Before studying this chapter, you should know or, if necessary, review:

a. What a double-entry system is. (Ch. 3, p. 69)

b. How to post a transaction. (Ch. 3, p. 79)

c. The steps in the accounting cycle. (Ch. 1, p. 15)
After studying this appendix, you should be able to

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

There are two common subsidiary ledgers:

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 B-1. The general ledger control accounts and subsidiary ledger accounts are shown in green. 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 B-1 must equal the total of the subsidiary balances of Creditors X + Y + Z.

EXAMPLE

An example of a control account and a subsidiary ledger for Larson Enterprises, a firm that sells souvenirs and children’s giveaways for restaurants, is provided in Illustration B-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 in Illustration B-3.

<table>
<thead>
<tr>
<th>Credit Sales</th>
<th>Collections on Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 10 Aaron Co.</td>
<td>$6,000</td>
</tr>
<tr>
<td>12 Branden, Inc.</td>
<td>3,000</td>
</tr>
<tr>
<td>20 Caron Co.</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td>$12,000</td>
</tr>
<tr>
<td>Jan. 19 Aaron Co.</td>
<td>$4,000</td>
</tr>
<tr>
<td>21 Branden, Inc.</td>
<td>3,000</td>
</tr>
<tr>
<td>29 Caron Co.</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>$8,000</td>
</tr>
</tbody>
</table>

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, to bill customers, and to answer inquiries from customers about their account balances.

ADVANTAGES OF SUBSIDIARY LEDGERS

Subsidiary ledgers have at least four advantages:

1. They show transactions affecting one customer or one creditor in a single account, thus providing up-to-date information on specific account balances.
2. They 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. They help locate errors in individual accounts by reducing the number of accounts in one ledger and by using control accounts.
4. They make possible a division of labor in posting. One employee can post to the general ledger while someone else posts to the subsidiary ledgers.

TECHNOLOGY IN ACTION

Rather than relying on customer or creditor names in a subsidiary ledger, a computerized system expands the account number of the control account in a prespecified manner. For example, if Accounts Receivable was numbered 10010, the first account in the accounts receivable subsidiary ledger might be numbered 10010-0001. Most systems allow inquiries about specific accounts in the subsidiary ledger (by account number) or about the control account. With the latter, the system would automatically total all the subsidiary accounts whenever an inquiry to the control account was made. The various uniform systems of accounts also provide a suggested chart of accounts for businesses to adopt as a turnkey.

BEFORE YOU GO ON...

REVIEW IT

1. What is a subsidiary ledger, and what purpose does it serve?
So far you have learned to journalize transactions in a two-column general journal and to 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. What special journals a company uses depends largely on the types of transactions that occur frequently. Most merchandising enterprises use the journals shown in Illustration B-4 to record transactions daily.

**Credit Purchases**

<table>
<thead>
<tr>
<th>Jan.</th>
<th>Devon Co.</th>
<th>Shelby Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$11,000</td>
<td>$7,000</td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>$2,000</td>
</tr>
<tr>
<td>22</td>
<td>Taylor Co.</td>
<td>$14,000</td>
</tr>
</tbody>
</table>

**Cash Paid**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>$7,000</td>
<td>$2,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>14</td>
<td></td>
<td>$5,000</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td></td>
<td></td>
<td>$9,000</td>
</tr>
</tbody>
</table>

**ACTION PLAN**

- Subtract cash paid from credit purchases to determine the balances in the accounts payable subsidiary ledger.
- Sum the individual balances to determine the Accounts Payable balance.

**SOLUTION**

Subsidiary ledger balances: Devon Co. $4,000 ($11,000 − $7,000); Shelby Co. $5,000 ($7,000 − $2,000); Taylor Co. $5,000 ($14,000 − $9,000). General ledger Accounts Payable balance: $14,000 ($4,000 + $5,000 + $5,000).
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 10-4, 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 sometimes may be used in some situations. For example, when sales returns and allowances are frequent, special journals may be used to record these transactions.

The use of special journals permits 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 this Appendix.

**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 Food Wholesale 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—a debit to Cost of Goods Sold and a credit of equal amount to Merchandise Inventory (a control account). A sales journal with two amount columns can show on only one line a sales transaction at both selling price and cost. The two-column sales journal of Karns Food Wholesale is shown in Illustration B-5, using assumed credit sales transactions (for sales invoices 101–107). 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 prenumbered to ensure that all invoices are journalized.

