

Name: _____

ACCOUNTING I

Chapter 10 Reading Guide



10-1 ACCOUNTING FOR SALES

Please answer the following questions as you read Chapter 10, pages 282-317.

1. Purchases and sales of merchandise are two major activities of a merchandising business. The amount a business received from the sale of an item of merchandise is called the selling price. What is markup? What must markup cover?
 - Markup is the amount a business adds to the cost of merchandise to establish the selling price.
 - Markup must cover the expenses of the business as well as the cost of the merchandise to make a profit.
2. What is the Realization of Revenue concept?
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3. What is an Accounts Receivable Ledger? What is the name of the controlling account for the AR Ledger?
 - An Accounts Receivable Ledger is a subsidiary ledger containing all accounts for charge customers.
 - The controlling account is the Accounts Receivable account in the General ledger.
4. What type of account is Accounts Receivable, and what is the normal balance side of the account?
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5. Why does the Accounts Receivable Subsidiary Ledger form only have a Debit Balance column?
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6. A sales tax is a tax on a sale of merchandise or services. How are sales tax rates usually stated?
 - Sales tax rates are stated as a percentage of sales.
7. A state government can choose to exempt from sales taxes some types of merchandise. Businesses must file reports and pay the sales tax collected from customers. Which account is used to record the sales tax collected? What type of account is it and what is the normal balance of this account?
 - Sales Tax Payable.
 - It is a liability account with a normal credit balance until it is paid to the government.
8. A sales journal is a special journal used to record only and all sales of merchandise on account transactions. What are the names of the special amount columns in a sales journal?
 - Accounts Receivable Debit, Sales Credit, and Sales Tax Payable Credit.
9. The source document used for recording sales on account is called a Sales Invoice is also known as a Sales Ticket or a Sales Slip. Using the sales invoice as a source document is an application of which accounting concept?
 - Objective Evidence

10. If your company sells merchandise on account to Lenny Stanford, 1,000.00, plus sales tax, which accounts and amounts are included in the entry in the Sales Journal?
- Lenny Stanford's account would be an Accounts Receivable Debit for 1,060.00, Sales would be credited for 1,000.00, and Sales Tax Payable would be credited for 60.00.

10-2 POSTING FROM A SALES JOURNAL

11. What is the only significant difference between the accounts payable ledger and the accounts receivable ledger?
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12. Which accounts and amounts in a Sales Journal are posted individually?
- Every Accounts Receivable account listed in the Account Debited column of the Sales journal and the related amount listed in the Accounts Receivable Debit column must be posted individually.
13. To which three accounts are the column totals posted to? (Please note if they are a debit or credit too.)
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14. What is the last step of the posting process when posting column totals?
- Return to the Sales journal and write the general ledger account number in parenthesis below each special amount column total.

10-3 ACCOUNTING FOR CASH AND CREDIT CARD SALES

15. A cash sale is a sale in which the customer pays for the total amount of the sale at the time of the transaction. If a customer pays with a debit card, credit card or a check, it that considered a cash sale?
- Yes.
16. Using UPC Codes, POS terminals are often used to support a perpetual inventory system by maintaining an up-to-date quantity of all merchandise on hand. What is a point-of-sale (POS) Terminal? A POS can print a report of all sales which also becomes a source document for recording cash sales transactions. What is the name of this summary of all cash and credit card sales of a POS terminal and what is another name for this report?
- A POS terminal is a specialized computer used to collect, store, and report all the information about a sales transaction.
 - Terminal Summary report, Z tape
17. A report of credit card sales produced by a point-of-sale terminal is a called a batch report. It can be detailed or a summary. One journal transaction is used to record cash, credit card, and debit card totals listed on a terminal summary. What is the process of preparing a batch report from a POS terminal?
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18. What is a Cash Receipts Journal used for?
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19. What is a sales discount? What happens when a sales discount is taken?
- A sales discount is a cash discount taken by the customer to encourage early payment.
 - When a sales discount is taken, the customer pays less than the invoice amount previously recorded in Accounts Receivable. However, the credit to Accounts Receivable is equal to the original invoice amount.

20. What is placed in the Account Title column of the Cash Receipts journal when a cash sale is recorded?
- A checkmark
21. Which three special amount columns are used to record a cash receipt on account with a sales discount?
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22. Sales Discount is a contra account to which account? What is the normal balance side of the Sales Discount account?
- Sales
 - Sales Discount has a normal debit balance
23. Please explain the credit terms of 2/10, n/30. How is the sales discount calculated?
- If a customer pays within ten days, a 2% cash discount is extended. If the discount is not taken, the net amount is due in 30 days.
 - You multiply the original sales invoice amount by the sales discount rate.

10-4 POSTING FROM A CASH RECEIPTS JOURNAL

24. Businesses should post sales on account transactions to the accounts receivable subsidiary ledger frequently to ensure that customer accounts have up-to-date balances. Which entries in a Cash Receipts Journal are posted to an Accounts Receivable Ledger?
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25. How is the equality of debits and credits of the Cash Receipts Journal proved? What do the double ruled lines indicate?
- Add up the debit column totals, and then add up the credit column totals. If the numbers are equal, your work is accurate.
 - The lines indicate that your totals are accurate.
26. How is cash proved at the end of the month?
- Take cash on hand at the beginning of the month, add total cash received during the month, then subtract the total cash paid during the month to get the cash balance on hand at the end of the month. If this equals the checkbook balance on the next unused check stub, your work is accurate.
27. The general debit and credit column totals of a cash receipts journal are not posted. Which special amount column totals of the Cash Receipts journal are posted? To which ledger are they posted?
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28. How is the accuracy of the Accounts Receivable ledger proven?
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