Subsidiary Ledgers and Special Journals

study objectives

After studying this appendix, you should be able to:

1. Describe the nature and purpose of a subsidiary ledger.
2. Explain how special journals are used in journalizing.
3. Indicate how a multi-column journal is posted.

section one

Expanding the Ledger—Subsidiary Ledgers

Nature and Purpose of Subsidiary Ledgers

Imagine a business that has several thousand charge (credit) customers and shows the transactions with these customers in only one general ledger account—Accounts Receivable. It would be virtually impossible to determine the balance owed by an individual customer at any specific time. Similarly, the amount payable to one creditor would be difficult to locate quickly from a single Accounts Payable account in the general ledger.

Instead, companies use subsidiary ledgers to keep track of individual balances. A subsidiary ledger is a group of accounts with a common characteristic (for example, all accounts receivable). The subsidiary ledger frees the general ledger from the details of individual balances. A subsidiary ledger is an addition to, and an expansion of, the general ledger.

Two common subsidiary ledgers are:

1. The accounts receivable (or customers’) subsidiary ledger, which collects transaction data of individual customers.
2. The accounts payable (or creditors’) subsidiary ledger, which collects transaction data of individual creditors.

In each of these subsidiary ledgers, individual accounts are usually arranged in alphabetical order.

The detailed data from a subsidiary ledger are summarized in a general ledger account. For example, the detailed data from the accounts receivable subsidiary ledger are summarized in Accounts Receivable in the general ledger. The general ledger account that summarizes subsidiary ledger data is called a control account. An overview of the relationship of subsidiary ledgers to the general ledger is shown in Illustration E-1 (next page). The general ledger control accounts and subsidiary ledger accounts are shown in green color. Note that cash and stockholders’ equity in this illustration are not control accounts because there are no subsidiary ledger accounts related to these accounts.
Each general ledger control account balance must equal the composite balance of the individual accounts in the related subsidiary ledger at the end of an accounting period. For example, the balance in Accounts Payable in Illustration E-1 must equal the total of the subsidiary balances of Creditors X + Y + Z.

**SUBSIDIARY LEDGER EXAMPLE**

An example of a control account and subsidiary ledger for Larson Enterprises is provided in Illustration E-2. (The explanation column in these accounts is not shown in this and subsequent illustrations due to space considerations.)

The example is based on the transactions listed below.
The total debits ($12,000) and credits ($8,000) in Accounts Receivable in the general ledger are reconcilable to the detailed debits and credits in the subsidiary accounts. Also, the balance of $4,000 in the control account agrees with the total of the balances in the individual accounts (Aaron Co. $2,000 + Branden Inc. $0 + Caron Co. $2,000) in the subsidiary ledger.

As shown, postings are made monthly to the control accounts in the general ledger. This practice allows monthly financial statements to be prepared. Postings to the individual accounts in the subsidiary ledger are made daily. Daily posting ensures that account information is current. This enables the company to monitor credit limits, bill customers, and answer inquiries from customers about their account balances.

ADVANTAGES OF SUBSIDIARY LEDGERS

Subsidiary ledgers have several advantages. They:

1. **Show transactions affecting one customer or one creditor in a single account**, thus providing up-to-date information on specific account balances.

2. **Free the general ledger of excessive details**. As a result, a trial balance of the general ledger does not contain vast numbers of individual account balances.

3. **Help locate errors in individual accounts** by reducing the number of accounts in one ledger and by using control accounts.

4. **Make possible a division of labor** in posting. One employee can post to the general ledger while someone else posts to the subsidiary ledgers.

Expanding the Journal—Special Journals

So far you have learned to journalize transactions in a two-column general journal and post each entry to the general ledger. This procedure is satisfactory in only the very smallest companies. To expedite journalizing and posting, most companies use special journals in addition to the general journal.

A special journal is used to record similar types of transactions. Examples would be all sales of merchandise on account, or all cash receipts. The special journals a company uses depends largely on the types of transactions that occur frequently. Most merchandising enterprises use the journals shown in Illustration E-4 to record transactions daily.

<table>
<thead>
<tr>
<th>Sales Journal</th>
<th>Cash Receipts Journal</th>
<th>Purchases Journal</th>
<th>Cash Payments Journal</th>
<th>General Journal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Used for:</strong></td>
<td><strong>Used for:</strong></td>
<td><strong>Used for:</strong></td>
<td><strong>Used for:</strong></td>
<td><strong>Used for:</strong></td>
</tr>
<tr>
<td>All sales of</td>
<td>All cash received</td>
<td>All purchases</td>
<td>All cash paid</td>
<td>Transactions</td>
</tr>
<tr>
<td>merchandise</td>
<td>(including cash sales)</td>
<td>of merchandise</td>
<td>(including cash</td>
<td>that cannot</td>
</tr>
<tr>
<td>on account</td>
<td></td>
<td>on account</td>
<td>purchases)</td>
<td>be entered</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>in a special</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>journal,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>including</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>correcting,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>adjusting, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>closing entries</td>
</tr>
</tbody>
</table>
If a transaction cannot be recorded in a special journal, it is recorded in the general journal. For example, if you had special journals only for the four types of transactions shown in Illustration E-4, purchase returns and allowances would be recorded in the general journal. So would sales returns and allowances. Similarly, correcting, adjusting, and closing entries are recorded in the general journal. Other types of special journals may sometimes be used in some situations. For example, when sales returns and allowances are frequent, special journals may be used to record these transactions.

Special journals permit greater division of labor because several people can record entries in different journals at the same time. For example, one employee may journalize all cash receipts, and another may journalize all credit sales. Also, the use of special journals reduces the time needed to complete the posting process. With special journals, some accounts may be posted monthly, instead of daily, as will be illustrated later in the chapter.

**Sales Journal**

The sales journal is used to record sales of merchandise on account. Cash sales of merchandise are entered in the cash receipts journal. Credit sales of assets other than merchandise are entered in the general journal.

