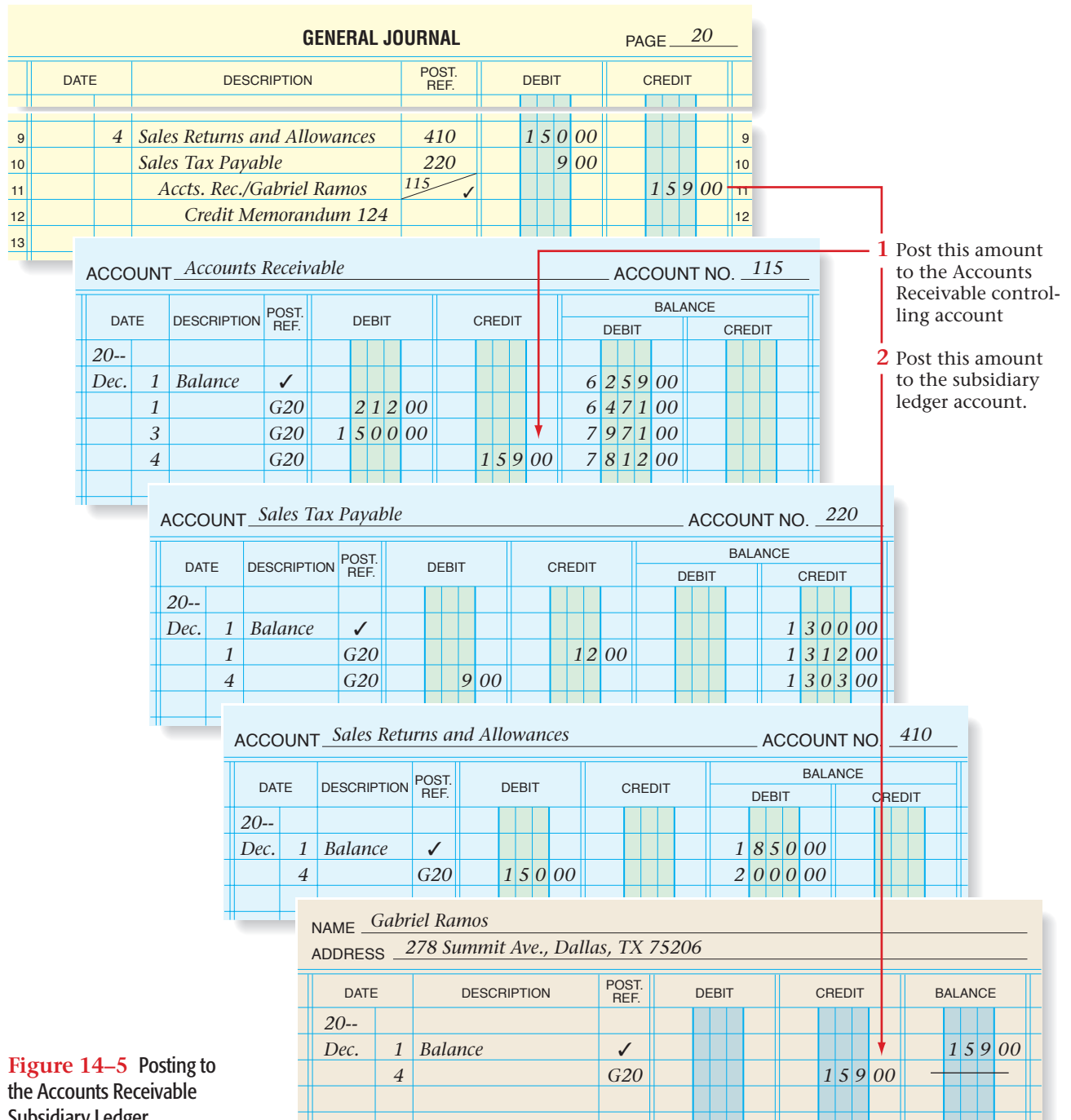
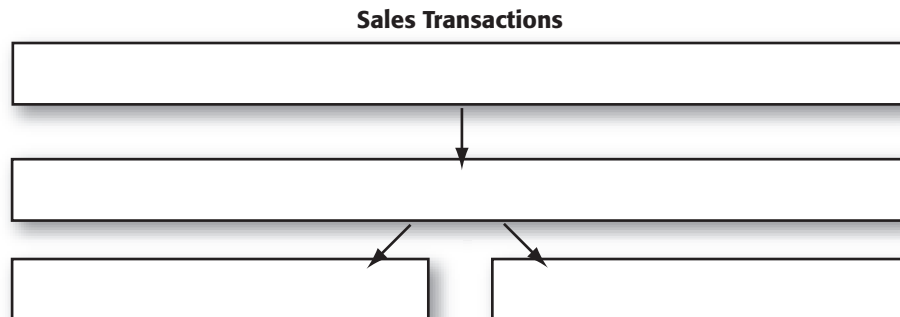


Figure 14-5 Posting to the Accounts Receivable Subsidiary Ledger

AFTER
You READ**Reinforce the Main Idea**

Create a flowchart like this one. Enter labels in the boxes and next to the arrows.

Use these terms to create the labels: *general ledger, journal, posted to, recorded in, sales slip, subsidiary ledger*. Terms can be used more than once.

**Do the Math**

Assume the lighting fixture industry has \$.065 in sales returns and allowances for every \$1.00 in sales (in other words, an industry average of 6.5%). Last year Light House Gallery had sales of \$900,000 and returns and allowances of \$46,800. Answer the following questions:

1. What was Light House Gallery's percentage of returns and allowances to sales?
2. Is the percentage favorable or unfavorable compared to the industry average?

**Problem 14-2 Recording Sales on Account and Sales Returns and Allowances Transactions**

Instructions In your working papers, record the following transactions of Alpine Ski Shop on page 2 of the general journal. Use the following accounts:

General Ledger

Cash in Bank	Sales Tax Payable
Accounts Receivable	Accounts Payable
Merchandise Inventory	Sales
	Sales Returns and Allowances

Accounts Receivable Subsidiary Ledger

Palmer, James
Rodriguez, Anna

Date	Transactions
Sept. 1	Sold \$300 in merchandise plus sales tax of \$18 on account to James Palmer, Sales Slip 101.
4	Sold \$600 in merchandise plus \$36 sales tax to Anna Rodriguez on account, Sales Slip 102.
7	Issued Credit Memorandum 15 to James Palmer for the return of \$300 in merchandise plus sales tax of \$18.
19	Anna Rodriguez telephoned the manager of Alpine Ski Shop and said that the zipper on her ski jacket is broken. The manager agreed to give her a \$40 credit on her purchase, plus a \$2.40 sales tax credit, Credit Memorandum 16.

