Exploring Special Journals: Returns and Allowances

Purchases Returns and Allowances

We already learned about recording Purchases Returns and Allowances transactions in the General Journal. This part will be a review. Then we will learn about Sales Returns and Allowances (same concept, just for customer returns).

Purchases Returns are when a business returns merchandise for a refund (either to Cash or Accounts Payable, depending on how the items were originally paid for).

Purchases Allowances are when the merchandise is damaged or not as expected, but the vendor allows the customer to keep the merchandise at a reduced price.

Both of these adjustments are recorded to the "Purchases Returns and Allowances" account. This account is a "contra" account to Purchases. It has a normal credit balance (the opposite of Purchases).

Note: These transactions will debit either Cash or Accounts Payable and credit the Purchases Returns and Allowances account. The source document for these types of transactions is called a Debit Memorandum (DM).

February 2 Returned merchandise to Paperclips, $250, which was purchased for cash. DM601.
February 5 Returned merchandise to Zears, $100, which was purchased on account. DM602.
February 12 Returned merchandise to Wizmart, $300, which was purchased on account. DM603.
February 20 Returned merchandise to Bullseye, $400, which was purchased on account. DM604.

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Date		Account Title	Doc. No.	Post. Ref.	Debit					Credit				

Exploring Special Journals: Returns and Allowances

Sales Returns and Allowances

Sales Returns and Allowances are recorded when customers return merchandise (returns) or receive a discount (allowances).

Sales Returns are when a customer returns merchandise for a refund (either to Cash or Accounts Receivable, depending on how the items were originally paid for).

Sales Allowances are when the customer's merchandise is damaged or not as expected and you allow the customer to keep the merchandise at a reduced price.

Both of these adjustments are recorded to the "Sales Returns and Allowances" account. This account is a "contra" account to Sales. It has a normal debit balance (the opposite of Sales).

Note: These transactions will credit either Cash or Accounts Receivable and debit the Sales Returns and Allowances account, as well as the Sales Tax Payable account. The source document for these types of transactions is called a Credit Memorandum (CM).

February 4 Granted credit to Isaiah Shields for merchandise returned, $500, plus sales tax, $25; total $525. CM701.
February 12 Granted credit to Serenity Robertson for merchandise returned, $200, plus sales tax, $10; total $210. CM702.
February 19 Granted credit to Ben Walden for merchandise returned, $300, plus sales tax, $15; total $315. CM703.
February 26 A cash customer returned merchandise, $100, plus sales tax, $5; total $105. CM704.

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