**JOURNALIZING CREDIT SALES**

Karns Wholesale Supply uses a perpetual inventory system. Under this system, each entry in the sales journal results in one entry at selling price—a debit to Accounts Receivable (a control account) and a credit of equal amount to Sales—and another entry at cost. The entry at cost is a debit to Cost of Goods Sold and a credit of equal amount to Merchandise Inventory (a control account). The sales journal for Karns Wholesale Supply is shown in Illustration E-5. (It uses assumed credit sales transactions for sales invoices 101–107.) A sales journal with two amount columns, like that in Illustration E-5, shows a transaction at both selling price and cost on a single line. The reference (Ref.) column is not used in journalizing. It is used in posting the sales journal, as explained in the next section. Also, note that, unlike the general journal, an explanation is not required for each entry in a special journal. Finally, note that each invoice is prenum-bered to ensure that all invoices are journalized.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Debited</th>
<th>Invoice No.</th>
<th>Ref.</th>
<th>Accts. Receivable Dr. Sales Cr.</th>
<th>Cost of Goods Sold Dr. Merchandise Inventory Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 3</td>
<td>Abbot Sisters</td>
<td>101</td>
<td></td>
<td>10,600</td>
<td>6,360</td>
</tr>
<tr>
<td></td>
<td>Babson Co.</td>
<td>102</td>
<td></td>
<td>11,350</td>
<td>7,370</td>
</tr>
<tr>
<td>14</td>
<td>Carson Bros.</td>
<td>103</td>
<td></td>
<td>7,800</td>
<td>5,070</td>
</tr>
<tr>
<td>19</td>
<td>Deli Co.</td>
<td>104</td>
<td></td>
<td>9,300</td>
<td>6,510</td>
</tr>
<tr>
<td>21</td>
<td>Abbot Sisters</td>
<td>105</td>
<td></td>
<td>15,400</td>
<td>10,780</td>
</tr>
<tr>
<td>24</td>
<td>Deli Co.</td>
<td>106</td>
<td></td>
<td>21,210</td>
<td>15,900</td>
</tr>
<tr>
<td>27</td>
<td>Babson Co.</td>
<td>107</td>
<td></td>
<td>90,230</td>
<td>62,190</td>
</tr>
</tbody>
</table>
POSTING THE SALES JOURNAL

Postings from the sales journal are made daily to the individual accounts receivable in the subsidiary ledger. Posting to the general ledger is made monthly. Illustration E-6 shows both the daily and monthly postings.

**Illustration E-6**  Posting the sales journal

<table>
<thead>
<tr>
<th>Karns Wholesale Supply</th>
<th>SALES JOURNAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Account Debited</td>
</tr>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>May 3</td>
<td>Abbot Sisters</td>
</tr>
<tr>
<td>7</td>
<td>Babson Co.</td>
</tr>
<tr>
<td>14</td>
<td>Carson Bros.</td>
</tr>
<tr>
<td>19</td>
<td>Deli Co.</td>
</tr>
<tr>
<td>21</td>
<td>Abbot Sisters</td>
</tr>
<tr>
<td>24</td>
<td>Deli Co.</td>
</tr>
<tr>
<td>27</td>
<td>Babson Co.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Individual amounts are posted daily to the subsidiary ledger.

**ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER**

<table>
<thead>
<tr>
<th>Account Debit</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbot Sisters</td>
<td>S1</td>
<td>10,600</td>
<td>10,600</td>
</tr>
<tr>
<td>Babson Co.</td>
<td>S1</td>
<td>15,400</td>
<td>26,000</td>
</tr>
<tr>
<td>Carson Bros.</td>
<td>S1</td>
<td>7,800</td>
<td>7,800</td>
</tr>
<tr>
<td>Deli Co.</td>
<td>S1</td>
<td>9,300</td>
<td>30,510</td>
</tr>
</tbody>
</table>

The subsidiary ledger is separate from the general ledger. Accounts Receivable is a control account.

**ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER**

1The normal balance for Merchandise Inventory is a debit. But, because of the sequence in which we have posted the special journals, with the sales journals first, the credits to Merchandise Inventory are posted before the debits. This posting sequence explains the credit balance, in Merchandise Inventory, which exists only until the other journals are posted.

A check mark (✓) is inserted in the reference posting column to indicate that the daily posting to the customer’s account has been made. A check mark (✓) is used in this illustration because the subsidiary ledger accounts are not numbered. At the end of the month, the column totals of the sales journal are posted to the general ledger. Here, the column totals are a debit of $90,230 to Accounts Receivable.
Receivable (account No. 112), a credit of $90,230 to Sales (account No. 401), a debit of $62,190 to Cost of Goods Sold (account No. 505), and a credit of $62,190 to Merchandise Inventory (account No. 120). Insertion of the account numbers below the column total indicates that the postings have been made. In both the general ledger and subsidiary ledger accounts, the reference S1 indicates that the posting came from page 1 of the sales journal.

PROVING THE LEDGERS

The next step is to “prove” the ledgers. To do so, we must determine two things: (1) The total of the general ledger debit balances must equal the total of the general ledger credit balances. (2) The sum of the subsidiary ledger balances must equal the balance in the control account. The proof of the postings from the sales journal to the general and subsidiary ledger is shown in Illustration E-7.

ADVANTAGES OF THE SALES JOURNAL

The use of a special journal to record sales on account has a number of advantages. First, the one-line entry for each sales transaction saves time. In the sales journal, it is not necessary to write out the four account titles for each transaction. Second, only totals, rather than individual entries, are posted to the general ledger. This saves posting time and reduces the possibilities of errors in posting. Finally, a division of labor results, because one individual can take responsibility for the sales journal.

Cash Receipts Journal

All receipts of cash are recorded in the cash receipts journal. The most common types of cash receipts are cash sales of merchandise and collections of accounts receivable. Many other possibilities exist, such as receipt of money from bank loans and cash proceeds from disposal of equipment. A one- or two-column cash receipts journal would not have space enough for all possible cash receipt transactions. Therefore, a multiple-column cash receipts journal is used.

Generally, a cash receipts journal includes the following columns: debit columns for cash and sales discounts; and credit columns for accounts receivable, sales, and “other” accounts. The Other Accounts category is used when the cash receipt does not involve a cash sale or a collection of accounts receivable. Under a perpetual inventory system, each sales entry is accompanied by another entry that debits Cost of Goods Sold and credits Merchandise Inventory for the cost of the merchandise sold. This entry may be recorded separately. A six-column cash receipts journal is shown in Illustration E-8.
Accounts Receivable is a control account.

The subsidiary ledger is separate from the general ledger.

Individual amounts are posted daily to the subsidiary ledger.

Totals are posted at the end of the accounting period to the general ledger.

Illustration E-8
Journalizing and posting the cash receipts journal
Additional credit columns may be used if they significantly reduce postings to a specific account. For example, a loan company, such as Household International, receives thousands of cash collections from customers. A significant saving in posting would result from using separate credit columns for Loans Receivable and Interest Revenue, rather than using the Other Accounts credit column. In contrast, a retailer that has only one interest collection a month would not find it useful to have a separate column for Interest Revenue.

**JOURNALIZING CASH RECEIPTS TRANSACTIONS**

To illustrate the journalizing of cash receipts transactions, we will continue with the May transactions of Karns Wholesale Supply. Collections from customers relate to the entries recorded in the sales journal in Illustration E-5. The entries in the cash receipts journal are based on the following cash receipts.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/01</td>
<td>Stockholders invest $5,000 in the business in common stock.</td>
</tr>
<tr>
<td>05/07</td>
<td>Cash sales of merchandise total $1,900 (cost, $1,240).</td>
</tr>
<tr>
<td>05/10</td>
<td>A check for $10,388 is received from Abbot Sisters in payment of invoice No. 101 for $10,600 less a 2% discount.</td>
</tr>
<tr>
<td>05/12</td>
<td>Cash sales of merchandise total $2,600 (cost, $1,690).</td>
</tr>
<tr>
<td>05/17</td>
<td>A check for $11,123 is received from Babson Co. in payment of invoice No. 102 for $11,350 less a 2% discount.</td>
</tr>
<tr>
<td>05/22</td>
<td>Cash is received by signing a note for $6,000.</td>
</tr>
<tr>
<td>05/23</td>
<td>A check for $7,644 is received from Carson Bros. in full for invoice No. 103 for $7,800 less a 2% discount.</td>
</tr>
<tr>
<td>05/28</td>
<td>A check for $9,114 is received from Deli Co. in full for invoice No. 104 for $9,300 less a 2% discount.</td>
</tr>
</tbody>
</table>

Further information about the columns in the cash receipts journal (see Illustration E-8) is listed below.

