

UNIT 16-BANK CREDIT CARDS

Bank Credit Cards

Credit card companies such as MasterCard, Visa and American Express supply an accounts receivable service to their customers.

MasterCard and Visa are operated by financial institutions; their cards are generally called bank credit cards.

Why People Use Credit Cards

- You do not have to carry large sums of money
- Can make purchases even when you do not have the cash at the time
- Some business do not accept personnel cheques or require several pieces of ID, credit cards make it easier
- Cards are accepted internationally when travelling. Can have cash advances, so convenient

Completing the Credit Card Form

This has become out of date; most cards are checked/verified electronically. In the past this is how a transaction was completed.

1. Your card is given to the clerk, the clerk checks expiry date and the number against a sheet of lost and stolen cards.
2. Makes sure the sale amount does not exceed the floor limit, amount of a sale that does not have to be authorized by the credit card company.
3. The clerk completes the sales draft form and runs it through the imprint machine.
4. Person making the purchase signs the sales draft form and their signature is checked with that that is on the back of the credit card
5. You are given a copy of the sales draft form and the store keeps two copies of the sales draft form.

Credit Card Fees

Many credit card companies impose a fee for using the credit card. The fee may be a separate charge for each transaction or a monthly or yearly fee for using the card. All credit card companies generally charge interest on balances that have not been paid within 15 to 30 day of the statement. (page 379)

Why Businesses Use Bank Credit Cards

- Many people have credit cards and will shop at stores that accept these cards
- Store receives its money from credit card sales from the bank as soon as the sales draft forms are deposited in the bank
- There is no risk of bad debt. Guaranteed payment to the store
- Store does not have to have an accounts receivable system to record sales to customers and does not have to worry about collection amounts from customers

The stores pay a percentage of each sale to the bank credit card company for the use of the companies' credit.

Accounting Example for Bank Credit Card Transactions – Visa will be used in the examples

Sales Recap Form

At the end of the day, the store accountant prepares a merchant sales recap form (pg. 381). This is a summary of all the sales drafts for the day.

The Visa sales drafts are treated as cash and are taken to the bank and deposited at the end of the day. The bank receives the deposit and increase the balance on the account of the store.

Feb. 20	Cash	574.55	
	Visa Discount Expense	16.25	
	GST Payable		35.96
	PST Payable		41.10
	Sales		513.74
	To record Visa credit card sales		

Bank Fees

In return for providing instant cash for sales made, the bank charges the store a fee. The fee is calculated at the time of deposit.

The amount of the fee charged by the bank credit card company is based on the average volume of credit card sales and the average draft size. (pg. 382)

Merchant Statement

See page 383 – This statement is sent by the Visa bank to the merchant. The statement provides a summary of the Visa deposits made each day, the total deposits, and the fee charged by Visa for the month's transactions.

It is recorded in the journal as followed:

Visa Discount Expense	296.10	
Cash		296.10
To record the Visa discount fee for February		

Debit Cards

Financial Institutions have debit cards which eliminate the need to write cheques to pay for merchandise. The exchange of cash using this system is called ELECTRONIC FUNDS TRANSFER (EFT). This is also used by employers to deposit employees' pay directly into their bank accounts while reducing the employer's account. This same system allows people to use their debit card to retailers to make a purchase instead of writing a cheque.

This system eliminates the cost of processing the paper cheque and removes the risk of bad cheques for retailers.