

Q 8.21: On May 12, 2017, Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For \$6,897,

Q 8.21: On May 12, 2017, Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For \$6,897 is a fundamental transaction that illustrates the core principles of accrual accounting and the process of recording sales on credit. Understanding this transaction provides valuable insights into how businesses record revenue, manage accounts receivable, and maintain accurate financial statements. This article explores the details of this transaction, the accounting entries involved, and its significance in the broader context of financial accounting practices.

Understanding the Transaction: Q 8.21 Explained

Scenario Overview

On May 12, 2017, Hudson Merchandise, a retailer or wholesaler, made a sale to Guzman Housewares—a business specializing in household products—on credit. The sale amount was \$6,897. Instead of receiving immediate cash, Guzman Housewares agreed to pay Hudson Merchandise at a later date, creating an accounts receivable.

Key Elements of the Transaction

- Date of Sale: May 12, 2017
- Parties Involved:
 - Seller: Hudson Merchandise
 - Buyer: Guzman Housewares
- Type of Sale: Sale on account (credit sale)
- Sale Amount: \$6,897
- Payment Terms: Typically, credit sales have specified payment terms, such as net 30 days, but specific terms are not provided here.

Accounting Principles Underpinning the Transaction

Revenue Recognition Principle

According to Generally Accepted Accounting Principles (GAAP), revenue should be recognized when earned, regardless of when cash is received. In this case, Hudson Merchandise recognizes revenue on May 12, 2017, the date the sale occurs, not when payment is collected.

Matching Principle

Expenses associated with this sale, such as the cost of goods sold (COGS), should be matched with this revenue in the same accounting period to accurately reflect profitability.

Recording the Sale: Journal Entries

Proper recording of this transaction involves at least two journal entries:

1. Recording the Sale

This entry records the revenue earned and the increase in accounts receivable.

- **Debit:** Accounts Receivable \$6,897
- **Credit:** Sales Revenue \$6,897

Explanation:

- Accounts Receivable: An asset account increasing, indicating Guzman Housewares owes Hudson Merchandise this amount.
- Sales Revenue: Recognized as income earned during the period.

2. Recording Cost of Goods Sold (Optional)

If the cost of the merchandise sold is known, a second entry records the reduction in inventory and recognizes COGS.

- **Debit:** Cost of Goods Sold (e.g., \$4,500)
- **Credit:** Inventory (e.g., \$4,500)

Note: The actual COGS amount depends on the inventory cost, which is not specified here.

Implications of the Transaction for Financial Statements

Impact on the Income Statement

The sale increases total revenue, which contributes to net income. The recognition of COGS reduces gross profit, ultimately affecting net income.

Impact on the Balance Sheet

Accounts receivable increases, reflecting the amount owed by Guzman Housewares. If inventory is reduced due to the sale, inventory assets decrease accordingly.

Managing Accounts Receivable and Payment Collection

Monitoring Outstanding Receivables

Maintaining accurate records of receivables helps ensure timely collection and cash flow management.

Collection Process

- Send invoices promptly after sale
- Follow up on overdue accounts
- Record cash collections when received

Additional Considerations in Credit Sales Transactions

Credit Terms and Policies

Establishing clear credit policies minimizes the risk of bad debts. Typical terms include:

- Payment due date (e.g., net 30 days)
- Discount for early payment
- Penalties for late payment

Bad Debt Estimation and Allowance for Doubtful Accounts

Companies often estimate uncollectible accounts based on historical data and record an allowance for doubtful accounts to reflect potential losses.

Why Accurate Recording Matters

Ensuring Financial Accuracy

Properly recording credit sales ensures that financial statements accurately represent the company's financial position and performance.

Regulatory Compliance

Accurate accounting aligns with GAAP and helps in audits, tax reporting, and regulatory compliance.

Supporting Business Decision-Making

Reliable financial data aids management in making informed decisions about credit policies, inventory management, and cash flow planning.

Summary of Key Points

1. The transaction involves a credit sale of \$6,897 from Hudson Merchandise to Guzman Housewares.
2. The sale is recorded by debiting accounts receivable and crediting sales revenue.
3. If COGS is known, a corresponding journal entry reduces inventory and records COGS.
4. This transaction impacts both the income statement and balance sheet.
5. Effective management of receivables is crucial for cash flow and financial health.
6. Adherence to accounting principles ensures accurate financial reporting.
7. Establishing sound credit policies mitigates risks associated with credit sales.