**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 B-6 shows both the daily and the monthly postings.
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 (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 the 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 the subsidiary ledgers is shown in Illustration B-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 multicolumn 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 B-8.
### Accounts Receivable Subsidiary Ledger

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Ref.</th>
<th>Cash Dr.</th>
<th>Sales Discounts Dr.</th>
<th>Accounts Receivable Cr.</th>
<th>Sales Cr.</th>
<th>Other Accounts Cr.</th>
<th>Cost of Goods Sold Dr.</th>
<th>Mds. Inv. Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Common Stock</td>
<td>311</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Abbot Sisters</td>
<td>10</td>
<td>1,900</td>
<td></td>
<td>10,388</td>
<td>2,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Babson Co.</td>
<td>17</td>
<td>11,123</td>
<td></td>
<td>227</td>
<td>11,350</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carson Bros.</td>
<td>23</td>
<td>6,000</td>
<td></td>
<td>156</td>
<td>7,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deli Co.</td>
<td>28</td>
<td>9,114</td>
<td></td>
<td>186</td>
<td>9,300</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### General Ledger

#### Cash

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>53,769</td>
</tr>
</tbody>
</table>

#### Accounts Receivable

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>90,230</td>
</tr>
</tbody>
</table>

#### Merchandise Inventory

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>62,190</td>
</tr>
</tbody>
</table>

#### Notes Payable

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>62,190</td>
</tr>
</tbody>
</table>

#### Common Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 1</td>
<td></td>
<td></td>
<td></td>
<td>5,000</td>
</tr>
</tbody>
</table>

#### Sales

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>90,230</td>
</tr>
</tbody>
</table>

#### Sales Discounts

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>781</td>
</tr>
</tbody>
</table>

#### Cost of Goods Sold

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 May 31</td>
<td></td>
<td></td>
<td></td>
<td>62,190</td>
</tr>
</tbody>
</table>

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.
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 Food Wholesale. Collections from customers relate to the entries recorded in the sales journal in Illustration B-5. The entries in the cash receipts journal are based on the following cash receipts:

- **May 1** Stockholders invest $5,000 in the business.
- **7** Cash sales of merchandise total $1,900 (cost, $1,240).
- **10** A check for $10,388 is received from Abbot Sisters in payment of invoice No. 101 for $10,600 less a 2 percent discount.
- **12** Cash sales of merchandise total $2,600 (cost, $1,690).
- **17** A check for $11,123 is received from Babson Co. in payment of invoice No. 102 for $11,350 less a 2 percent discount.
- **22** Cash is received by signing a note for $6,000.
- **23** A check for $7,644 is received from Carson Bros. in full for invoice No. 103 for $7,800 less a 2 percent discount.
- **28** A check for $9,114 is received from Deli Co. in full for invoice No. 104 for $9,300 less a 2 percent discount.

Further information about the six columns in the cash receipts journal (see Illustration B-8) follows.

**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.

**HELPFUL HINT**

When is an account title entered in the “Account Credited” column of the cash receipts journal?

Answer: A subsidiary ledger title is entered there whenever the entry involves a collection of accounts receivable. A general ledger account title is entered there whenever the entry involves an account that is not the subject of a special column (and an amount must be entered in the Other Accounts column). No account title is entered there if neither of the foregoing applies.
In a multicolumn 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 multicolumn 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 B-9. Totaling the columns of a journal and proving the equality of the totals is called footing and cross-footing a journal.

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Sales Accounts</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>$49,500</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$53,769</td>
</tr>
<tr>
<td></td>
<td>Other Accounts</td>
</tr>
<tr>
<td></td>
<td>Merchandise Inventory</td>
</tr>
<tr>
<td>$57,480</td>
<td>$57,480</td>
</tr>
</tbody>
</table>

Illustration B-9
Proving the equality of the cash receipts journal

Posting the Cash Receipts Journal

Posting a multicolumn 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 making up 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 the 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 B-10 (page 494), the general ledger totals are in agreement. Also, the sum of the subsidiary ledger balances equals the control account balance.
**Illustration B-10**

Proving the ledgers after posting the sales and the cash receipts journals.

**Illustration B-11**

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.
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 B-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 multicolumn format. The purchases journal for Karns Food Wholesale is shown in Illustration B-11.

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.

The entries for Karns Food Wholesale are based on the assumed credit purchases shown in Illustration B-12.

