Merchandising Operations

Chapter 5

Merchandisers

▸ Businesses that sell a product to customers

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Learning Objective 1

Describe and illustrate merchandising operations
and the two types of inventory systems

3

Additional Accounts of Merchandisers

Balance Sheet	Income Statement
▸ Inventory	▸ Sales revenue ▸ Cost of goods sold

4

Operating Cycle

Cash

Purchase inventory

Collect cash from customers

Sell inventory

Accounts receivable

Inventory

BILL TO
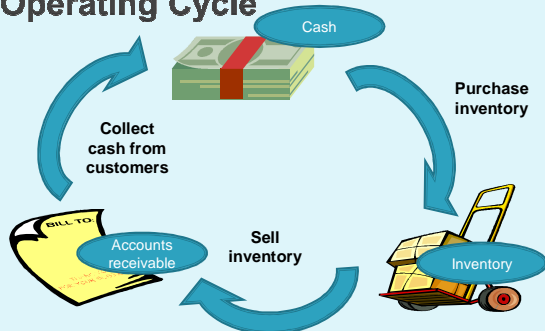
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Inventory Systems

PERIODIC	PERPETUAL
▸ Goods counted *periodic*ally to determine quantity	▸ Record of quantity of goods is constantly updated

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Learning Objective 2

Account for the purchase of inventory using a perpetual system

Purchasing Inventory

‣ The inventory account is increased each time merchandise is purchased
‣ The vendor provides an invoice showing the quantity and cost of the items

Accounting for Purchase of Inventory

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Inventory		$$$$	
	Accounts payable			$$$$
	Purchased inventory on account			

Purchase discounts

‣ Discount for early payment
‣ Expressed as follows:

2/10 , n/30

2% discount if paid within 10 days	Full amount due within 30 days

Other terms:

n/30   eom

Payment of Inventory within the Discount Period

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Accounts payable		$$$$	
	Cash			$$$$
	Inventory			$$$
	Paid within discount period			

Purchase returns and allowances

‣ Purchase return
  ◦ Merchandise returned by the purchaser to the supplier
‣ Purchase allowance
  ◦ Seller reduces amount owed
  ◦ Incentive for purchaser to keep goods

Accounting for Purchase Returns and Allowances

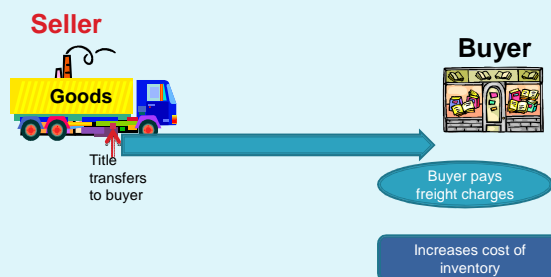| GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Accounts payable		$$$$	
	Inventory			$$$$
	Returned damaged goods			

Transportation Costs

▸ FOB Shipping Point
  ◦ Buyer takes ownership of inventory when goods leave seller's place of business
  ◦ Purchaser normally pays freight charges
    • Freight-in
    • Increases cost of inventory

▸ FOB Destination
  ◦ Buyer takes ownership of inventory when goods arrive
  ◦ Seller normally pays freight
    • Freight-out
    • Selling expense

FOB Shipping Point

Seller
Goods
Title transfers to buyer

Buyer
Buyer pays freight charges
Increases cost of inventory

FOB Destination

Seller
Goods
Seller pays freight charges
Increases expenses

Buyer
Title transfers to buyer

Learning Objective 3

Account for the sale of inventory using a perpetual system

Sale of Inventory

▸ Sales revenue

▸ Cost of goods sold

Accounting for Sales Transactions

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Accounts receivable (or Cash)		$$$$$	
	Sales revenue			$$$$$
	To record sales on account			
	Cost of goods sold		$$$$$	
	Inventory			$$$$$
	To record cost of sales			

Sale of Inventory

- Sales returns & allowances
- Sales discounts
- Freight out

Accounting for Sales Returns and Allowance

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Sales returns and allowances		$$$$	
	Accounts receivable			$$$$
	Inventory		$$$$	
	Cost of goods sold			$$$$
	Customer returned merchandise			

Accounting for Sales Discounts

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Cash		$$$$$	
	Sales discounts		$$$$	
	Accounts receivable			$$$$$
	Collected on account within discount period			
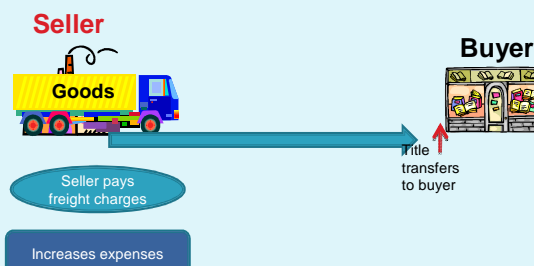
Sales

minus

Sales returns & allowances

minus

Sales discounts

equals

Net Sales

Net Sales

minus

Cost of Goods Sold

equals

Gross Profit

Learning Objective 4

Adjust and close the accounts of a merchandising business

Adjusting Inventory

▸ Businesses take actual count of inventory at least once per year
▸ Why might actual count of inventory may differ from amount on the books?

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Cost of goods sold			
	Inventory			
	To adjust for shrinkage			

Closing Entries of Merchandiser

▸ 1. Close revenues

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Sales		62,500	
	Income summary			62,500

▸ 2. Close expenses & contra-revenues

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Income summary		32,900	
	Cost of goods sold			21,000
	Sales discounts			3,500
	Sales returns & all.			5,000
	Utilities expense			3,400

Closing Entries of a Merchandiser

▸ 3. Close Income summary

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Income summary		29,600	
	Retained earnings			29,600

▸ 4. Close Dividends

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Retained earnings		1,000	
	Dividends			1,000

Learning Objective 5

Prepare a merchandiser's financial statements

Income Statement

Any Company Income Statement Year Ended December 31, 2011		
Sales revenue		$ 75,000
Less: Sales returns and allowances	$ (5,000)	
Sales discounts	(3,500)	(8,500)
Net sales revenue		66,500
Cost of goods sold		32,000
Gross profit		34,500
Operating expenses		
Salary expense	$ 12,000	
Supplies expense	1,500	
Depreciation expense	2,000	
Utilities expense	1,200	16,700
Operating income		17,800
Other revenue and (expense)		
Interest expense		$ (8,500)
Net Income		9,300

Operating Expenses

- Selling Expenses
  - Related to marketing the company's products
- General Expenses
  - NOT related to marketing products

Other Financial Statements

- Statement of Retained Earnings
  - Exactly the same as service company
- Balance Sheet
  - Inventory account

Income Statement Formats

Multi-step	Single-step

- Lists several important subtotals
  - Gross profit
  - Operating income
	- Groups all revenue and all expenses together
	  - No subtotals

Learning Objective 6

Use gross profit percentage and inventory turnover to evaluate a business

Gross Profit Percentage

Gross Profit
Net Sales

Rate of Inventory Turnover

Cost of goods sold
Average inventory

Measures how rapidly inventory is sold

End of Chapter 5