Conclusion: Significance of Q 8.21 in Accounting Practice

The transaction detailed in Q 8.21 exemplifies essential accounting processes for recording credit sales. It underscores the importance of recognizing revenue when earned, maintaining accurate accounts receivable, and understanding the impact on financial statements. For businesses like Hudson Merchandise, mastering these transactions is vital for financial integrity and operational success. Properly recording and managing credit sales not only ensures compliance with accounting standards but also supports strategic decision-making, ultimately contributing to sustained business growth.

Keywords for SEO: Hudson Merchandise, Guzman Housewares, credit sale, accounts receivable, sales transaction, revenue recognition, accounting entries, financial statements, inventory management, COGS, credit policies, bad debts, accrual accounting, financial reporting

Frequently Asked Questions

What transaction took place between Hudson Merchandise and Guzman Housewares on May 12, 2017?

Hudson Merchandise sold merchandise on account to Guzman Housewares for \$6,897.

How is a sale on account recorded in accounting for Hudson Merchandise?

It is recorded as an increase in accounts receivable and sales revenue.

What does 'sold merchandise on account' mean in this context?

It means Hudson Merchandise provided goods to Guzman Housewares with payment to be made later, not immediately.

What journal entry would Hudson Merchandise make for this sale?

Debit Accounts Receivable \$6,897 and credit Sales Revenue \$6,897.

Why is the sale amount of \$6,897 significant for Hudson Merchandise's financial statements?

It contributes to revenue and accounts receivable figures, impacting profitability and assets.

How might Guzman Housewares record this transaction on their books?

They would record a purchase and an accounts payable liability for \$6,897.

What are potential implications of this transaction for Hudson Merchandise's cash flow?

Since it's on account, cash flow isn't affected immediately; payment will be received later, affecting receivables.

What are some common errors to watch for when recording sales on account like this?

Errors can include recording the wrong amount, failing to update accounts receivable, or misclassifying the transaction.

Additional Resources

Q 8.21: On May 12, 2017, Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For \$6,897 is a classic example used in accounting coursework to illustrate the mechanics of recording a sale on credit. This transaction encapsulates fundamental principles of accrual accounting, revenue recognition, and accounts receivable management. Analyzing this scenario provides valuable insights into how businesses record and track credit sales, the importance of proper documentation, and the implications for financial reporting. In this article, we will explore the transaction in detail, examine its accounting treatment, discuss its relevance in real-world business operations, and highlight key considerations for effective credit sales management.

Understanding the Transaction

Context and Basic Details

The transaction involves Hudson Merchandise, a retailer or wholesaler, making a sale of merchandise valued at \$6,897 to Guzman Housewares on May 12, 2017. The key aspect here is that the sale was made "on account," meaning Guzman Housewares did not pay cash immediately but instead was extended credit, promising to pay in the future. This type of transaction is commonplace in retail and wholesale industries, facilitating sales growth and customer convenience.

The primary elements of this transaction include:

- The date of sale: May 12, 2017
- The seller: Hudson Merchandise
- The buyer: Guzman Housewares
- The amount: \$6,897
- The method of payment: On account (credit sale)

This straightforward example allows students and practitioners to understand how credit sales are recorded in the accounting system.

Accounting Treatment of the Sale

Recording the Sale

When Hudson Merchandise makes this sale, the accounting entry reflects two main components: recognizing revenue and recording a receivable.

The typical journal entry on May 12, 2017, would be:

- Debit: Accounts Receivable \$6,897
- Credit: Sales Revenue \$6,897

This entry indicates that Hudson Merchandise has earned revenue worth \$6,897, which is yet to be received in cash. The Accounts Receivable account is an asset account that tracks amounts owed by customers like Guzman Housewares.

Key Points:

- The sale increases assets (accounts receivable).
- Revenue is recognized at the point of sale under accrual accounting principles.
- The transaction complies with revenue recognition standards, assuming the revenue is earned and realizable.

