LO: Journalize additional transactions by applying the rules of debit and credit to additional business events

* Journalize purchase transactions both for cash and on account.

1.  Core Fitness purchases bathroom supplies from Easy Clean, Inc. for $100 to be used this month and pays cash.

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| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 | Supplies Expense |  | 100 |  | ▲ *Supplies Expense* is an **expense** account that is **increasing**. | | | | | | |
|  | Cash |  |  | 100 | ▼ *Cash* is an **asset** account that is **decreasing**. | | | | | | |
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Core Fitness paid Easy Clean cash immediately.

When a business purchases supplies from a vendor, it may immediately pay with cash.

2. Core Fitness purchases cleaning supplies,from Easy Clean  to be used this month for $200 on account and receives an invoice from Easy Clean.

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| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 | Supplies Expense |  | 200 |  | ▲ *Supplies Expense* is an **expense** account that is **increasing**. | | | | | | |
|  | Accounts Payable |  |  | 200 | ▲ *Accounts Payable* is a **liability** account that is **increasing**. | | | | | | |
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*The amount Core Fitness owes to Easy Clean is in the Accounts Payable account.*

*Accounts Payable* is a liability account that keeps track of how much a business owes because it was billed by vendors rather than immediately paying cash. A liability is a debt a business owes. The *Accounts Payable* account is used as a substitute for Cash when a business purchases something or receives a service from a vendor and does not pay cash immediately, but instead is billed on account (sent an invoice) and expected to pay in the future.

3. Core Fitness pays Easy Clean on account for the invoice it received on 6/1.

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| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/30 | Accounts Payable |  | 200 |  | ▼ *Accounts Payable* is a **liability** account that is **decreasing**. | | | | | | |
|  | Cash |  |  | 200 | ▼ *Cash* is an **asset** account that is **decreasing**. | | | | | | |
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When the companyCore Fitness pays the invoice to Easy Clean, *Accounts Payable* is debited to decrease it and *Cash* is credited to decrease it. The company’sCore Fitness’ *Accounts Payable* balance becomes zero now that it has paid in full. This is shown in the following *Accounts Payable* ledger where transactions #2 and #3 are posted.

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| LEDGER | | | | | |
|  | | | | | |
| Accounts Payable | | | | | |
| **Date** | **Item** | **Debit** | **Credit** | **Debit** | **Credit** |
| 6/1 |  |  | 200 |  | 200 |
| 6/30 |  | 200 |  |  | 0 |
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## Interactive Exercise 9 – Purchase transactions on account

Instructions:  1. Journalize the following two transactions.  
                        2. Answer the question after the journal entries.

1.  6/1 A company purchases supplies to be used this month for $970 receives an invoice on account.  
2.  6/30 The company pays the vendor on account for the invoice it received on 6/1.

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| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 |  |  |  |  |  | | | | | | |
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| 6/30 |  |  |  |  |  |  | | | | | | |
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*Question:* What is the credit balance in the Accounts Payable account after the 6/1 transaction is posted?  $ \_\_\_\_\_\_\_\_\_\_

*[Hint:* A liability account is used to record the original purchase transaction. When the cash is paid, that liability’s balance is set back to zero.]

*[ANSWER KEY]*

1.  6/1 A company provides a service and sends the customer an invoice for $1,400.  
2.  6/30 The company receives payment on account from the customer who had been invoiced on 6/1.

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| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 | Supplies Expense |  | 970 |  |  | | | | | | |
|  | Accounts Payable |  |  | 970 |  | | | | | | |
|  |  |  |  |  |  | | | | | | |
| 6/30 | Accounts Payable |  | 970 |  |  |  | | | | | | |
|  | Cash |  |  | 970 |  |  | | | | | | |
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*Question:* What is the credit balance in the Accounts Payable account after the 6/1 transaction is posted?  $ \_\_970\_\_\_\_