**Debit Columns:**
1. **Cash.** The amount of cash actually received in each transaction is entered in this column. The column total indicates the total cash receipts for the month.
2. **Sales Discounts.** Karns includes a Sales Discounts column in its cash receipts journal. By doing so, it is not necessary to enter sales discount items in the general journal. As a result, the collection of an account receivable within the discount period is expressed on one line in the appropriate columns of the cash receipts journal.

**Credit Columns:**
3. **Accounts Receivable.** The Accounts Receivable column is used to record cash collections on account. The amount entered here is the amount to be credited to the individual customer’s account.
4. **Sales.** The Sales column records all cash sales of merchandise. Cash sales of other assets (plant assets, for example) are not reported in this column.
5. **Other Accounts.** The Other Accounts column is used whenever the credit is other than to Accounts Receivable or Sales. For example, in the first entry, $5,000 is entered as a credit to Common Stock. This column is often referred to as the **sundry accounts column**.

**Debit and Credit Column:**
6. **Cost of Goods Sold and Merchandise Inventory.** This column records debits to Cost of Goods Sold and credits to Merchandise Inventory.
In a multi-column journal, generally only one line is needed for each entry. Debit and credit amounts for each line must be equal. When the collection from Abbot Sisters on May 10 is journalized, for example, three amounts are indicated. Note also that the Account Credited column is used to identify both general ledger and subsidiary ledger account titles. General ledger accounts are illustrated in the May 1 and May 22 entries. A subsidiary account is illustrated in the May 10 entry for the collection from Abbot Sisters.

When the journalizing of a multi-column journal has been completed, the amount columns are totaled, and the totals are compared to prove the equality of debits and credits. The proof of the equality of Karns’s cash receipts journal is shown in Illustration E-9. Totaling the columns of a journal and proving the equality of the totals is called **footing** and **cross-footing** a journal.

![Illustration E-9](Proving the equality of the cash receipts journal)

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Receivable</td>
</tr>
<tr>
<td>$53,769</td>
<td>$39,050</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>Sales</td>
</tr>
<tr>
<td>781</td>
<td>4,500</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>Other Accounts</td>
</tr>
<tr>
<td>2,930</td>
<td>11,000</td>
</tr>
<tr>
<td></td>
<td>Merchandise Inventory</td>
</tr>
<tr>
<td></td>
<td>2,930</td>
</tr>
<tr>
<td><strong>$57,480</strong></td>
<td><strong>$57,480</strong></td>
</tr>
</tbody>
</table>

**POSTING THE CASH RECEIPTS JOURNAL**

Posting a multi-column journal involves the following steps.

1. All column totals except for the Other Accounts total are posted **once at the end of the month** to the account title(s) specified in the column heading (such as Cash or Accounts Receivable). Account numbers are entered below the column totals to show that they have been posted. Cash is posted to account No. 101, accounts receivable to account No. 112, merchandise inventory to account No. 120, sales to account No. 401, sales discounts to account No. 414, and cost of goods sold to account No. 505.

2. The individual amounts comprising the Other Accounts total are posted **separately** to the general ledger accounts specified in the Account Credited column. See, for example, the credit posting to Common Stock. The total amount of this column is not posted. The symbol (X) is inserted below the total to this column to indicate that the amount has not been posted.

3. The individual amounts in a column, posted in total to a control account (Accounts Receivable, in this case), are posted **daily to the subsidiary ledger** account specified in the Account Credited column. See, for example, the credit posting of $10,600 to Abbot Sisters.

The symbol **CR** is used in both the subsidiary and general ledgers to identify postings from the cash receipts journal.

**PROVING THE LEDGERS**

After posting of the cash receipts journal is completed, it is necessary to prove the ledgers. As shown in Illustration E-10 (on the next page), the general ledger totals are in agreement. Also, the sum of the subsidiary ledger balances equals the control account balance.
Purchases Journal

All purchases of merchandise on account are recorded in the purchases journal. Each entry in this journal results in a debit to Merchandise Inventory and a credit to Accounts Payable. When a one-column purchases journal is used (as in Illustration E-12, page E-11), other types of purchases on account and cash purchases cannot be journalized in it. For example, credit purchases of equipment or supplies must be recorded in the general journal. Likewise, all cash purchases are entered in the cash payments journal. As illustrated later, where credit purchases for items other than merchandise are numerous, the purchases journal is often expanded to a multi-column format.

JOURNALIZING CREDIT PURCHASES OF MERCHANDISE

Entries in the purchases journal are made from purchase invoices. The journalizing procedure is similar to that for a sales journal. In contrast to the sales journal, the purchases journal may not have an invoice number column, because invoices received from different suppliers will not be in numerical sequence. To assure that all purchase invoices are recorded, some companies consecutively number each invoice upon receipt and then use an internal document number column in the purchases journal.

Karns Wholesale Supply made the assumed credit purchases shown in Illustration E-11. The purchases journal for Karns Wholesale Supply is shown in Illustration E-12.

### Illustration E-11

<table>
<thead>
<tr>
<th>Date</th>
<th>Supplier</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/6</td>
<td>Jasper Manufacturing Inc.</td>
<td>$11,000</td>
</tr>
<tr>
<td>5/10</td>
<td>Eaton and Howe Inc.</td>
<td>7,200</td>
</tr>
<tr>
<td>5/14</td>
<td>Fabor and Son</td>
<td>6,900</td>
</tr>
<tr>
<td>5/19</td>
<td>Jasper Manufacturing Inc.</td>
<td>17,500</td>
</tr>
<tr>
<td>5/26</td>
<td>Fabor and Son</td>
<td>8,700</td>
</tr>
<tr>
<td>5/29</td>
<td>Eaton and Howe Inc.</td>
<td>12,600</td>
</tr>
</tbody>
</table>

POSTING THE PURCHASES JOURNAL

The procedures for posting the purchases journal are similar to those for the sales journal. In this case, postings are made daily to the accounts payable.
ledger and monthly to Merchandise Inventory and Accounts Payable in the general ledger. In both ledgers, P1 is used in the reference column to show that the postings are from page 1 of the purchases journal. Proof of the equality of the postings from the purchases journal to both ledgers is shown as follows.