Analyzing Cash Receipt Transactions

Each business must account for the cash it receives. In this section you will explore cash sales, charge sales, bankcard sales, and cash discounts.

Cash Transactions

How Does Cash Come into a Business?

A transaction in which money is received by a business is called a **cash receipt**. The three most common sources of cash for a merchandising business are payments for cash sales, charge sales, and bankcard sales. Cash is also received, though much less frequently, from other types of transactions. Let's learn how to handle these four kinds of cash receipts.

Cash Sales

In a **cash sale** transaction, the business receives full payment for the merchandise sold *at the time of the sale*. The proof of sale and the source document generated by a cash sale transaction differ from those for a sale on account.

Most retailers use a cash register to record cash sales. Instead of using preprinted sales slips, cash sales are recorded on two rolls of paper tape inside the cash register. The details of a cash sale are printed on the two tapes at the same time. The portion of one tape that contains a record of the sale is torn off and given to the customer as a receipt. The other tape remains in the register.

A business totals and clears its cash register daily. The cash register tape lists the total cash sales and the total sales tax collected on these sales. The tape also shows the day's total charge sales. A proof is usually prepared to show that the amount of cash in the cash register equals the amount of cash sales and sales tax recorded on the cash register tape. The proof and the tape are sent to the accounting clerk, who uses the tape like the one in **Figure 14-6** as the source document for the journal entry to record the day's cash sales.

Charge Customer Payments

Businesses record cash received on account from charge customers by preparing receipts. A receipt, shown in **Figure 14-7** on page 394, is a form that serves as a record of cash received. Receipts are prenumbered and may be prepared in multiple copies. The receipt is a source document for the journal entry.

BEFORE YOU READ

Main Idea

Merchandising businesses receive cash from cash sales, payments on account, bankcard sales, and occasionally from other types of transactions.

Read to Learn...

- ▶ how and why businesses receive cash. (p. 393)
- ▶ how to calculate a cash discount. (p. 394)
- ▶ how to record cash receipts. (p. 395)

Key Terms

cash receipt
cash sale
cash discount
sales discount

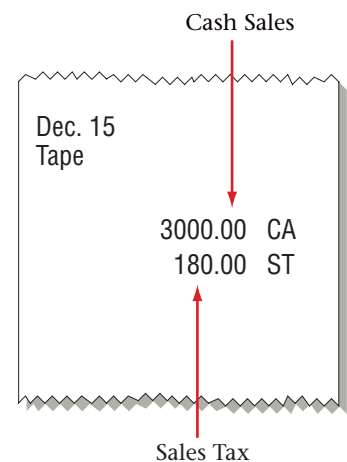


Figure 14-6
Cash Register Tape

ON YOUR MARK
ATHLETIC WEAR
 595 Leslie Street, Dallas, TX 75207



RECEIPT

No. 301

Dec. 5 20 --

RECEIVED FROM Casey Klein \$ 212.00

Two hundred twelve and ^{no}/₁₀₀ _____ DOLLARS

FOR On account

RECEIVED BY Michael Smith

Bankcard Sales

Many businesses accept bankcards. Unlike a store credit card, which is issued by a business and is used only at that business, a bankcard is issued by a bank and honored by many businesses. The most widely used bank credit cards in North America are VISA, MasterCard, and Discover.

Figure 14–7 Receipt for Cash Received from a Charge Customer

A debit card requires the entry of a personal identification number (PIN) on a keypad. The advantage of both cards to a store is that it does not have to wait to receive payment until the bank collects from the cardholder.

Both bank credit card and debit card transactions are usually recorded as though they are cash sales. However, some companies use a separate account for credit card sales.

Bankcard sales can be processed manually using multicopy bankcard slips or electronically. Either way, the total bankcard sales and related sales taxes are totaled and listed on the end-of-day cash register tape. **Figure 14–8** shows a cash register tape indicating the day’s bankcard sales and related sales tax. The cash register tape is the source document to record bankcard sales. Bankcard sales are included on the daily cash proof.

In a manual system, the business uses a special deposit slip to deposit the bankcard and credit card slips in its checking account. There is often a three- or four-day delay before the amount is credited to the checking account. This is due to the time it takes the store’s bank to collect the funds from the various banks that issued the customers’ bankcards. In an electronic system, bankcard and credit cards are usually transmitted in daily batches, and the amount may be credited to the checking account of the business on the same or the next business day. Deposits of bankcard sales slips or electronic batch transmittal records are treated the same as cash deposits.

As You READ

Key Point

Bankcard Account

The cardholder has an account with the bank, not with the store.

Other Cash Receipts

Merchants may also receive cash from infrequent transactions, such as a bank loan or the sale of assets other than merchandise. A receipt is prepared to indicate the source of the cash received.

Cash Discounts

Why Do Businesses Give Cash Discounts?

To encourage charge customers to pay promptly, some merchandisers offer a cash discount. A **cash discount**, or **sales discount**, is the amount a customer can deduct from the amount owed for purchased merchandise if payment is made within a certain time. A cash discount is an advantage to both the buyer, who receives merchandise at a reduced cost, and the seller, who receives cash quickly.

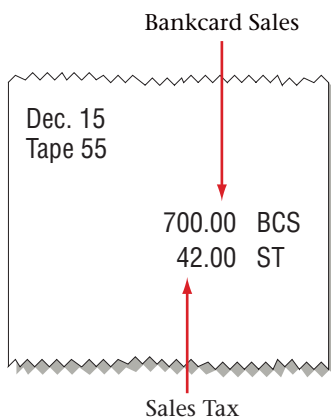


Figure 14–8 Bankcard Sales Tape



Businesses do not offer cash discounts to all customers. Some offer them only to business customers. On Your Mark offers a cash discount to charge customers who buy merchandise in large quantities. Its credit terms are 2/10, n/30. These terms mean that the customer can deduct 2% of the merchandise cost if it pays within 10 days of the sale date. Otherwise, the full (net) amount is due within 30 days. A cash discount decreases the amount the business actually receives from the sale. Let's look at an example.

