

Case Study 6: Purchases and Cash Payments

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Journalize the purchase of merchandise and cash payments on account
- Categorize the different places where books can be purchased
- Explain how to purchase a book on the Internet

Study Tips:

Complete this case study after Chapter 15, Glencoe Accounting, First-Year Course.
Approximate time to complete: 1 1/2 hours.

Overview:

Where did you buy your last book? At a small, locally owned bookstore? At a national chain bookstore? At the drugstore? Through a book club? On the Internet?

One of the leading online bookstores, Amazon.com, formed in 1995, boasts Earth's Biggest Selection™ of products. They reported net sales of \$805 million for the second quarter of 2002. According to *Washington Post* in 2002, "Amazon.com ranked near the top of the list in customer satisfaction, with an overall score of 84, when the University of Michigan released the results of its survey of how customers viewed Internet retailers earlier this year."

There are more ways and places than ever before to buy books. For example, between 1990 and 1997, 800 bookselling superstores were opened. In 1996 alone, 190 stores opened. According to *Publisher's Weekly*, the most respected trade journal for the publishing industry, the overall amount of retail space for book selling was up 20% during 1996.

According to the Consumer Research Study on Book Publishing, this is where the bulk of books were sold by percentage in 1997:

Establishment	Source by Percentage
Small Chain-Independent Store	17.2%
Large Chain Bookstore	25.2
Book Club	20.3
Discount Store	9.0
Food/Drug Store	4.2
Mail Order	6.0
Used Bookstore	3.0
Warehouse/Price Club	6.0
Other Outlet	9.0

Accounting Applications:

Instructions: Now that you have reviewed the case study above, answer the following questions on your own.

While the overall number of places to buy books has increased, the number of small bookstores has decreased. Independent booksellers claim it is harder to make a profit because larger chains get bigger discounts from publishers and distributors. These discounts enable large chains to set lower selling prices. The following exercise illustrates the difference in the discounts given by publishers and distributors.

1. Journalize the following transactions made by a small chain bookstore, Roundtable Books.

On December 17, Roundtable Books received Invoice 311 from Biblioware book distributor for books purchased on account, \$1,207.00.

On January 3, Roundtable Books paid \$724.20 to Biblioware for books purchased on account, \$1,207.00 less a discount of \$482.80, Check 1442.

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CASH PAYMENTS JOURNAL										PAGE _____
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2. Journalize the following transactions made by the large chain bookstore, Beyond Books.

On December 19, Beyond Books received Invoice 43977 from Biblioware book distributors for books purchased on account, \$13,497.00.

On January 10, Beyond Books paid \$7,018.44 to Biblioware for books purchased on account, \$13,497.00 less a discount of \$6,478.56, Check 7964.

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3. Compare discount percentages given by Biblioware above. Is there a difference? Why?

Class Interaction and Discussion:

Instructions: Read the following question. As a class, discuss your responses.

If you bought a book within this past year, where did you buy it? If you haven't purchased a book in the past year, name three places where you would be most likely to buy a book. Discuss why you might choose to shop online, at a local bookstore, or via mail order.

Optional Internet Exploration and Research Activity:

Instructions: Using your favorite search engine, research the following activity.

There are several ways to buy books on the Internet. Two “electronic stores” are Amazon.com and Barnesandnoble.com. Use the Internet to find a book you might like to buy. Answer the following questions:

1. What is the Internet address of the online bookstore?

2. What steps did you take to find the book you wanted in the store?

3. How much does the book cost?

4. Are there shipping costs?

5. What is the store policy regarding returns?

6. If you were to purchase the book, how long would it take to receive it?

Summary Questions:

1. What journals do you use to record purchases on account, purchases for cash, and cash payments?

2. What accounts are debited and credited when merchandise is purchased on account?

3. What accounts are debited and credited when a purchase on account with a discount is paid?