### Illustration E-12
Journalizing and posting the purchases journal

#### Helpful Hint
A single-column purchases journal needs only to be footed to prove the equality of debits and credits.

### Illustration E-13
Proving the equality of the purchases journal
EXPANDING THE PURCHASES JOURNAL

Some companies expand the purchases journal to include all types of purchases on account. Instead of one column for merchandise inventory and accounts payable, they use a multiple-column format. The multi-column format usually includes a credit column for accounts payable and debit columns for purchases of merchandise, of office supplies, of store supplies, and other accounts. Illustration E-14 is an example of a multi-column purchases journal for Hanover Co. The posting procedures are similar to those illustrated earlier for posting the cash receipts journal.

Illustration E-14  Multi-column purchases journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Account Payable Cr.</th>
<th>Merchandise Inventory Dr.</th>
<th>Office Supplies Dr.</th>
<th>Store Supplies Dr.</th>
<th>Other Accounts Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 June</td>
<td>Signe Audio</td>
<td>✓ 2,000</td>
<td>✓ 2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Wright Co.</td>
<td>✓ 1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Orange Tree Co.</td>
<td>✓ 2,600</td>
<td></td>
<td></td>
<td></td>
<td>Equipment 157 2,600</td>
</tr>
<tr>
<td>30</td>
<td>Sue's Business Forms</td>
<td>✓ 800</td>
<td></td>
<td></td>
<td></td>
<td>800 4,900</td>
</tr>
</tbody>
</table>

HANOVER CO.
Purchases Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Account Payable Cr.</th>
<th>Merchandise Inventory Dr.</th>
<th>Office Supplies Dr.</th>
<th>Store Supplies Dr.</th>
<th>Other Accounts Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 June</td>
<td>Signe Audio</td>
<td>✓ 2,000</td>
<td>✓ 2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Wright Co.</td>
<td>✓ 1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Orange Tree Co.</td>
<td>✓ 2,600</td>
<td></td>
<td></td>
<td></td>
<td>Equipment 157 2,600</td>
</tr>
<tr>
<td>30</td>
<td>Sue's Business Forms</td>
<td>✓ 800</td>
<td></td>
<td></td>
<td></td>
<td>800 4,900</td>
</tr>
</tbody>
</table>

Cash Payments Journal

All disbursements of cash are entered in a cash payments journal. Entries are made from prenumbered checks. Because cash payments are made for various purposes, the cash payments journal has multiple columns. A four-column journal is shown in Illustration E-15 (next page).

JOURNALIZING CASH PAYMENTS TRANSACTIONS

The procedures for journalizing transactions in this journal are similar to those described earlier for the cash receipts journal. Each transaction is entered on one line, and for each line there must be equal debit and credit amounts. The entries in the cash payments journal in Illustration E-15 are based on the following transactions for Karns Wholesale Supply.

May 1  Check No. 101 for $1,200 issued for the annual premium on a fire insurance policy.
3       Check No. 102 for $100 issued in payment of freight when terms were FOB shipping point.
8       Check No. 103 for $4,400 issued for the purchase of merchandise.
10      Check No. 104 for $10,780 sent to Jasper Manufacturing Inc. in payment of May 6 invoice for $11,000 less a 2% discount.
19      Check No. 105 for $6,984 mailed to Eaton and Howe Inc. in payment of May 10 invoice for $7,200 less a 3% discount.
23      Check No. 106 for $6,831 sent to Fabor and Son in payment of May 14 invoice for $6,900 less a 1% discount.
28      Check No. 107 for $17,150 sent to Jasper Manufacturing Inc. in payment of May 19 invoice for $17,500 less a 2% discount.
30      Check No. 108 for $500 issued to stockholders as a cash dividend.
Individual amounts are posted daily to the subsidiary ledger.

Totals are posted at the end of the accounting period to the general ledger.

Accounts Payable is a control account. The subsidiary ledger is separate from the general ledger.

Note that whenever an amount is entered in the Other Accounts column, a specific general ledger account must be identified in the Account Debited column. The entries for checks No. 101, 102, and 103 illustrate this situation. Similarly, a subsidiary account must be identified in the Account Debited column whenever an amount is entered in the Accounts Payable column. See, for example, the entry for check No. 104.

After the cash payments have been journalized, the columns are totaled. The totals are then balanced to prove the equality of debits and credits.
Effects of Special Journals on General Journal

Special journals for sales, purchases, and cash substantially reduce the number of entries that are made in the general journal. Only transactions that cannot be entered in a special journal are recorded in the general journal. For example, the general journal may be used to record such transactions as granting of credit to a customer for a sales return or allowance, granting of credit from a supplier for purchases returned, acceptance of a note receivable from a customer, and purchase of equipment by issuing a note payable. Also, correcting, adjusting, and closing entries are made in the general journal.

The general journal has columns for date, account title and explanation, reference, and debit and credit amounts. When control and subsidiary accounts are not involved, the procedures for journalizing and posting of transactions are the same as those described in earlier chapters. When control and subsidiary accounts are involved, two changes from the earlier procedures are required:

1. In journalizing, both the control and the subsidiary accounts must be identified.
2. In posting, there must be a dual posting: once to the control account and once to the subsidiary account.
To illustrate, assume that on May 31, Karns Wholesale Supply returns $500 of merchandise for credit to Fabor and Son. The entry in the general journal and the posting of the entry are shown in Illustration E-17. Note that if cash is received instead of credit granted on this return, then the transaction is recorded in the cash receipts journal.

Observe in the journal that two accounts are indicated for the debit, and two postings (“201/✓”) are indicated in the reference column. One amount is posted to the control account and the other to the creditor’s account in the subsidiary ledger.

**Summary of Study Objectives**

1. **Describe the nature and purpose of a subsidiary ledger.**
   A subsidiary ledger is a group of accounts with a common characteristic. It facilitates the recording process by freeing the general ledger from details of individual balances.

2. **Explain how special journals are used in journalizing.**
   A special journal is used to group similar types of transactions. In a special journal, generally only one line is used to record a complete transaction.

3. **Indicate how a multi-column journal is posted.**
   In posting a multi-column journal:
   (a) All column totals except for the Other Accounts column are posted once at the end of the month to the account title specified in the column heading.
   (b) The total of the Other Accounts column is not posted. Instead, the individual amounts comprising the total are posted separately to the general ledger accounts specified in the Account Credited column.
   (c) The individual amounts in a column posted in total to a control account are posted daily to the subsidiary ledger accounts specified in the Account Credited column.
Glossary

Accounts payable (creditors') subsidiary ledger (p. E-1) A subsidiary ledger that collects transaction data of individual creditors.

Accounts receivable (customers') subsidiary ledger (p. E-1) A subsidiary ledger that collects transaction data of individual customers.

Cash payments journal (p. E-12) A special journal used to record all cash paid.

Cash receipts journal (p. E-6) A special journal used to record all cash received.

