



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.
2. 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.



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).

CASH PAYMENTS JOURNAL										Page
						1	2	3	4	5
	DATE		ACCOUNT TITLE	Check NO	POST REF	GENERAL		ACCOUNTS PAYABLE	PURCHASES	CASH
						DEBIT	CREDIT	DEBIT	DISCOUNT	CREDIT
1	May	1	Advertising Expense	123		\$ 250.00				\$ 250.00
2		5	Supplies - Office	124		\$ 125.00				\$ 125.00
3		6	Purchases	125		\$ 1,625.00				\$ 1,625.00

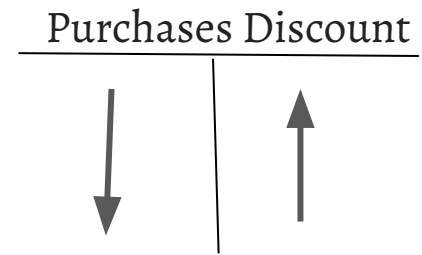
Discounts for cash payments

A **cash discount** 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***.

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.



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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:

Step 1:

$$\begin{array}{rclcl} \text{Invoice Amount} & \times & \text{Discount \%} & = & \text{Cash (Purchases) discount} \\ \$1250 & \times & 2\% & = & \$25 \end{array}$$

Step 2:

$$\begin{array}{rclcl} \text{Invoice Amount} & - & \text{Cash Discount} & = & \text{Amount paid (cash credit)} \\ \$1250 & - & \$25 & = & \$1225 \end{array}$$

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

CASH PAYMENTS JOURNAL									Page
DATE	ACCOUNT TITLE	Check NO	POST REF	GENERAL		ACCOUNTS PAYABLE	PURCHASES DISCOUNT	CASH	
				DEBIT	CREDIT	DEBIT	CREDIT	CREDIT	
7	12 S&J Imports	131				\$ 2,250.00		\$ 2,250.00	



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%		