On December 3 On Your Mark sold \$1,500 worth of merchandise on account to South Branch High School Athletics. It records the transaction as a credit to **Sales** and a debit to **Accounts Receivable** for \$1,500. If South Branch pays within 10 days (by December 13), it will receive a cash discount. On Your Mark will receive \$1,470, or the original price less the cash discount of \$30.

$$\begin{array}{l}
 1. \quad \frac{\text{Merchandise Sold}}{\$1,500} \times \frac{\text{Discount Rate}}{.02} = \frac{\text{Discount}}{\$30} \\
 2. \quad \frac{\text{Sales Slip Amount}}{\$1,500} - \frac{\text{Discount Amount}}{\$30} = \frac{\text{Amount Paid Within Discount Period}}{\$1,470}
 \end{array}$$

Cash in Bank is debited for \$1,470, the amount of cash actually received. **Accounts Receivable** is credited for the full \$1,500 because the customer paid for the merchandise and does not owe any more on the purchase. The difference between \$1,500 and \$1,470, \$30, is the discount amount. A cash discount is recorded only when the customer pays for the merchandise within the time stated. The discount is on the price of the merchandise *before* taxes.

A separate account is used to record cash discounts taken by customers. The \$30 discount is entered in the contra revenue account **Sales Discounts**, which reduces the revenue earned from sales. The normal balance of the **Sales** account is a credit. The normal balance of the **Sales Discounts** account is a debit.

Sales		Sales Discounts	
Debit – Decrease Side	Credit + Increase Side Normal Balance	Debit + Increase Side Normal Balance	Credit – Decrease Side

Recording Cash Receipts

How Do Businesses Record the Receipt of Cash?

This section discusses recording cash from the four sources.

Charge Customer Payments

Let's look at a payment from a charge customer.

As You READ

In Your Own Words

Cash Discount "South Branch High School received a cash discount." What does this mean?

As You READ

It's Not What It Seems

Cash Receipt In a sales transaction, a *cash receipt* is not a source document. In this sense the term *receipt* means something that is received.

Business Transaction

On December 5 On Your Mark received \$212 from Casey Klein to apply to her account, Receipt 301.

ON YOUR MARK ATHLETIC WEAR 595 Leslie Street, Dallas, TX 75207		RECEIPT No. 301
		Dec. 5 20 --
RECEIVED FROM	Casey Klein	\$ 212.00
Two hundred twelve and ⁰⁰ / ₁₀₀ ————— DOLLARS		
FOR On account		
RECEIVED BY		Michael Smith

ANALYSIS Identify

- The accounts affected are **Cash in Bank, Accounts Receivable (controlling), Accounts Receivable—Casey Klein (subsidiary).**
- Cash in Bank, Accounts Receivable (controlling), and Accounts Receivable—Casey Klein (subsidiary)** are asset accounts.
- Cash in Bank** increases by \$212. **Accounts Receivable (controlling)** and **Accounts Receivable—Casey Klein (subsidiary)** decrease by \$212.

Classify

+/-

DEBIT-CREDIT RULE

- Increases to asset accounts are recorded as debits. Debit **Cash in Bank** for \$212.
- Decreases to asset accounts are recorded as credits. Credit **Accounts Receivable (controlling)** for \$212. Also credit **Accounts Receivable—Casey Klein (subsidiary)** for \$212.

T ACCOUNTS

6.

Cash in Bank		Accounts Receivable	
Debit	Credit	Debit	Credit
+	-	+	-
212			212

Accounts Receivable Subsidiary Ledger Casey Klein	
Debit	Credit
+	-
	212

JOURNAL ENTRY

7.

GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
13	5 Cash in Bank		212.00		13
14	Accts. Rec./Casey Klein			212.00	14
15	Receipt 301				15
16					16

Cash Discount Payments

When a customer pays for a purchase on account within the discount period, the amount paid equals the invoice amount less the cash discount.



Business Transaction

On December 12 On Your Mark received \$1,470 from South Branch High School Athletics in payment of Sales Slip 51 for \$1,500 less the discount of \$30, Receipt 302.

ON YOUR MARK
ATHLETIC WEAR
595 Leslie Street, Dallas, TX 75207

RECEIPT

No. 302

Dec. 12 20 --

RECEIVED FROM South Branch H.S. Athletics \$ 1,470.00

One thousand four hundred seventy and ^{no}/₁₀₀ DOLLARS

FOR On account

RECEIVED BY Michael Smith

ANALYSIS Identify

Classify

+/-

- The accounts affected are **Cash in Bank**, **Sales Discounts**, **Accounts Receivable** (controlling), and **Accounts Receivable—South Branch High School Athletics** (subsidiary).
- Cash in Bank**, **Accounts Receivable** (controlling), and **Accounts Receivable—South Branch High School Athletics** (subsidiary) are asset accounts. **Sales Discounts** is a contra revenue account.
- Cash in Bank** is increased by \$1,470. **Sales Discounts** is increased by \$30. **Accounts Receivable** (controlling), and **Accounts Receivable—South Branch High School Athletics** (subsidiary) are decreased by \$1,500.

DEBIT-CREDIT RULE

- Increases to asset accounts are recorded as debits. Debit **Cash in Bank** for \$1,470. Increases to contra revenue accounts are recorded as debits. Debit **Sales Discounts** for \$30.
- Decreases to asset accounts are recorded as credits. Credit **Accounts Receivable** (controlling) for \$1,500. Also credit **Accounts Receivable—South Branch High School Athletics** (subsidiary) for \$1,500.

T ACCOUNTS



6.

Cash in Bank		Accounts Receivable	
Debit	Credit	Debit	Credit
+	-	+	-
1,470			1,500

Sales Discounts		Accounts Receivable Subsidiary Ledger South Branch High School Athletics	
Debit	Credit	Debit	Credit
+	-	+	-
30			1,500

JOURNAL ENTRY

7.

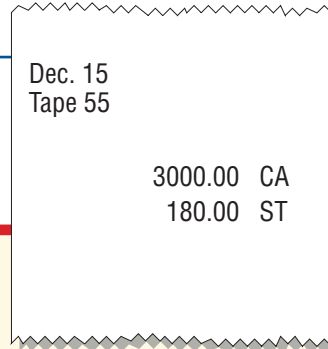
GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
12	Cash in Bank		1 470 00		16
	Sales Discounts		30 00		17
	Accts. Rec./South Br. H.S.			1 500 00	18
	Receipt 302				19
					20

Cash Sales

As a rule, businesses journalize cash sales and make cash deposits daily. Let's analyze transactions relating to sale of merchandise for cash on December 15.

Business Transaction

On December 15 On Your Mark had cash sales of \$3,000 and collected \$180 in sales taxes, Tape 55.