Control account (p. E-1) An account in the general ledger that summarizes a subsidiary ledger.

Purchases journal (p. E-10) A special journal used to record all purchases of merchandise on account.

Sales journal (p. E-4) A special journal used to record all sales of merchandise on account.

Special journal (p. E-3) A journal that is used to record similar types of transactions, such as all credit sales.

Subsidiary ledger (p. E-1) A group of accounts with a common characteristic.

Questions

1. What are the advantages of using subsidiary ledgers?

2. (a) When are postings normally made to (1) the subsidiary accounts and (2) the general ledger control accounts? (b) Describe the relationship between a control account and a subsidiary ledger.

3. Identify and explain the four special journals discussed in the chapter. List an advantage of using each of these journals rather than using only a general journal.

4. A. Mega Company uses special journals. A sale made on account to K. Hansen for $435 was recorded in a sales journal. A few days later, K. Hansen returns $70 worth of merchandise for credit. Where should A. Mega Company record the sales return? Why?

5. A $500 purchase of merchandise on account from Julia Company was properly recorded in the purchases journal. When posted, however, the amount recorded in the subsidiary ledger was $50. How might this error be discovered?

6. Why would special journals used in different businesses not be identical in format? Can you think of a business that would maintain a cash receipts journal but not include a column for accounts receivable?

7. The cash and the accounts receivable columns in the cash receipts journal were mistakenly overadded by $4,000 at the end of the month. (a) Will the customers’ ledger agree with the Accounts Receivable control account? (b) Assuming no other errors, will the trial balance totals be equal?

8. One column total of a special journal is posted at month-end to only two general ledger accounts. One of these two accounts is Accounts Receivable. What is the name of this special journal? What is the other general ledger account to which that same month-end total is posted?

9. In what journal would the following transactions be recorded? (Assume that a two-column sales journal and a single-column purchases journal are used.)

(a) Recording of depreciation expense for the year.
(b) Credit given to a customer for merchandise purchased on credit and returned.
(c) Sales of merchandise for cash.
(d) Sales of merchandise on account.
(e) Collection of cash on account from a customer.
(f) Purchase of office supplies on account.

10. In what journal would the following transactions be recorded? (Assume that a two-column sales journal and a single-column purchases journal are used.)

(a) Cash received from signing a note payable.
(b) Investment of cash by stockholders of the company.
(c) Closing of the expense accounts at the end of the year.
(d) Purchase of merchandise on account.
(e) Credit received for merchandise purchased and returned to supplier.
(f) Payment of cash on account due a supplier.

11. What transactions might be included in a multiple-column purchases journal that would not be included in a single-column purchases journal?

12. Give an example of a transaction in the general journal that causes an entry to be posted twice (i.e., to two accounts), one in the general ledger, the other in the subsidiary ledger. Does this affect the debit/credit equality of the general ledger?

13. Give some examples of appropriate general journal transactions for an organization using special journals.

Brief Exercises

Presented below is information related to Bradley Company for its first month of operations. Identify the balances that appear in the accounts receivable subsidiary ledger and the accounts receivable balance that appears in the general ledger at the end of January.
BEE-2  Identify in what ledger (general or subsidiary) each of the following accounts is shown.
1. Rent Expense 3. Notes Payable

BEE-3  Identify the journal in which each of the following transactions is recorded.
1. Cash sales 4. Credit sales
2. Payment of cash dividends 5. Purchase of merchandise on account
3. Cash purchase of land 6. Receipt of cash for services performed

BEE-4  Indicate whether each of the following debits and credits is included in the cash receipts journal. (Use “Yes” or “No” to answer this question.)
1. Debit to Sales 3. Credit to Accounts Receivable
2. Credit to Merchandise Inventory 4. Debit to Accounts Payable

BEE-5  Steering Computer Components Inc. uses a multi-column cash receipts journal. Indicate which column(s) is/are posted only in total, only daily, or both in total and daily.
1. Accounts Receivable 3. Cash
2. Sales Discounts 4. Other Accounts

BEE-6  Cohen Co. uses special journals and a general journal. Identify the journal in which each of the following transactions is recorded.
(a) Purchased equipment on account.  (c) Paid utility expense in cash.
(b) Purchased merchandise on account.  (d) Sold merchandise on account.

BEE-7  Identify the special journal(s) in which the following column headings appear.
1. Sales Discounts Dr. 4. Sales Cr.
2. Accounts Receivable Cr. 5. Merchandise Inventory Dr.
3. Cash Dr.

Exercises

EE-1  Yan Company uses both special journals and a general journal as described in this appendix. On June 30, after all monthly postings had been completed, the Accounts Receivable control account in the general ledger had a debit balance of $350,000; the Accounts Payable control account had a credit balance of $87,000.

The July transactions recorded in the special journals are summarized below. No entries affecting accounts receivable and accounts payable were recorded in the general journal for July.

Sales journal  Total sales $161,400
Purchases journal  Total purchases $54,360
Cash receipts journal  Accounts receivable column total $141,000
Cash payments journal  Accounts payable column total $47,500

Instructions
(a) What is the balance of the Accounts Receivable control account after the monthly postings on July 31?
(b) What is the balance of the Accounts Payable control account after the monthly postings on July 31?
(c) To what account(s) is the column total of $161,400 in the sales journal posted?
(d) To what account(s) is the accounts receivable column total of $141,000 in the cash receipts journal posted?

EE-2  Presented below is the subsidiary accounts receivable account of Warren Moyer.

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Sept.</td>
<td>2</td>
<td>S31</td>
<td>61,000</td>
<td>61,000</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>G4</td>
<td>14,000</td>
<td>47,000</td>
</tr>
<tr>
<td></td>
<td>27</td>
<td>CR8</td>
<td>47,000</td>
<td>—</td>
</tr>
</tbody>
</table>

Identify subsidiary ledger accounts. (SO 1)

Identify special journals. (SO 2)

Identify entries to cash receipts journal. (SO 2)

Indicate postings to cash receipts journal. (SO 3)

Identify transactions for special journals. (SO 2)

Determine control account balances, and explain posting of special journals. (SO 1, 2)

Explain postings to subsidiary ledger. (SO 1)
Instructions

Write a memo that explains each transaction.

**EE-3**
On September 1 the balance of the Accounts Receivable control account in the general ledger of Odesto Company was $11,960. The customers’ subsidiary ledger contained account balances as follows: Edmonds $2,440, Park $2,640, Roemer $2,060, Schulz $4,820. At the end of September the various journals contained the following information.

**Sales journal:** Sales to Schulz $800; to Edmonds $1,350; to Henry $1,030; to Roemer $1,100.

**Cash receipts journal:** Cash received from Roemer $1,310; from Schulz $2,300; from Henry $410; from Park $1,800; from Edmonds $1,240.