<table>
<thead>
<tr>
<th>Date</th>
<th>Supplier</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/6</td>
<td>Jasper Beef, Inc.</td>
<td>$11,000</td>
</tr>
<tr>
<td>5/10</td>
<td>Eaton and Howe Poultry Inc.</td>
<td>7,200</td>
</tr>
<tr>
<td>5/14</td>
<td>Fabor and Son Seafood</td>
<td>6,900</td>
</tr>
<tr>
<td>5/19</td>
<td>Jasper Beef Inc.</td>
<td>17,500</td>
</tr>
<tr>
<td>5/26</td>
<td>Fabor and Son Seafood</td>
<td>8,700</td>
</tr>
<tr>
<td>5/29</td>
<td>Eaton and Howe Poultry 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 in Illustration B-13.

Illustration B-12

Credit purchases transactions

HELPFUL HINT
Postings to subsidiary ledger accounts are done daily because it is often necessary to know a current balance for the subsidiary accounts.

Illustration B-13

Proving the equality of the purchases journal
HELPFUL HINT
A multicolumn purchases journal must be footed and cross-footed to prove the equality of debits and credits.

Illustration B-14
Multicolumn purchases journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Ref.</th>
<th>Accounts Payable Cr.</th>
<th>Merchandise Inventory Dr.</th>
<th>Office Supplies Dr.</th>
<th>Store Supplies Dr.</th>
<th>Other Accounts Dr.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Signe Audio</td>
<td>✓</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Wright Co.</td>
<td>✓</td>
<td>1,500</td>
<td></td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Orange Tree Co.</td>
<td>✓</td>
<td>2,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Sue's Business Forms</td>
<td>✓</td>
<td>800</td>
<td></td>
<td>800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>56,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>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 B-15.

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 B-15 are based on the following transactions for Karns Food Wholesale:

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 Beef Inc. in payment of May 6 invoice for $11,000 less a 2 percent discount.
19     Check No. 105 for $6,984 mailed to Eaton and Howe Poultry in payment of May 10 invoice for $7,200 less a 3 percent discount.
23     Check No. 106 for $6,831 sent to Fabor and Son Seafood in payment of May 14 invoice for $6,900 less a 1 percent discount.
28     Check No. 107 for $17,150 sent to Jasper Beef Inc. in payment of May 19 invoice for $17,500 less a 2 percent discount.
30     Check No. 108 for $500 issued to stockholders as a cash dividend.

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 journal has been journalized, the columns are totaled. The totals are then balanced to prove the equality of debits and credits.

Illustration B-15
Journalizing and posting the cash payments journal.
Posting the Cash Payments Journal

The procedures for posting the cash payments journal are similar to those for the cash receipts journal. The amounts recorded in the Accounts Payable column are posted individually to the subsidiary ledger and in total to the control account. Merchandise Inventory and Cash are posted only in total at the end of the month. Transactions in the Other Accounts column are posted individually to the appropriate account(s) affected. No totals are posted for this column.

The posting of the cash payments journal is shown in Illustration B-15 (page 497). Note that the symbol $CP$ is used as the posting reference. After postings are completed, the equality of the debit and credit balances in the general ledger should be determined. In addition, the control account balances should agree with the subsidiary ledger total balance. The agreement of these balances is shown in Illustration B-16.

Illustration B-16
Proving the ledgers after postings from the sales, cash receipts, purchases, and cash payments journals

### Effects of Special Journals on the 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 Food Wholesale 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 B-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.

**BEFORE YOU GO ON...**

1. What types of special journals are frequently used to record transactions? Why are special journals used?
2. Explain how transactions recorded in the sales journal and the cash receipts journal are posted.
3. Indicate the types of transactions that are recorded in the general journal when special journals are used.

**DO IT**

Vilas Company has the following selected transactions: (1) purchase of equipment for cash, (2) cash sales, (3) sales returns and allowances, (4) payment of cash dividends, and (5) sales of merchandise on account. Identify the journals in which each transaction should be entered.

**ACTION PLAN**

- Know the content of each special journal.
- Understand the effect of special journals on the general journal.
SOLUTION

DEMONSTRATION PROBLEM

Dion Restaurant Equipment Company uses a six-column cash receipts journal with the following columns: Cash (Dr.), Sales Discounts (Dr.), Accounts Receivable (Cr.), Sales (Cr.), Other Accounts (Cr.), and Cost of Goods Sold (Dr.) and Merchandise Inventory (Cr.). Cash receipts transactions for the month of July 2008 are as follows.

