

Business Virtual Learning

HS/Accounting 1

Topic: Cash Payments Journal May 21, 2020



Accounting 1: Cash Payments Journal

Objectives:

- 1. Record cash payments using a cash payments journal.
- Figure cash discount amounts.
- 3. Understand the purpose of a cash payments journal.

Instructions:

Read the slides, answer questions and complete the activity on the last slide.



Topic: Cash Payments Journal

The **cash payments journal** is a special journal used to record **ONLY** payments of cash transactions. Anytime a payment is made that will decrease cash (credit cash) it goes in this journal.

The CP journal has 5 columns: General debit, general credit, Accounts Payable debit, purchases discount credit and cash credit.

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	DATE		ACCOUNT TITLE NO		POST	DEBIT	CREDIT	PAYABLE DEBIT	DISCOUNT CREDIT	CASH CREDIT
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2		12 2						12 3:	10	
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Accounting 1: Cash Payments Journal

Every transaction in the Cash Payments journal will include a credit to cash. The debit part of each transaction varies depending on the type of transaction.

Common transactions recorded in the CP journal are (but not limited to):

- Payment on account to a vendor
- Payment for an expense
- Purchase of merchandise, supplies or other items for cash (not on account)
- Replenish petty cash (covered in a later lesson)

Remember that every transaction has to have equal debit and credit parts

Recording Typical cash payment transactions

- 1. Payment for an expense adds to the expense (debit) and decreases cash (credit) and is shown on line 1 of the image below.
- 2. Purchasing office supplies for cash would be recorded as shown on line 2 below.
- 3. Line 3 shows a purchase of merchandise for cash (not on account).

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DATE		Char		DOCT	GENE	RAL	ACCOUNTS	PURCHASES	
		ACCOUNT TITLE	Check NO	REF	DEBIT	CREDIT	PAYABLE DEBIT	DISCOUNT CREDIT	CASH CREDIT
May	1	Advertising Expense	123		\$ 250.00				\$ 250.00
2	5	Supplies - Office	124		\$ 125.00				\$ 125.00
6		Purchases	125		\$ 1,625.00				\$ 1,625.00

Discounts for cash payments

A <u>cash discount</u> is a discount offered by a vendor to encourage prompt payment.

When a company takes advantage of this type of discount, it is recorded as a purchases discount because they are getting a discount on merchandise that was *purchased* from the vendor.

Purchases discount has a normal credit balance because it decreases the account **Purchases** which has a normal debit balance. An account that reduces a related account on a financial statement is called a **contra account**.
Purchases Discount

Cash discounts are stated as a percentage of the original invoice. Typically 2/10, n/30 which means if the invoice is paid in 10 days, a 10% discount Will be applied, otherwise the total invoice (net) is due in 30 days.

Discounts for cash payments

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Figure the discount by multiplying the original invoice amount by the discount percentage and then subtracting it from the original amount:

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Step 1:
Invoice Amount x Discount % = Cash (Purchases) discount $1250 x 2% = $25

Step 2:
Invoice Amount - Cash Discount = Amount paid (cash credit) $1250 - $25 = $1225
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Recording a transaction with a cash discount

Transaction:

May 11. Paid cash on account to Atlantic Supply \$1225.00 covering Purchase invoice 4 for \$1250, less 2% discount of \$25. Check no. 130 **See line 6**

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				61 1	GENERAL		RAL	ACCOUNTS	PURCHASES	
	DATE		ACCOUNT TITLE	Check NO	POST	DEBIT CREDIT		PAYABLE DEBIT	DISCOUNT CREDIT	CASH CREDIT
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2		5	Supplies - Office	124		\$ 125.00				\$ 125.00
3		6	Purchases	125		\$ 1,625.00				\$ 1,625.00
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6	9	11	Atlantic Supply	130	ÿ	9		\$ 1,250.00	\$ 25.00	\$ 1,225.00
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Recording a transaction without a cash discount

Businesses will not always take advantage of a cash discount or a vendor may not offer one. The following transaction is a payment on account with no discount.

Transaction:

May 12. Paid cash on account to S&J Imports - \$2250.00 covering purchase invoice 4

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Accounting 1: Purchases Journal

Questions:

- 1. What type of accounts are recorded in the cash payments journal?
- 2. What are the 3 special columns in the cash payments journal?
- 3. What is the formula for figuring a cash discount?
- 4. Why would a vendor offer a customer a cash discount?
- 5. What is meant by the terms 2/10, n/30?



Accounting 1: Purchases Journal

Activity:

Calculate the purchase discount and invoice amounts to be paid for the following five invoices.

Invoice Amount	Purchases Discount Rate	Purchases Discount Amount	Invoice Amount To Be Paid
\$2,400.00	2%		
\$1,600.00	3%		
\$8,700.00	1%		
\$1,500.00	2%		
\$2,520.00	2%		