Study Notes

Chapter 7  
*Accounting for a Merchandising Business: Purchases and Cash Payments*

| **Chapter Outline** | **Questions** | **Answers:** |
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| Merchandising Activity | What does a merchandising business do?  What is the difference between a retailer and a wholesaler? |  |
| Purchasing Procedures | What forms are used in the purchasing procedure? |  |
| Trade Discounts | What is a trade discount? |  |
| Cash Discounts | What is the difference between a cash discount and a sales discount? |  |
| The Purchase Account | What is the purpose of the Purchases account? |  |
| Recording Purchases | What are the source documents for recording purchases? |  |
| **Special Journals** | What is the purpose of a special journal? |  |
| The Purchases Journal | What types of transactions are recorded in the Purchases Journal? |  |
| **The Accounts Payable Subsidiary Ledger** | What is a subsidiary ledger and how is it used?  What is a controlling account and how does it relate to a subsidiary ledger? |  |
| **Merchandise Returns and Allowances** | What is the difference between a return and an allowance? |  |
| Purchases Returns and Allowances | How are purchases returns and allowances recorded (what does the journal entry look like?) |  |
| Recording Purchases Returns and Allowances | What are debit and credit memorandums? |  |
| **Recording Cash Payments** | What special journal is used to record cash payments? |  |
| Posting Special Column Totals to the General Ledger | How are the special columns **totals** in the cash payments and purchases journal posted? |  |
| **Proving the Accounts Payable Ledger** | What does it mean to “prove” the accounts payable ledger? |  |
| **Freight Charges on Incoming Merchandise** | What are the two different types of shipping discussed in Chapter 7? |  |