(1)

We need to see the impact of the bank sales of $300 on the balance sheet. This is paid by a credit sale via bank cards, so we have the following:

|  |  |
| --- | --- |
| Particulars | Amount |
| Purchase of items using the card | +300 in assets  (Increase in card accounts receivable)  +300 in equity  (Increase in sales) |
| Deposit of the credit slip to the bank | +288 in assets  (Increase in Cash)  -300 in assets  (Decrease in card accounts receivable)  -12 in equity  (Bank card charges) |

(2)

Let us consider the impact of adding cards. The sales would become $400,000 from cash and $400,000 from bank card. Using bank card would reduce the bad debts and administrative expenses as well.

Now, if Michelle deposits the credit slip, it will cost her 4% of her $400,000 sales i.e. $16,000 as the bank charges.

This is accompanied by an increase in $13,000 using only cash. Thus, the overall result is $(3,000), which means that Michelle’s store earns less than what it used to earn earlier without using card.

Thus, it would be safe for Michelle, based on this information, to not allow bank transactions.

(3)

If sales increase by 10% due to card, then the net sales become $880,000.

Now, $440,000 is generated due to card and $440,000 due to cash sales. Thus, bank would charge 4% of $440,000 i.e. $17,600 for charges.

The bad debts and administrative expenses are eliminated as a result.

So, the net is:

$80,000 (increase in sales) + $13,000 (no cash liabilities) - $17,600 = $75,400 (net increase)

Thus, if sales increase by 10%, then Michelle should safely allow card payments as well.