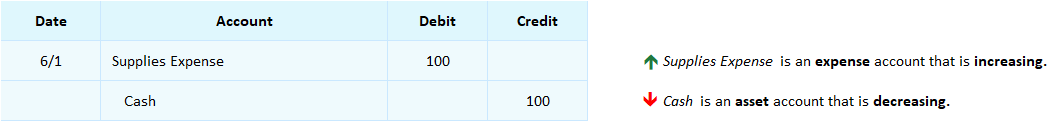
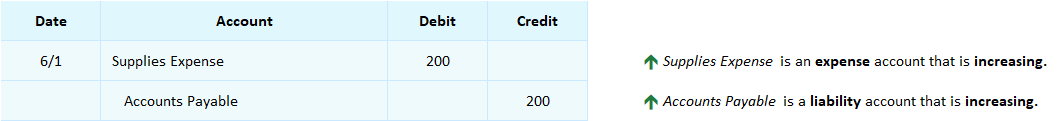
1.  Core Fitness purchases bathroom supplies from Easy Clean, Inc. for $100 to be used this month and pays cash immediately.



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.

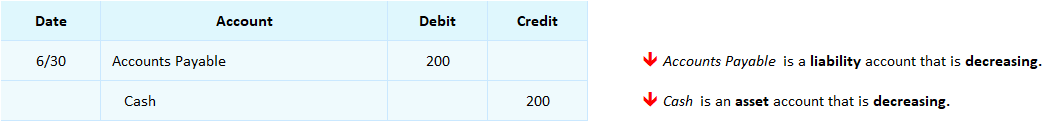


The amount Core Fitness owes to Easy Clean is in the Accounts Payable account.

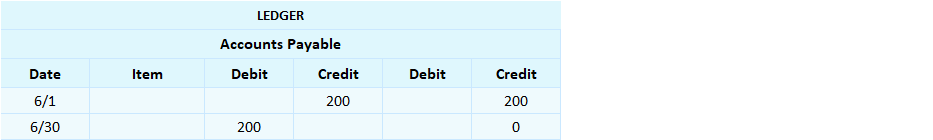
Note

“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.



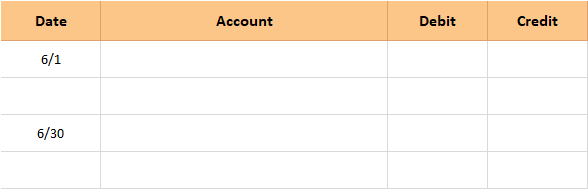
When Core Fitness pays the invoice to Easy Clean, *Accounts Payable* is debited to decrease it and *Cash* is credited to decrease it. Core Fitness’ *Accounts Payable* balance becomes zero now that it has paid in full. This is shown in the following *Accounts Payable* ledger where transactions #2 and #3 are posted.



## 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.



*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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | | | | | |  |
| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 | Supplies Expense |  | 970 |  |  | | | | | | |
|  | Accounts Payable |  |  | 970 |  | | | | | | |
|  |  |  |  |  |  | | | | | | |
| 6/30 | Accounts Payable |  | 970 |  |  |  | | | | | | |
|  | Cash |  |  | 970 |  |  | | | | | | |
|  |  |  |  |  |  |  | | | | | | |

*Question:* What is the credit balance in the Accounts Payable account after the 6/1 transaction is posted?  $ \_\_970\_\_\_\_