ANALYSIS Identify

Classify

+/-

- The accounts affected are **Cash in Bank**, **Sales**, and **Sales Taxes Payable**.
- Cash in Bank** is an asset account. **Sales** is a revenue account. **Sales Tax Payable** is a liability account.
- Cash in Bank** is increased by \$3,180. **Sales** is increased by \$3,000. **Sales Tax Payable** is increased by \$180.

DEBIT-CREDIT RULE

- Increases in asset accounts are recorded as debits. Debit **Cash in Bank** for \$3,180.
- Increases in revenue and liability accounts are recorded as credits. Credit **Sales** for \$3,000, and **Sales Tax Payable** for \$180.

T ACCOUNTS

6.

Cash in Bank		Sales	
Debit	Credit	Debit	Credit
+	-	-	+
3,180			3,000

Sales Tax Payable	
Debit	Credit
-	+
	180

JOURNAL ENTRY

7.

GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
15	Cash in Bank		3 180 00		20
	Sales			3 000 00	21
	Sales Tax Payable			180 00	22
	Tape 55				23



Bankcard Sales

Let's record sales paid by bankcard. Note the similarity to cash sales.

Business Transaction

Dec. 15
Tape 55

700.00 BCS
42.00 ST

On Your Mark had bankcard sales of \$700 and collected \$42 in related sales taxes on December 15, Tape 55.

ANALYSIS

Identify

Classify


+/-

1. The accounts affected are **Cash in Bank**, **Sales**, and **Sales Tax Payable**.
2. **Cash in Bank** is an asset account. **Sales** is a revenue account. **Sales Tax Payable** is a liability account.
3. **Cash in Bank** is increased by \$742. **Sales** is increased by \$700. **Sales Tax Payable** is increased by \$42.

DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit **Cash in Bank** for \$742.
5. Increases in revenue and liability accounts are recorded as credits. Credit **Sales** for \$700 and **Sales Tax Payable** for \$42.

T ACCOUNTS



6.

Cash in Bank		Sales	
Debit + 742	Credit -	Debit -	Credit + 700
		Sales Tax Payable	
		Debit -	Credit + 42

JOURNAL ENTRY

7.

GENERAL JOURNAL					PAGE <u>20</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
24	15 Cash in Bank		742.00		24
25	Sales			700.00	25
26	Sales Tax Payable			42.00	26
27	Tape 55				27

Other Cash Receipts

Occasionally a business receives cash from a transaction that does not involve the sale of merchandise. The **Sales** account is not used because the item is not a *merchandise* item.

Business Transaction

On December 16 On Your Mark received \$30 from Mandy Harris, an office employee. She purchased a calculator that the business was no longer using, Receipt 303.

ON YOUR MARK
ATHLETIC WEAR
595 Leslie Street, Dallas, TX 75207

RECEIPT
No. 303

Dec. 16 20 --
RECEIVED FROM Mandy Harris \$ 30.00
Thirty and ^{no}/₁₀₀ _____ DOLLARS
FOR calculator
RECEIVED BY Michael Smith

JOURNAL ENTRY



GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
28	16 Cash in Bank		30 00		28
29	Office Equipment			30 00	29
30	Receipt 303				30

Figure 14–9 shows the transactions discussed in this chapter.

GENERAL JOURNAL					PAGE 20
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1 20--					1
2 Dec. 1	Accts. Rec./Casey Klein	/	2 12 00		2
3	Sales			2 00 00	3
4	Sales Tax Payable			12 00	4
5	Sales Slip 50				5
6 3	Accts. Rec./South Branch H.S.	/	1 50 00		6
7	Sales			1 50 00	7
8	Sales Slip 51				8
9 4	Sales Returns and Allowances		1 50 00		9
10	Sales Tax Payable		9 00		10
11	Accts. Rec./Gabriel Ramos	/		1 59 00	11
12	Credit Memorandum 124				12
13 5	Cash in Bank	/	2 12 00		13
14	Accts. Rec./Casey Klein	/		2 12 00	14
15	Receipt 301				15
16 12	Cash in Bank	/	1 47 00		16
17	Sales Discounts		30 00		17
18	Accts. Rec./South Branch H.S.	/		1 50 00	18
19	Receipt 302				19
20 15	Cash in Bank	/	3 18 00		20
21	Sales			3 00 00	21
22	Sales Tax Payable			1 80 00	22
23	Tape 55				23
24 15	Cash in Bank	/	7 42 00		24
25	Sales			7 00 00	25
26	Sales Tax Payable			42 00	26
27	Tape 55				27
28 16	Cash in Bank	/	30 00		28
29	Office Equipment			30 00	29
30	Receipt 303				30

Figure 14–9 Sales and Cash Receipt Transactions

**AFTER
You READ**

Reinforce the Main Idea

Create a table similar to this one to analyze four different types of cash receipt transactions, the debit and credit parts of each type, and the source document for each.

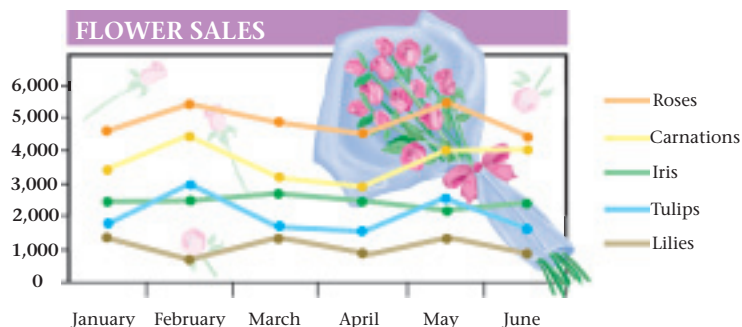
1. Cash Transaction	2. Account(s) Debited	3. Account(s) Credited	4. Source Document



Do the Math

This graph illustrates the sales of flowers throughout the year for Randy's Florist.

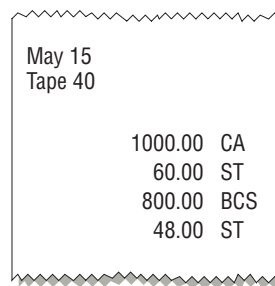
- The sale of tulips was highest in which month?
- Which type of flower sells at a steady rate, regardless of the month?



Problem 14-3 Analyzing a Source Document

As the accounting clerk for Super Cycle Shop, you record the business transactions. The store's manager hands you the source document shown here.