Implications for Financial Statements

Following this entry, the company's balance sheet will reflect an increase in assets through accounts receivable. The income statement will show an increase in sales revenue, contributing to profit calculation.

Pros:

- Accurate reflection of earned revenue.
- Better matching of income and expenses.
- Provides a clear record for future collection efforts.

Cons:

- Risk of bad debts if Guzman Housewares fails to pay.
- Accounts receivable may become aged, affecting liquidity analysis.
- Additional effort is required to monitor and collect receivables.

Subsequent Transactions and Management

Collection of the Receivable

When Guzman Housewares pays the owed amount, the journal entry would be:

- Debit: Cash \$6,897
- Credit: Accounts Receivable \$6,897

This clears the receivable and increases cash assets. Proper timing and documentation are essential to maintain accurate records.

Bad Debt Considerations

If Guzman Housewares defaults or is unable to pay, Hudson Merchandise must record a bad debt expense, which impacts net income. Depending on the company's policies, they might use:

- Direct write-off method: recognizing bad debt only when uncollectible.
- Allowance method: estimating uncollectible accounts and creating an Allowance for Doubtful Accounts.

Pros of Allowance Method:

- Matches expenses with revenues in the same period.
- Provides a more accurate picture of net realizable value.

Cons:

- Requires estimation, which may be subjective.
- Additional accounting complexity.

Relevance in Business Operations

Importance of Credit Sales

Offering credit terms is a strategic decision that can boost sales and strengthen customer relationships. It provides flexibility and can differentiate a business from competitors.

Features:

- Encourages larger and more frequent purchases.
- Builds long-term customer loyalty.
- Requires efficient credit management systems.

Drawbacks:

- Increased risk of bad debts.
- Potential cash flow constraints.
- Need for robust credit evaluation procedures.

Internal Controls and Risk Management

Effective credit management involves setting credit limits, monitoring receivables aging, and implementing collection policies. Businesses often use aging reports to track unpaid invoices and prioritize collection efforts.

Pros:

- Reduces bad debt loss.
- Enhances cash flow predictability.
- Supports informed credit decision-making.

Cons:

- Additional administrative costs.
- Possible customer dissatisfaction if credit terms are too restrictive.
- The need for ongoing staff training and oversight.

Impact on Financial Ratios and Business Analysis

Liquidity and Profitability

The recording of credit sales impacts financial ratios such as:

- Accounts Receivable Turnover Ratio
- Days Sales Outstanding (DSO)
- Gross Profit Margin
- Net Profit Margin

Monitoring these ratios helps management assess the efficiency of credit policies and overall financial health.

Credit Policy Considerations

Decisions around extending credit, setting credit limits, and collection policies directly influence these ratios and the company's risk exposure.

Conclusion and Final Thoughts

Q 8.21: On May 12, 2017, Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For \$6,897 exemplifies a fundamental aspect of accrual accounting and business operations—credit sales. Proper recording of such transactions ensures accurate financial reporting, facilitates effective receivables management, and influences strategic decision-making. While offering credit can drive sales and foster customer relationships, it also introduces risks that require diligent management through controls and policies.

In the broader context of financial analysis, understanding how to record and interpret credit sales transactions is essential for accountants, managers, and investors alike. It enables a comprehensive view of a company's liquidity, operational efficiency, and profitability. As businesses grow and diversify, mastering the nuances of sales on account, receivable management, and bad debt estimation becomes increasingly vital to maintaining financial stability and supporting sustainable growth.

Overall, this transaction not only serves as an educational example but also underscores the importance of meticulous record-keeping, strategic credit policies, and proactive receivables management in the pursuit of business success.

[Q 8 21 On May 12 2017 Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For 6 897](#)

Q 8 21 On May 12 2017 Hudson Merchandise Sold Merchandise On Account To Guzman Housewares For 6 897

Related Articles

- [Prior To Being Able To Track Real-time Performance Data, Shale Oil Companies In The Management In Action](#)
- [Problem 4 \(20 Points\): Find The Following: Note: \$L\(S\)\$ Means Laplace Transform Of \$F\(t\)\$ '\)}meanse Inverse](#)
- [Listen, Read, And Choose The Option With The Correct Answer. Based On The Audio, What Is True About This](#)

[Back to Home](#)