**General journal:** An allowance is granted to Schulz $220.

Instructions
(a) Set up control and subsidiary accounts and enter the beginning balances. Do not construct the journals.
(b) Post the various journals. Post the items as individual items or as totals, whichever would be the appropriate procedure. (No sales discounts given.)
(c) Prepare a list of customers and prove the agreement of the controlling account with the subsidiary ledger at September 30, 2010.

**EE-4**
Hurley Company uses special journals and a general journal. The following transactions occurred during September 2010.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 2</td>
<td>Sold merchandise on account to S. Rusch, invoice no. 101, $480, terms n/30. The cost of the merchandise sold was $300.</td>
</tr>
<tr>
<td>10</td>
<td>Purchased merchandise on account from L. Dayne $600, terms 2/10, n/30.</td>
</tr>
<tr>
<td>12</td>
<td>Purchased office equipment on account from B. Piazza $6,500.</td>
</tr>
<tr>
<td>21</td>
<td>Sold merchandise on account to L. Perez, invoice no. 102 for $800, terms 2/10, n/30. The cost of the merchandise sold was $480.</td>
</tr>
<tr>
<td>25</td>
<td>Purchased merchandise on account from F. Sage $900, terms n/30.</td>
</tr>
<tr>
<td>27</td>
<td>Sold merchandise to M. Deitrich for $700 cash. The cost of the merchandise sold was $420.</td>
</tr>
</tbody>
</table>

Instructions
(a) Draw a sales journal (see Illustration E-6) and a single-column purchase journal (see Illustration E-12). (Use page 1 for each journal.)
(b) Record the transaction(s) for September that should be journalized in the sales journal and the purchases journal.

**EE-5**
Pena Co. uses special journals and a general journal. The following transactions occurred during May 2010.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1</td>
<td>R. Pena invested $60,000 cash in the business in exchange for common stock.</td>
</tr>
<tr>
<td>2</td>
<td>Sold merchandise to J. Simon for $6,000 cash. The cost of the merchandise sold was $4,200.</td>
</tr>
<tr>
<td>3</td>
<td>Purchased merchandise for $9,000 from L. M. Farr using check no. 101.</td>
</tr>
<tr>
<td>14</td>
<td>Paid salary to S. Little $700 by issuing check no. 102.</td>
</tr>
<tr>
<td>16</td>
<td>Sold merchandise on account to B. Jones for $900, terms n/30. The cost of the merchandise sold was $630.</td>
</tr>
<tr>
<td>22</td>
<td>A check of $9,000 is received from R. Dusto in full for invoice 101; no discount given.</td>
</tr>
</tbody>
</table>

Instructions
(a) Draw a multiple-column cash receipts journal (see Illustration E-8) and a multiple-column cash payments journal (see Illustration E-15). (Use page 1 for each journal.)
(b) Record the transaction(s) for May that should be journalized in the sales journal and the purchases journal.

**EE-6**
Abbott Company uses the columnar cash journals illustrated in the textbook. In April, the following selected cash transactions occurred.

1. Made a refund to a customer for the return of damaged goods.
2. Received collection from customer within the 3% discount period.
3. Purchased merchandise for cash.
4. Paid a creditor within the 3% discount period.
5. Received collection from customer after the 3% discount period had expired.
6. Paid freight on merchandise purchased.
7. Paid cash for office equipment.
8. Received cash refund from supplier for merchandise returned.
10. Made cash sales.

**Instructions**
Indicate (a) the journal, and (b) the columns in the journal that should be used in recording each transaction.

**EE-7** Santiago Company has the following selected transactions during March.

Mar. 2 Purchased equipment costing $6,000 from Briggs Company on account.
5 Received credit memorandum for $300 from Sanchez Company for merchandise damaged in shipment to Santiago.
7 Issued a credit memorandum for $400 to Sparks Company for merchandise the customer returned. The returned merchandise had a cost of $260.

Santiago Company uses a one-column purchases journal, a sales journal, the columnar cash journals used in the text, and a general journal.

**Instructions**
(a) Journalize the transactions in the general journal.
(b) In a brief memo to the president of Santiago Company, explain the postings to the control and subsidiary accounts.

**EE-8** Below are some typical transactions incurred by Heide Company.

1. Payment of creditors on account. 8. Sales discount taken on goods sold.
2. Return of merchandise sold for credit. 9. Payment of employee wages.
3. Collection on account from customers. 10. Paid a cash dividend to stockholders.
7. Received credit for merchandise purchased on credit.

**Instructions**
For each transaction, indicate whether it would normally be recorded in a cash receipts journal, cash payments journal, sales journal, single-column purchases journal, or general journal.

**EE-9** The general ledger of Williams Company contained the following Accounts Payable control account (in T-account form). Also shown is the related subsidiary ledger.

**GENERAL LEDGER**

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 15</td>
<td>General journal</td>
</tr>
<tr>
<td>28</td>
<td>?</td>
</tr>
<tr>
<td>Feb. 1</td>
<td>Balance</td>
</tr>
<tr>
<td>5</td>
<td>General journal</td>
</tr>
<tr>
<td>11</td>
<td>General journal</td>
</tr>
<tr>
<td>28</td>
<td>Purchases</td>
</tr>
<tr>
<td>Feb. 28</td>
<td>Balance</td>
</tr>
</tbody>
</table>

**ACCOUNTS PAYABLE LEDGER**

<table>
<thead>
<tr>
<th>Sealy</th>
<th></th>
<th>Wolcott</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 28</td>
<td>Bal. 4,600</td>
<td>Feb. 28</td>
<td>Bal. ?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 28</td>
<td>Bal. 2,000</td>
</tr>
</tbody>
</table>
Instructions
(a) Indicate the missing posting reference and amount in the control account, and the
missing ending balance in the subsidiary ledger.
(b) Indicate the amounts in the control account that were dual-posted (i.e., posted to the
control account and the subsidiary accounts).

Prepare purchases and
general journals.

EE-10 Selected accounts from the ledgers of Juan Perez Company at July 31 showed
the following.

<table>
<thead>
<tr>
<th>Store Equipment</th>
<th>Merchandise Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. 153</strong></td>
<td><strong>No. 120</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>G1</td>
<td></td>
<td>3,600</td>
<td></td>
<td>3,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. 201</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>G1</td>
<td></td>
<td>3,600</td>
<td></td>
<td>3,600</td>
</tr>
<tr>
<td>15</td>
<td>G1</td>
<td></td>
<td>400</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>18</td>
<td>G1</td>
<td></td>
<td>100</td>
<td></td>
<td>3,900</td>
</tr>
<tr>
<td>25</td>
<td>G1</td>
<td></td>
<td>200</td>
<td></td>
<td>3,700</td>
</tr>
<tr>
<td>31</td>
<td>P1</td>
<td></td>
<td>8,400</td>
<td></td>
<td>12,100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Ledger</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alou Equipment Co.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Date</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>July 1</td>
<td>G1</td>
</tr>
<tr>
<td>14</td>
<td>P1</td>
</tr>
<tr>
<td>25</td>
<td>G1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Benton Co.</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>July 3</td>
<td>P1</td>
</tr>
<tr>
<td>20</td>
<td>P1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Emerick Co.</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>July 12</td>
<td>P1</td>
</tr>
<tr>
<td>21</td>
<td>P1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Comerica Materials</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>July 17</td>
<td>P1</td>
</tr>
<tr>
<td>18</td>
<td>G1</td>
</tr>
<tr>
<td>29</td>
<td>P1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Galant Transit</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td>July 15</td>
<td>G1</td>
</tr>
</tbody>
</table>

Instructions
From the data, prepare:
(a) the single-column purchases journal for July.
(b) the general journal entries for July.