July 3 Cash sales total $5,800 (cost, $3,480).
5 A check for $6,370 is received from Jeltz Deli in payment of an invoice dated June 26 for $6,500, terms 2/10, n/30.
9 An additional investment of $5,000 in cash is made in the business by stockholders.
10 Cash sales total $12,519 (cost, $7,511).
12 A check for $7,275 is received from R. Eliot Seafood House in payment of a $7,500 invoice dated July 3, terms 3/10, n/30.
15 A customer advance of $700 cash is received for future sales.
20 Cash sales total $15,472 (cost, $9,283).
22 A check for $5,880 is received from Beck Hamburger in payment of a $6,000 invoice dated July 13, terms 2/10, n/30.
29 Cash sales total $17,660 (cost, $10,596).
31 Cash of $200 is received on interest earned for July.

Instructions
(a) Journalize the transactions in the cash receipts journal.
(b) Contrast the posting of the Accounts Receivable and Other Accounts columns.

ACTION PLAN
• Record all cash receipts in the cash receipts journal.
• The “account credited” indicates items posted individually to the subsidiary ledger or general ledger.
• Record cash sales in the cash receipts journal—not in the sales journal.
• The total debits must equal the total credits.

SOLUTION TO DEMONSTRATION PROBLEM

(a) DION RESTAURANT EQUIPMENT COMPANY
Cash Receipts Journal CR1

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Cash Dr.</th>
<th>Sales Discounts Dr.</th>
<th>Accounts Receivable Cr.</th>
<th>Sales Cr.</th>
<th>Other Accounts Cr.</th>
<th>Cost of Goods Sold Dr. Mds. Inv. Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Jeltz Deli</td>
<td>5,800</td>
<td>130</td>
<td>6,500</td>
<td>5,800</td>
<td></td>
<td>3,480</td>
</tr>
<tr>
<td>9</td>
<td>Common Stock</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>R. Eliot Seafood House</td>
<td>12,519</td>
<td>225</td>
<td>7,500</td>
<td>12,519</td>
<td></td>
<td>7,511</td>
</tr>
<tr>
<td>15</td>
<td>Unearned Revenues</td>
<td>700</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Beck Hamburger</td>
<td>15,472</td>
<td>120</td>
<td>6,000</td>
<td>15,472</td>
<td></td>
<td>9,283</td>
</tr>
<tr>
<td>29</td>
<td></td>
<td>17,660</td>
<td>120</td>
<td>6,000</td>
<td>17,660</td>
<td></td>
<td>10,596</td>
</tr>
<tr>
<td>31</td>
<td>Interest Revenue</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) The Accounts Receivable column is posted as a credit to Accounts Receivable. The individual amounts are credited to the customers’ accounts identified in the Account Credited column, which are maintained in the accounts receivable subsidiary ledger.

The amounts in the Other Accounts column are only posted individually. They are credited to the account titles identified in the Account Credited column.
SUMMARY OF STUDY OBJECTIVES

1. Describe the nature and the 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 multicolumn journal is posted. In posting a multicolumn 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 A subsidiary ledger that contains accounts of individual creditors (p. 484).
Accounts receivable (customers') subsidiary ledger A subsidiary ledger that contains individual customer accounts (p. 484).
Cash payments journal A special journal used to record all cash paid (p. 496).
Cash receipts journal A special journal used to record all cash received (p. 490).
Control account An account in the general ledger that summarizes a subsidiary ledger (p. 485).

EXERCISES

B-1 Identify in the ledger (general or subsidiary) in which each of the following accounts is shown.
1. Rent Expense
2. Accounts Receivable—Char
3. Notes Payable
4. Accounts Payable—Thebeau

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

B-3 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
2. Credit to Merchandise Inventory
3. Credit to Accounts Receivable
4. Debit to Accounts Payable

B-4 Paris Vacation Resorts, Inc., uses a multicolumn cash receipts journal. Indicate which column(s) is (are) posted only in total, only daily, or both in total and daily.
1. Accounts Receivable
2. Sales Discounts
3. Credit to Accounts Receivable
4. Debit to Accounts Payable

B-5 Bayou Oaks Country Club uses special journals and a general journal. Identify the journal in which each of the following transactions is recorded.
1. Purchased equipment on account.
2. Purchased merchandise on account.
3. Paid utility expense in cash.
4. Sold merchandise on account.

B-6 Miguel Taoueria 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 $320,000; the Accounts Payable control account had a credit balance of $87,000.

