No.

Date

Accounting for Merchandising operations.

1. Merchandising operations

COGS → total cost of Merchandise sold during the period.

Income Measurement process for a Merchandising company.

Sales Revenue
Less
COGS
equals
Gross profit
Less
operating expense
equals
Net income

2. Flow of cost

Two systems to account for Inventory

a. perpetual sytems

→ Companies keep detailed records of the cost of each inventory purchase & sale.

Record = continously – perpetually – Show the inventory that should be on hand for every – items.

b. Periodic sytems

→ Companies do not keep detailed inventory records of the goods on hand throughout the period. they determine the cost of goods sold only at the end of accounting period.

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③ Freight cost

→ sales agreement indicate — seller/buyer — pay for transporting the goods to the buyers place of business.

② 2 FOB → Free on Board

1. shipping point (FOB - shipping point)
   → seller free, buyer pays the freight.

2. Destination (FOB - D)
   → seller pays the freight,

④ Freight cost incurred by the buyer

→ considered part of the cost of purchasing inventory.

ex. buyer pays $150 for freight

Inventory	$150	
cash		$150.

Reason : Inventory cost should include all cost to acquire the inventory, including freight. Recognize this cost as COGS when inventory is sold.

⑤ Freight cost incurred By the seller

→ Recognized as operating expense to the seller.

Freight-out / Delivery expense.	$150	
cash		$150

seller will usually establish a higher invoice price for the goods to cover shipping expenses.

No.

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Return & Allowances.

6 Purchase ~~Discount~~

A purcharer May — Dissatisfied
- goods are damaged
- inferior quality.
- not specifications.

ex: Sauk stereo returned speaker $180

Acounts payable	$180	
~~cash~~ inventory		$180.

7 purchase Discounts.

when the buyers pays an invoice within the Discount period, the amount Decrease inventory

↳ company records ~~company~~ inventory at cost, by ~~within~~ paying within discount period. they reduce its cost.

ex: Sauk stereo pays the balance due of $3.500 on May, 14. Last day discount period. (2%)

A/P	$ 3.500	
cash		3.430
~~Sa purchase Disc.~~ inventory		70

Bis BOSS 6 mm

No.

Date

8. Recording of sales of Merchandise.

2 steps recording :

1. The first entry records the sale
2. " second " " " cost of the Merchandise sold.

1.	A/R	$ 150	
	Sales Revenue		$ 150
2.	COGS	$ 20	
	Inventory		$ 20

9. Sales return & allowances

→ seller accepts goods back from the buyer (a return) / grants a reduction in the purchase price (an allowance)

Sales Return & allowance	$ 150	
A/R		$ 150
Inventory	$ 20	
COGS		$ 20

10. Sales Discount

→ Seller may offers the customer a cash discount.

Cash	$3.430	
Sales Discounts	70	
A/R		3.500

11. Adjustment

→ Make the records agree with actual inventory on hand.

COGS	$ 150	
Inventory		$ 150

No.

Date

Periodic systems

① Determining COGS under a periodic systems

~~Beginning Inventory~~

Beginning inventory
Cost of goods purchased +
COG - available for sale
Ending Inventory -
COGS.

② Recording purchase of Merchandise

Purchase	$ 3,800		PT-A buy MI $ 3.800 credit.
A/P		3,800	

③ Freight cost

→ when purchaser directly incurs the freight costs,

PT-A pays $ 150 for carrying cost to their location.

Freight-in	$ 150	
cash		$ 150

④ Purchase Return & allowances

A/P	$ 300		PT-A Return goods $ 300.
Purchase Return & Allowances.		$ 300	

⑤ purchase Discount

PT. A pays A/P in discount period (2%)

A/P	$ 3.500	
Purchase Discount		$ 70
cash		3.430

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Date

16 Recording sales of Merchandise

PT. A sale \$ 3.800 to PT. B

A/R	\$ 3.800	
Sales Revenue		\$ 3.800

17 Sales Return and Allowances.

PT. B Return its goods to PT. A \$ 300

Sales Return	\$ 300	
A/R		\$ 300

18 Sales Discount

~~OR~~ PT-A Receive A/R payment from PT. B in discount period. \$ (2%)

Cash	\$ 3.430	
Sales Discount	70	
A/R		3.500

19 Closing entries.

Income Summary	\$ 36.000	
Inventory - Beginning		\$ 36.000
Inventory - ending	40.000	
Income summary		40.000