Determine correct posting amount to control account.

EE-11 Valdez Products uses both special journals and a general journal as described in
this appendix. Valdez also posts customers’ accounts in the accounts receivable subsidiary
ledger. The postings for the most recent month are included in the subsidiary T accounts
below.

<table>
<thead>
<tr>
<th>Ellie</th>
<th>Rambo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal.</td>
<td></td>
</tr>
<tr>
<td>340</td>
<td>150</td>
</tr>
<tr>
<td>200</td>
<td>290</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panos</th>
<th>Tenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal.</td>
<td>Bal.</td>
</tr>
<tr>
<td>–0-</td>
<td>120</td>
</tr>
<tr>
<td>145</td>
<td>190</td>
</tr>
<tr>
<td>145</td>
<td>170</td>
</tr>
</tbody>
</table>
Instructions
Determine the correct amount of the end-of-month posting from the sales journal to the Accounts Receivable control account.

Problems

PE-1 Lemon Company’s chart of accounts includes the following selected accounts.

<table>
<thead>
<tr>
<th>Account</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>101</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>112</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>120</td>
</tr>
<tr>
<td>Common Stock</td>
<td>311</td>
</tr>
<tr>
<td>Sales</td>
<td>401</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>414</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>505</td>
</tr>
</tbody>
</table>

On April 1 the accounts receivable ledger of Lemon Company showed the following balances: Horner $1,550, Harris $1,200, Northeast Co. $2,900, and Smith $1,700. The April transactions involving the receipt of cash were as follows.

Apr. 1 Stockholders invested additional cash in the business, $6,000, for common stock.
4 Received check for payment of account from Smith less 2% cash discount.
5 Received check for $620 in payment of invoice no. 307 from Northeast Co.
8 Made cash sales of merchandise totaling $7,245. The cost of the merchandise sold was $4,347.
10 Received check for $800 in payment of invoice no. 309 from Horner.
11 Received cash refund from a supplier for damaged merchandise $550.
23 Received check for $1,500 in payment of invoice no. 310 from Northeast Co.
29 Received check for payment of account from Harris.

Instructions
(a) Journalize the transactions above in a six-column cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr. Foot and crossfoot the journal.
(b) Insert the beginning balances in the Accounts Receivable control and subsidiary accounts, and post the April transactions to these accounts.
(c) Prove the agreement of the control account and subsidiary account balances.

PE-2 Simpson Company’s chart of accounts includes the following selected accounts.

<table>
<thead>
<tr>
<th>Account</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>101</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>120</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>130</td>
</tr>
<tr>
<td>Equipment</td>
<td>157</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>201</td>
</tr>
<tr>
<td>Dividends</td>
<td>332</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>505</td>
</tr>
</tbody>
</table>

On October 1 the accounts payable ledger of Simpson Company showed the following balances: Hester Company $1,700, Milo Co. $2,500, Ontario Co. $1,400, and Pagan Company $3,700. The October transactions involving the payment of cash were as follows.

Oct. 1 Purchased merchandise, check no. 63, $700.
3 Purchased equipment, check no. 64, $800.
5 Paid Hester Company balance due of $1,700, less 2% discount, check no. 65, $1,666.
10 Purchased merchandise, check no. 66, $2,250.
15 Paid Ontario Co. balance due of $1,400, check no. 67.
16 A cash dividend is paid in the amount of $400, check no. 68.
19 Paid Milo Co. in full for invoice no. 610, $1,400 less 2% cash discount, check no. 69, $1,372.
29 Paid Pagan Company in full for invoice no. 264, $2,600, check no. 70.

Instructions
(a) Journalize the transactions above in a four-column cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr. Foot and crossfoot the journal.
(b) Insert the beginning balances in the Accounts Payable control and subsidiary accounts, and post the October transactions to these accounts.

(c) Prove the agreement of the control account and the subsidiary account balances.

PE-3 The chart of accounts of Hernandez Company includes the following selected accounts.

- 112 Accounts Receivable
- 120 Merchandise Inventory
- 126 Supplies
- 157 Equipment
- 201 Accounts Payable
- 401 Sales
- 412 Sales Returns and Allowances
- 505 Cost of Goods Sold
- 610 Advertising Expense

In July the following selected transactions were completed. All purchases and sales were on account. The cost of all merchandise sold was 70% of the sales price.

- 1 Purchased merchandise from Denton Company $7,000.
- 2 Received freight bill from Johnson Shipping on Denton purchase $400.
- 3 Made sales to Lyons Company $1,300, and to Franklin Bros. $1,900.
- 5 Purchased merchandise from Grant Company $3,200.
- 8 Received credit on merchandise returned to Grant Company $300.
- 13 Purchased store supplies from Brent Supply $720.
- 15 Purchased merchandise from Denton Company $3,600 and from Ruiz Company $2,900.
- 16 Made sales to Martin Company $3,450 and to Franklin Bros. $1,570.
- 18 Received bill for advertising from Marlin Advertisements $600.
- 21 Made sales to Lyons Company $310 and to Randee Company $2,300.
- 22 Granted allowance to Lyons Company for merchandise damaged in shipment $40.
- 24 Purchased merchandise from Grant Company $3,000.
- 26 Purchased equipment from Brent Supply $600.
- 28 Received freight bill from Johnson Shipping on Grant purchase of July 24, $380.
- 30 Made sales to Martin Company $4,900.

Instructions

(a) Journalize the transactions above in a purchases journal, a sales journal, and a general journal. The purchases journal should have the following column headings: Date, Account Credited (Debited), Ref., Other Accounts Dr., and Merchandise Inventory Dr., Accounts Payable Cr.

(b) Post to both the general and subsidiary ledger accounts. (Assume that all accounts have zero beginning balances.)

(c) Prove the agreement of the control and subsidiary accounts.

PE-4 Selected accounts from the chart of accounts of Clark Company are shown below.

- 101 Cash
- 112 Accounts Receivable
- 120 Merchandise Inventory
- 126 Supplies
- 157 Equipment
- 201 Accounts Payable
- 401 Sales
- 412 Sales Returns and Allowances
- 414 Sales Discounts
- 505 Cost of Goods Sold
- 726 Salaries Expense

The cost of all merchandise sold was 60% of the sales price. During January, Clark completed the following transactions.