Instructions Analyze the source document and record the necessary entries on page 17 of the general journal.



Problem 14-4 Recording Cash Receipts

Commerce Technology, a computer equipment retailer, had the following selected transactions in March.

Instructions Record each transaction on page 4 of the general journal in your working papers.

Date	Transactions
Mar. 1	Sold one modem for \$130 plus \$10.40 sales tax, Sales Slip 49.
5	Sold one computer monitor to Kelly Wilson on account for \$300 plus \$24 sales tax, Sales Slip 55.
17	Bankcard sales totaled \$750 plus \$60 sales tax, Tape 65.



Key Concepts

1. A service business provides a service to the public for a fee. In contrast a merchandising business buys goods and sells them to customers for a profit.
2. Accounts used by merchandising businesses include **Merchandise Inventory**, **Sales**, **Sales Tax Payable**, **Sales Returns and Allowances**, **Sales Discounts**, the **Accounts Receivable** controlling account, and individual customer accounts.

The **Merchandise Inventory** account is an asset account used to record the value of the merchandise in stock.

Merchandise Inventory	
Debit + Increase Side Normal Balance	Credit - Decrease Side

The **Sales** account is a revenue account used to record the sale of merchandise.

Sales	
Debit - Decrease Side	Credit + Increase Side Normal Balance

Most states and some cities tax the retail sale of goods. Businesses collect sales tax and record it as a liability in the **Sales Tax Payable** account. Later the business sends a check to the state or city for the sales tax collected.

Sales Tax Payable	
Debit - Decrease Side	Credit + Increase Side Normal Balance

The **Sales Returns and Allowances** account is used to record the cash refund or the credit granted to charge customers for returned or damaged merchandise.

Sales Returns and Allowances	
Debit + Increase Side Normal Balance	Credit - Decrease Side

The **Sales Discounts** account is used to record the amount of any cash discount taken by charge customers.

Sales Discounts	
Debit + Increase Side Normal Balance	Credit - Decrease Side

Accounts Receivable is a controlling account. Its balance must equal the sum of the customer account balances in the accounts receivable subsidiary ledger.

3. A *retailer* is a business that sells goods to the final user. A *wholesaler* sells goods to retailers.
 4. The following summarizes the accounts involved in journalizing sales and cash receipts:

Cash sales:

<u>Debit</u>	<u>Credit</u>
Cash in Bank	Sales
	Sales Tax Payable

Sales on account:

<u>Debit</u>	<u>Credit</u>
Accounts Receivable— Customer's Name	Sales
	Sales Tax Payable

Payment for a sale on account:

<u>Debit</u>	<u>Credit</u>
Cash in Bank	Accounts Receivable—Customer's Name

Payment on account with a cash discount taken:

<u>Debit</u>	<u>Credit</u>
Cash in Bank	Accounts Receivable—Customer's Name
	Sales Discounts

Return of merchandise purchased on account:

<u>Debit</u>	<u>Credit</u>
Sales Returns and Allowances	Accounts Receivable—Customer's Name
Sales Tax Payable	

Return of merchandise purchased for cash:

<u>Debit</u>	<u>Credit</u>
Sales Returns and Allowances	Cash in Bank
Sales Tax Payable	

Key Terms

accounts receivable		credit cards	(p. 384)	sales allowance	(p. 388)
subsidiary ledger	(p. 385)	credit memorandum	(p. 388)	sales discount	(p. 394)
cash discount	(p. 394)	credit terms	(p. 385)	sales return	(p. 388)
cash receipt	(p. 393)	inventory	(p. 382)	sales slip	(p. 384)
cash sale	(p. 393)	merchandise	(p. 382)	sales tax	(p. 385)
charge customer	(p. 384)	retailer	(p. 380)	subsidiary ledger	(p. 385)
contra account	(p. 389)	sale on account	(p. 384)	wholesaler	(p. 380)
controlling account	(p. 386)	Sales	(p. 382)		



AFTER
YOU READ**Check Your Understanding**

1. **Service Business and Merchandising Business**
 - a. Contrast a service business and a merchandising business.
 - b. What are the two types of merchandising businesses?
2. **Sale of Merchandise**
 - a. What accounts are posted for a sale on account?
 - b. How does a merchandising business act as a collection agency for the state government?
3. **Retailer and Wholesaler**
 - a. Which of the following businesses collects sales tax from customers: a wholesaler, a retailer, or both?
 - b. What is the term for goods that a retailer buys from a wholesaler or a manufacturer to resell?
4. **Journalizing Sales and Cash Receipts**
 - a. Classify the following accounts: **Merchandise Inventory, Sales, Sales Returns and Allowances, Sales Discounts, and Sales Tax Payable.**
 - b. Which accounts are affected when a business receives a payment from a charge customer who has taken a cash discount?

Apply Key Terms

You have just hired Geoffrey Hillman to be the accounting clerk for the Hats Off Corporation, a merchandiser of hats, caps, and scarves. Geoffrey has worked as a payroll clerk, but not in sales or cash receipts jobs. To help him you have offered to make note cards with the definitions of the following terms. Provide an example of each term when possible.



accounts receivable
subsidiary ledger
cash discount
cash receipt
cash sale
charge customer
contra account
controlling account

credit cards
credit memorandum
credit terms
inventory
merchandise
retailer
sale on account
Sales

sales allowance
sales discount
sales return
sales slip
sales tax
subsidiary ledger
wholesaler

Sales and Cash Receipts

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Recording sales transactions	<ul style="list-style-type: none"> • Prepare general journal entries based on a sales slip or an invoice. • Post journal entries to the appropriate general ledger accounts. • Calculate new account balances. 	<ul style="list-style-type: none"> • Invoices can be created with the software and posted to the general ledger accounts at the same time. • New account balances are calculated for you.
Recording cash receipts transactions	<ul style="list-style-type: none"> • Prepare journal entries based on deposit slips, receipts, or cash register tapes. • Post journal entries to the appropriate general ledger accounts. • Calculate new account balances. 	<ul style="list-style-type: none"> • Deposits are recorded and posted to the general ledger using the cash receipts task item. • General ledger accounts are updated automatically.



Peachtree® Q & A

Peachtree Question	Answer
How do I record a sale on account?	<ol style="list-style-type: none"> 1. From the <i>Tasks</i> menu, select Sales/Invoicing. 2. Enter customer ID and invoice number. 3. Click on the Apply to Sales tab. 4. Enter details of the invoice and amount, and click Save.
How do I record a cash receipt from a customer on account?	<ol style="list-style-type: none"> 1. From the <i>Tasks</i> menu, select Receipts. 2. In the Cash Account list, select the bank account in which the receipt is to be deposited. 3. Select the Apply to Invoices tab. Then select the invoices being paid. 4. Click Save.