Cross-footing The proving of the equality of the totals in a journal (p. 493).
Footing The totaling of a column of a journal (p. 493).
Purchases journal A special journal used to record all purchases of merchandise on account (p. 495).
Sales journal A special journal used to record all sales of merchandise on account (p. 488).
Special journal A journal that is used to record similar types of transactions, such as all credit sales (p. 487).
Subsidiary ledger A group of accounts with a common characteristic (p. 484).
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.

<table>
<thead>
<tr>
<th>Journal</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales journal</td>
<td>Total sales $161,400</td>
</tr>
<tr>
<td>Purchase journal</td>
<td>Total purchases $56,400</td>
</tr>
<tr>
<td>Cash receipts journal</td>
<td>Accounts Receivable column total $141,000</td>
</tr>
<tr>
<td>Cash payments journal</td>
<td>Accounts Payable column total $47,500</td>
</tr>
</tbody>
</table>

**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 (are) the column total of $161,400 in the sales journal posted?
(d) To what account(s) is (are) the accounts receivable column total of $141,000 in the cash receipts journal posted?

**B-7** Presented below is the subsidiary accounts receivable account of Nathan Ross:

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td>61,000</td>
<td>14,000</td>
<td>47,000</td>
</tr>
<tr>
<td>Sept. 2</td>
<td>$31</td>
<td></td>
<td></td>
<td>61,000</td>
</tr>
<tr>
<td>9</td>
<td>G4</td>
<td></td>
<td></td>
<td>47,000</td>
</tr>
<tr>
<td>27</td>
<td>CR8</td>
<td></td>
<td></td>
<td>-0-</td>
</tr>
</tbody>
</table>

**Instructions**

Write a memo to Mr. Murphy, the general manager, that explains each transaction.

**B-8** On September 1, the balance of the Accounts Receivable control account in the general ledger of John’s Produce, Inc., was $11,960. The customers’ subsidiary ledger contained account balances as follows: Jana Seafood $2,440; Binstead Bakery $2,640; Cavanaugh Pancakes $2,060; Bickford Grille $4,820. At the end of September, the various journals contained the following information:

- **Sales journal**: Sales to Bickford Grille $800; to Jana Seafood $1,260; to Iman Groceries $1,030; to Cavanaugh Pancakes $1,100.
- **Cash receipts journal**: Cash received from Cavanaugh Pancakes $1,310; from Bickford Grille $2,300; from Iman Groceries $380; from Kingston Bakery $1,800; from Jana Seafood $1,240.
- **General journal**: An allowance is granted to Bickford Grille $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, 2008.

**B-9** Sing Tao Beverages uses special journals and a general journal. The following transactions occurred during September 2008.

- Sept. 2 Sold merchandise on account to Mephisto, invoice no. 101, $520, terms n/30. The cost of the merchandise sold was $300.
- 10 Purchased merchandise on account from Fantasia Bar & Grill $600, terms 2/10, n/30.
- 12 Purchased office equipment on account from Office Express $6,500.
- 21 Sold merchandise on account to Shinhan, invoice no. 102 for $800, terms 2/10, n/30. The cost of the merchandise sold was $480.
- 25 Purchased merchandise on account from Manion Wholesale $810, terms n/30.
- 27 Sold merchandise to Miller Brewery for $700 cash. The cost of the merchandise sold was $400.
Instructions
(a) Draw a sales journal (see Illustration E-6) and a single-column purchases journal (see Illustration E-11). (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.

B-10 Svenska Shirts uses special journals and a general journal. The following transactions occurred during May 2008.

May 1 I. Svenska invested $60,000 cash in the business in exchange for common stock.
2 Sold merchandise to Sherrick Country Club for $6,300 cash. The cost of the merchandise sold was $4,200.
3 Purchased merchandise for $8,200 from J. Rome using check no. 101.
14 Paid salary to H. Potter $700 by issuing check no. 102.
16 Sold merchandise on account to Denmark Diner for $900, terms n/30. The cost of the merchandise sold was $630.
22 A check of $9,000 is received from Irish Pub in full for invoice 101; no discount given.

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

EXPLORING THE WEB
B-11 Peachtree is one of the leading accounting software packages. Information related to this package is found at its Web site.

Address: www.Peachtree.com/Peachtreeaccountingline/first/features_main.cfm

Steps
1. Go to the Peachtree site.
2. Choose General Ledger. Answer question (a) below.
3. Choose Accounts Payable. Answer question (b) below.

Instructions
(a) What are three key features of the general ledger module highlighted by the company?
(b) What are three key features of the payables management module highlighted by the company?