- 3 Purchased merchandise on account from Bell Co. $10,000.
- 4 Purchased supplies for cash $80.
- 4 Sold merchandise on account to Gilbert $7,250, invoice no. 371, terms 1/10, n/30.
- 5 Issued a debit memorandum to Bell Co. and returned $300 worth of damaged goods.
- 6 Made cash sales for the week totaling $3,150.
- 8 Purchased merchandise on account from Law Co. $4,500.
- 9 Sold merchandise on account to Mays Corp. $5,800, invoice no. 372, terms 1/10, n/30.
Jan. 11 Purchased merchandise on account from Hoble Co. $3,700.
13 Paid in full Bell Co. on account less a 2% discount.
13 Made cash sales for the week totaling $5,340.
15 Received payment from Mays Corp. for invoice no. 372.
15 Paid semimonthly salaries of $14,300 to employees.
17 Received payment from Gilbert for invoice no. 371.
17 Sold merchandise on account to Amber Co. $1,200, invoice no. 373, terms 1/10, n/30.
19 Purchased equipment on account from Johnson Corp. $5,500.
20 Made cash sales for the week totaling $3,200.
20 Paid in full Law Co. on account less a 2% discount.
23 Purchased merchandise on account from Bell Co. $7,800.
24 Purchased merchandise on account from Levine Corp. $4,690.
27 Made cash sales for the week totaling $3,730.
30 Received payment from Amber Co. for invoice no. 373.
31 Paid semimonthly salaries of $13,200 to employees.
31 Sold merchandise on account to Gilbert $9,330, invoice no. 374, terms 1/10, n/30.

Clark Company uses the following journals.
1. Sales journal.
2. Single-column purchases journal.
3. Cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr.
4. Cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr.
5. General journal.

Instructions
Using the selected accounts provided:
(a) Record the January transactions in the appropriate journal noted.
(b) Foot and cross-foot all special journals.
(c) Show how postings would be made by placing ledger account numbers and checkmarks as needed in the journals. (Actual posting to ledger accounts is not required.)

PE-5 Presented below are the purchases and cash payments journals for Collins Co. for its first month of operations.
In addition, the following transactions have not been journalized for July. The cost of all merchandise sold was 65% of the sales price.

July 1  The founder, R. Collins, invests $80,000 in cash in exchange for common stock.
6  Sell merchandise on account to Hardy Co. $5,400 terms 1/10, n/30.
7  Make cash sales totaling $4,000.
8  Sell merchandise on account to D. Wasburn $3,600, terms 1/10, n/30.
10 Sell merchandise on account to L. Lemansky $4,900, terms 1/10, n/30.
13 Receive payment in full from D. Wasburn.
16 Receive payment in full from L. Lemansky.
20 Receive payment in full from Hardy Co.
21 Sell merchandise on account to S. Kane $4,000, terms 1/10, n/30.
29 Returned damaged goods to J. Dixon and received cash refund of $450.

Instructions
(a) Open the following accounts in the general ledger:

101 Cash
112 Accounts Receivable
120 Merchandise Inventory
127 Store Supplies
131 Prepaid Rent
201 Accounts Payable
311 Common Stock
332 Dividends
401 Sales
414 Sales Discounts
505 Cost of Goods Sold
631 Supplies Expense
729 Rent Expense

(b) Journalize the transactions that have not been journalized in the sales journal, the cash receipts journal (see Illustration E-8), and the general journal.

(c) Post to the accounts receivable and accounts payable subsidiary ledgers. Follow the sequence of transactions as shown in the problem.

(d) Post the individual entries and totals to the general ledger.

(e) Prepare a trial balance at July 31, 2010.

(f) Determine whether the subsidiary ledgers agree with the control accounts in the general ledger.

(g) The following adjustments at the end of July are necessary.
(1) A count of supplies indicates that $140 is still on hand.
(2) Recognize rent expense for July, $500.
Prepare the necessary entries in the general journal. Post the entries to the general ledger.

(h) Prepare an adjusted trial balance at July 31, 2010.

PE-6  The post-closing trial balance for Alomar Co. is as follows.

ALOMAR CO.
Post-Closing Trial Balance
December 31, 2010

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $41,500</td>
<td>Accounts Receivable 15,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Notes Receivable 45,000</td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>Merchandise Inventory 23,000</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>Equipment 6,450</td>
</tr>
<tr>
<td>Equipment</td>
<td>Accumulated Depreciation—Equipment $1,500</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>Common Stock 86,450</td>
</tr>
<tr>
<td>Common Stock</td>
<td></td>
</tr>
</tbody>
</table>

$130,950  $130,950

The subsidiary ledgers contain the following information: (1) accounts receivable—R. Barton $2,500, B. Cole $7,500, S. Devine $5,000; (2) accounts payable—S. Field $10,000, R. Grilson $18,000, and D. Harms $15,000. The cost of all merchandise sold was 65% of the sales price.
The transactions for January 2011 are as follows.

Jan.  3  Sell merchandise to B. Senton $4,000, terms 2/10, n/30.
      5  Purchase merchandise from S. Warren $2,500, terms 2/10, n/30.
      7  Receive a check from S. Devine $3,500.
      11 Pay freight on merchandise purchased $300.
      12 Pay rent of $1,000 for January.
      13 Receive payment in full from B. Senton.
      14 Post all entries to the subsidiary ledgers. Issue a credit memo to acknowledge receipt of damaged merchandise of $700 returned by R. Barton.
      15 Send D. Harms a check for $14,850 in full payment of account, discount $150.
      17 Purchase merchandise from D. Lapeska $1,600, terms 2/10, n/30.
      18 Pay sales salaries of $2,800 and office salaries $1,500.
      20 Give R. Grilson a 60-day note for $18,000 in full payment of account payable.
      23 Total cash sales amount to $8,600.
      24 Post all entries to the subsidiary ledgers. Sell merchandise on account to B. Cole $7,700, terms 1/10, n/30.
      27 Send S. Warren a check for $950.
      29 Receive payment on a note of $40,000 from S. Lava (short-term, non-interest-bearing note).
      30 Return merchandise of $500 to D. Lapeska for credit. Post all journals to the subsidiary ledger.

Instructions
(a) Open general and subsidiary ledger accounts for the following.

101 Cash                          311 Common Stock
112 Accounts Receivable           401 Sales
115 Notes Receivable             412 Sales Returns and Allowances
120 Merchandise Inventory        414 Sales Discounts
157 Equipment                    505 Cost of Goods Sold
158 Accumulated Depreciation—Equipment 726 Salaries Expense
200 Notes Payable                727 Office Salaries Expense
201 Accounts Payable             729 Rent Expense

(b) Record the January transactions in a sales journal, a single-column purchases journal, a cash receipts journal (see Illustration E-8), a cash payments journal (see Illustration E-15), and a general journal.

(c) Post the appropriate amounts to the general ledger.

(d) Prepare a trial balance at January 31, 2011.

(e) Determine whether the subsidiary ledgers agree with controlling accounts in the general ledger.