QuickBooks Q & A

QuickBooks Question	Answer
How do I record a sale on account?	<ol style="list-style-type: none"> 1. From the <i>Customers</i> menu, select Create Invoices. 2. Enter the customer's name, the date, and invoice number. 3. Enter the quantity and item code. QuickBooks will automatically fill in the description, price, and amount. 4. Click Save & Close.
How do I record a cash receipt from a customer on account?	<ol style="list-style-type: none"> 1. From the <i>Customers</i> menu, select Receive Payments. 2. Enter the customer's name, the date, and the amount received. 3. In the Applied to section, select the invoices being paid. 4. Deposit the money either directly into a bank account or group with other undeposited funds to deposit at a later date, and click Save & Close.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe
Working Papers

OR

Peachtree Complete
Accounting Software

OR

QuickBooks
Templates

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 14-5

1. Select the problem set for Sunset Surfwear (Prob. 14-5).
2. Rename the company and set the system date.
3. Enter all sales on account transactions using the **Sales/Invoicing** option in the **Tasks** menu.
4. Process all credit memorandums using the **Credit Memos** option.
5. Record all cash receipts transactions using the **Receipts** option.
6. Print a Sales Journal report and a Cash Receipts Journal report.
7. Proof your work.
8. Complete the Analyze activity.
9. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 14-5

1. Restore the Problem 14-5.QBB file.
2. Enter all sales on account using the **Create Invoice** options from the **Customers** menu.
3. Process all credit memorandums using the **Create Credit Memos/Refunds** option from the **Customers** menu.
4. Record all cash receipts using the **Receive Payments** option from the **Customers** menu.
5. Print a Journal report.
6. Proof your work.
7. Complete the Analyze activity.
8. Back up your work.

Problem 14-5 Recording Sales and Cash Receipts

Sunset Surfwear, a California-based merchandising store, had the following sales and cash receipt transactions for January. The partial chart of accounts for Sunset Surfwear follows.

General Ledger

101 Cash in Bank	401 Sales
115 Accounts Receivable	405 Sales Discounts
215 Sales Tax Payable	410 Sales Returns and Allowances

Accounts Receivable Subsidiary Ledger

ADA Adams, Martha	MOU Moulder, Nate
HAM Hamilton, Alex	WES Westwood High School Athletics
JUN1 Jun, Helen	

Instructions Record the following transactions on page 20 of the general journal.

Date	Transactions
Jan. 1	Sold \$300 in merchandise plus a sales tax of \$18 on account to Martha Adams, Sales Slip 777.
5	Sold \$1,500 in merchandise on account to Westwood High School Athletics, Sales Slip 778.
7	Received \$400 from Alex Hamilton on account, Receipt 345.
10	Issued Credit Memorandum 102 to Martha Adams for \$318 covering \$300 in returned merchandise plus \$18 sales tax.
15	Recorded cash sales of \$800 plus \$48 in sales tax, Tape 39.
15	Recorded bankcard sales of \$900 plus \$54 in sales tax, Tape 39.
20	Received \$1,500 from Westwood High School Athletics in payment of Sales Slip 778, Receipt 346.
25	Sold \$1,200 in merchandise plus sales tax of \$72 on account to Helen Jun, Sales Slip 779.
28	Granted a \$106 sales allowance to Helen Jun, which includes \$100 for damaged merchandise she kept and sales tax of \$6, Credit Memorandum 103.
30	Received \$500 from a charge customer, Nate Moulder, in payment of his \$500 account, Receipt 347.

Analyze

Calculate the sum of all the debits to the Sales Returns and Allowances account during January.

Problem 14-6 Posting Sales and Cash Receipts

The January transactions for InBeat CD Shop are recorded on page 15 of the general journal.

Instructions Post the transactions to the general ledger and subsidiary ledger in your working papers.

GENERAL JOURNAL					PAGE	15
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Jan. 1	Cash in Bank		3 8 8 00		2
3		Sales Discounts		1 2 00		3
4		Accts. Rec./Alicia Alvarez	/		4 0 0 00	4
5		Receipt 92				5
6	4	Accts. Rec./Dena Greenburg	/	7 3 5 00		6
7		Sales			7 0 0 00	7
8		Sales Tax Payable			3 5 00	8
9		Sales Slip 60				9
10	6	Cash in Bank		2 1 0 0 00		10
11		Sales			2 0 0 0 00	11
12		Sales Tax Payable			1 0 0 00	12
13		Tape 32				13
14	6	Cash in Bank		3 1 5 0 00		14
15		Sales			3 0 0 0 00	15
16		Sales Tax Payable			1 5 0 00	16
17		Tape 32				17
18	8	Sales Returns and Allowances		7 0 0 00		18
19		Sales Tax Payable		3 5 00		19
20		Accts. Rec./Dena Greenburg	/		7 3 5 00	20
21		Credit Memorandum 15				21
22	10	Cash in Bank		1 3 5 8 00		22
23		Sales Discounts		4 2 00		23
24		Accts. Rec./Joe Montoya	/		1 4 0 0 00	24
25		Receipt 93				25
26	15	Accts. Rec./Alicia Alvarez	/	4 2 0 00		26
27		Sales			4 0 0 00	27
28		Sales Tax Payable			2 0 00	28
29		Sales Slip 61				29
30	27	Cash in Bank		1 3 6 5 00		30
31		Accts. Rec./Chelsea Wright	/		1 3 6 5 00	31
32		Receipt 94				32
33						33

Analyze

Identify the customer with the highest balance at the end of January.

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SMART GUIDE

Step-by-Step Instructions: Problem 14-6

1. Select the problem set for InBeat CD Shop (Prob. 14-6).
2. Rename the company and set the system date.
3. Choose **General Ledger** from the **Reports** menu.
4. Print a General Ledger (GL) report.
5. Select the Accounts Receivable report area.
6. From the list on the right, select and print the Customer Ledgers report.
7. Compare each GL entry in your working papers to the GL report and Customer Ledgers report.
8. Use the GL report to complete the Analyze activity.
9. End the session.

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SMART GUIDE

Step-by-Step Instructions: Problem 14-7

1. Select the problem set for Shutterbug Cameras (Prob. 14-7).
2. Rename the company and set the system date.
3. Enter all sales on account transactions using the **Sales/Invoicing** option.
4. Process all credit memorandums using the **Credit Memos** option.
5. Record all cash receipts using the **Receipts** option.
6. Print a Sales Journal and a Cash Receipts Journal report.
7. Proof your work. Make any needed corrections.
8. Print a GL report to complete the Analyze activity.
9. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 14-7

1. Restore the Problem 14-7.QBB file.
2. Enter all sales on account using the **Create Invoice** option.
3. Process all credit memorandums using the **Create Credit Memos/Refunds** option.
4. Record all cash receipts using the **Receive Payments** option.
5. Print a Journal report.
6. Proof your work.
7. Print a General Ledger report to complete the Analyze activity.
8. Back up your work.

Problem 14-7 Recording Sales and Cash Receipts

Shutterbug Cameras had the following transactions during January. The partial chart of accounts for Shutterbug is shown here.

General Ledger

101 Cash in Bank	401 Sales
115 Accounts Receivable	405 Sales Discounts
130 Supplies	410 Sales Returns and Allowances
215 Sales Tax Payable	

Accounts Receivable Subsidiary Ledger

DIA Diaz, Arturo	NAK Nakata, Yoko
FAS FastForward Productions	SUL Sullivan, Heather

Instructions Record the transactions on page 5 of the general journal in your working papers.

Date	Transactions
Jan. 1	Sold merchandise on account to Yoko Nakata for \$250 plus a 4% sales tax of \$10, Sales Slip 90.
3	Received \$50 in cash from the sale of supplies to Betty's Boutique, Receipt 201.
7	Sold \$300 in merchandise plus a sales tax of \$12 to Arturo Diaz on account, Sales Slip 91.
12	Sold on account \$1,500 in merchandise plus a sales tax of \$60 to FastForward Productions, credit terms 2/10, n/30, Sales Slip 92.
13	Issued Credit Memorandum 20 for \$312 to Arturo Diaz, which includes \$300 in merchandise returned by him plus sales tax of \$12.
14	Received a check for \$260 from Yoko Nakata in full payment of his account, Receipt 202.
15	Cash sales amounted to \$2,500 plus \$100 in sales tax, Tape 75.
15	Bankcard sales were \$3,000 plus \$120 in sales tax, Tape 75.
21	Received a check for \$1,530 from FastForward Productions in payment of their \$1,560 account balance less a cash discount of \$30, Receipt 203.
28	Granted Heather Sullivan a \$104 allowance for damaged merchandise of \$100 plus a 4% sales tax of \$4, Credit Memorandum 21.

Analyze

Compute the net amount of sales tax for the month based on these transactions.

Problem 14–8 Recording Sales and Cash Receipt Transactions

River's Edge Canoe & Kayak is a merchandising business in Wyoming. The partial chart of accounts follows:

General Ledger

101 Cash in Bank	401 Sales
115 Accounts Receivable	405 Sales Discounts
135 Supplies	410 Sales Returns and Allowances
215 Sales Tax Payable	

Accounts Receivable Subsidiary Ledger

ADV Adventure River Tours	WILD Wildwood Resorts
DRA Drake, Paul	WU Wu, Kim

Instructions Record January transactions on page 10 of the general journal.

Date	Transactions
Jan. 1	Sold \$2,000 in merchandise on account to Wildwood Resorts, a tax-exempt agency, credit terms 3/15, n/30, Sales Slip 103.
5	Granted Wildwood Resorts a \$150 credit allowance for defective merchandise, Credit Memorandum 33.
8	Received \$485 from Adventure River Tours for \$500 in merchandise sold to it on Dec. 27 less a 3% cash discount of \$15, Receipt 96.
10	Sold \$500 in merchandise plus a 5% sales tax of \$25 to Paul Drake on account, credit terms 3/15, n/30, Sales Slip 104.
12	Received a check for \$1,794.50 from Wildwood Resorts on account (\$1,850 less a 3% cash discount of \$55.50), Receipt 97.
15	Cash sales were \$3,500 plus sales tax of \$175, Tape 22.
15	Bankcard sales amounted to \$4,000 plus sales tax of \$200, Tape 22.
20	Sold to Adventure River Tours \$75 in supplies. Cash received recorded on Receipt 98.
22	Granted Kim Wu \$63 credit for \$60 in damaged merchandise sold to her last month and 5% sales tax of \$3 on the merchandise, Credit Memorandum 34.
25	Paul Drake sent a check for \$510 in payment of his account. The account balance was \$525 (\$500 in merchandise and \$25 sales tax). He took a 3% cash discount of \$15 on the merchandise, Receipt 99.

Analyze

Compute the amount of cash that would have been collected in January if customers had not taken any cash discounts.

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SMART GUIDE

Step-by-Step Instructions: Problem 14–8

1. Select the problem set for River's Edge (Prob. 14–8).
2. Rename the company and set the system date.
3. Enter all sales on account transactions using the **Sales/ Invoicing** option.
4. Process all credit memorandums using the **Credit Memos** option.
5. Record all cash receipts using the **Receipts** option.
6. Print a Sales Journal and Cash Receipts journal report.
7. Proof your work.
8. Print a GL report to complete the Analyze activity.
9. End the session.



Problem 14–9 Recording and Posting Sales and Cash Receipts

SOURCE DOCUMENT PROBLEM

Problem 14–9

Use the source documents in your working papers to complete this problem.

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SMART GUIDE

Step-by-Step Instructions: Problem 14–9

1. Select the problem set for Buzz Newsstand (Prob. 14–9).
2. Rename the company and set the system date.
3. Enter all sales on account transactions.
4. Process all credit memorandums.
5. Record all cash receipts.
6. Print the following reports: Sales Journal, Cash Receipts Journal, Customer Ledgers, and General Ledger.
7. Proof your work.
8. Use the GL report to complete the Analyze activity.
9. End the session.

Buzz Newsstand had the following transactions for the month of January.

General Ledger

101 Cash in Bank	401 Sales
115 Accounts Receivable	405 Sales Discounts
135 Supplies	410 Sales Returns and Allowances
215 Sales Tax Payable	

Accounts Receivable Subsidiary Ledger

ADK Adkins, Lee	NAD Nadal, Saba
JAV Java Shops Inc.	ROL Rolling Hills Pharmacies

Instructions

1. Record the transactions on page 9 of the general journal.
2. Post each transaction to the appropriate general ledger and accounts receivable subsidiary ledger accounts. A partial general ledger and accounts receivable subsidiary ledger are included in the working papers. The current account balances are recorded in the accounts.

Date	Transactions
Jan. 1	Lee Adkins returned \$200 in damaged merchandise purchased on account last month, issued Credit Memorandum 10 for \$212 (\$200 in merchandise plus 6% sales tax of \$12).
3	Received a check from Rolling Hills Pharmacies for \$2,256.62 in payment of its account of \$2,300 less a 2% cash discount of \$43.38, Receipt 75.
7	Gave credit to Saba Nadal for the return of \$300 in merchandise sold to him on account, plus sales tax of \$18. Issued Credit Memorandum 11 for \$318.
10	Java Shops Inc. sent a check for \$1471.70 in payment of its account of \$1,500 less a 2% cash discount of \$28.30, Receipt 76.
15	Cash sales were \$2,500 plus \$150 in sales tax, Tape 25.
15	Bankcard sales were \$2,000 plus \$120 in sales tax, Tape 25.
20	Janson Lee, a neighboring store, needed supplies urgently. Sold it \$40 in supplies and received cash from the sale, Receipt 77.
25	Received a check for \$636 from Lee Adkins on account, Receipt 78.
31	Sold \$3,000 in merchandise plus sales tax of \$180 on account to Rolling Hills Pharmacies, Sales Slip 114.

Analyze

Calculate the net sales for January, which is Sales less Sales Discounts and Sales Returns and Allowances.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. If the merchandise is purchased for \$1,000 on August 1, with terms of sale of 2/10, n/30, the amount due to the vendor on August 9 is
 - a. \$1,000.
 - b. \$990.
 - c. \$980.
 - d. \$20.
2. The journal entry for a cash receipt on account is
 - a. debit Cash; credit Accounts Receivable.
 - b. debit Cash; credit Accounts Payable.
 - c. debit Accounts Payable; credit Cash.
 - d. debit Accounts Payable; credit Accounts Receivable.
3. When a customer is given a price reduction on an item (for example, a damaged item), the bookkeeper will use which one of the following accounts?
 - a. Purchase Allowance
 - b. Purchase Discount
 - c. Sales Discount
 - d. Sales Allowance
4. To decrease the Sales Returns and Allowances account, the bookkeeper will
 - a. credit the account.
 - b. debit the account.
 - c. both debit and credit the account.
 - d. use the Purchase Returns and Allowances account.



Business Professionals of America

MULTIPLE CHOICE

5. When bankcard sales are entered in the general journal, what account is debited?
 - a. Bankcard Sales
 - b. Cash
 - c. Bankcard Sales Expense
 - d. Sales

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 14**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology


**CRITICAL
Thinking**
Accounting for a Merchandising Business

1. Define *merchandising business*.
2. Explain how a purchase made with a store credit card is different from a purchase made with a bank credit card.
3. A sales slip shows that \$1,500 in merchandise has been sold and the sales tax rate is 4%. Compute the cash receipt.
4. How are a bank credit card and a debit card similar? How are they different?
5. Your accounting supervisor has instructed you to verify the accuracy of the day's bank credit card sales and then deposit that amount into the business checking account. Summarize what you need to do.
6. Evaluate the practice of using a contra account to record sales returns and allowances.


**CASE
STUDY**
Merchandising Business: Videos

Felix Andersen is a film buff. His business, Video Source, specializes in foreign titles and classic film collections. Video Source uses a manual accounting system. Sales are recorded from cash register tapes at the end of the day. Felix is thinking of updating to an electronic cash register that records sales information directly into a computerized accounting system.

INSTRUCTIONS

1. Describe the benefits of converting to an electronic system.
2. Explain how an analysis of sales would help when making decisions about what types of videos to stock.


**a matter of
ETHICS**
Confidentiality

Imagine that you work as an accounting clerk for a fast-food franchise like Taco Bell. You have access to all of the accounting records for the business.

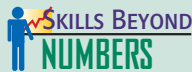
A friend of yours has promised to hire you as an accountant when he opens his own Mexican food restaurant. He has asked you to share information about Taco Bell's sales and expenses.

ETHICAL DECISION MAKING

- | | |
|----------------------------------|--|
| 1. What are the ethical issues? | 4. How do the alternatives affect the parties? |
| 2. What are the alternatives? | 5. What would you do? |
| 3. Who are the affected parties? | |


**COMMUNICATING
ACCOUNTING**
Presenting Your Case

You and your best friend, Inga Swenson, graduated from a prestigious art school. You have a degree in art history and business management; Inga has a degree in fine art. Inga is an award-winning weaver and creates wall hangings that are extremely popular in your community. Together you decide to form a business partnership. You want to open a retail store. Inga wants to sell directly to the customers at fairs and art shows. Draft a report to Inga that explains why selling art through a retail store is more profitable than seasonal shows and fairs.



Allocating Resources

When you operate a business, you must constantly evaluate the effective use of resources, including time, money, materials, space, and staff. You own Retro Café, a late-night spot for young professionals and college students, open 11 a.m. until midnight. Your review of the month's financial reports reveals that the café is showing a net loss for the third month in a row.

INSTRUCTIONS

Design a form to gather opinions on the menu, staffing, and operating hours. What are the staffing implications if most sales occur after 3 p.m.?



International Product Life Cycle

The *international product life cycle (IPLC)* theory explains how a product that is an export eventually becomes an import. At first sales are strong when a U.S. company sells to both U.S. and foreign consumers. Then foreign producers make the item at a lower cost, and U.S. exports decline. Finally foreign competitors undercut U.S. prices, and consumers buy the less expensive imported product.

INSTRUCTIONS Use a product such as a DVD player to illustrate the IPLC.



Your Budget

Businesses plan ahead, estimating their revenue and expenses. It is important for you to plan ahead and spend your money wisely. This is accomplished by developing a budget, which is a plan for spending money.

PERSONAL FINANCE ACTIVITY Develop a weekly budget for a person your age. Create two columns on a sheet of paper. Label one *Income* and the other *Expenses*. List all sources of income for the week in the first column and the planned spending in the second.

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 14**.



Dear Fellow Stockholders Letter

Public corporations publish annual reports giving financial and other information they want to make public. One item in most annual reports is a letter from the company's top executive officer.

INSTRUCTIONS

Use the PETSMART *Dear Fellow Stockholders* letter in the PETSMART annual report in Appendix F to answer these questions:

1. Name three measures of PETSMART's 2003 financial results.
2. Would this letter influence your decision to purchase PETSMART stock? Why or why not?



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