

ACCT 101 Chapter 4

This chapter changes the focus from a service business to a merchandising business. Merchandisers buy goods in a finished form and then turn around and sell them in the same condition. Therefore, the majority of the merchandiser's revenue comes from the sale of their product(s) and the majority of the expenses are from buying the goods they will sell.

The accounting system for a merchandiser must be designed to record the receipt of goods for resale, keep track of the inventory of goods available for sale, and record the sale and cost of goods sold of the items when they are sold.

Previously, we accounted for the transactions of a merchandiser that used the periodic method of tracking inventory. As computers have become less expensive and more user friendly, almost all companies use some type of software package to track their inventory, and, therefore, use a perpetual inventory system.

I. Nature of Merchandising Business

A. Cost of Goods Sold

When merchandise is sold, the revenue is reported as sales and its cost is recognized as an expense called "Cost of Goods (Merchandise) Sold"

B. Merchandise Inventory

Goods/Merchandise on hand that will be sold to customers

II. Perpetual Inventory System

A. See attached sheet for changes to accounting for inventory for a perpetual inventory system.

III. Merchandise Purchases

Inventory is the items that we own for resale to our customers. We will be recording the following purchase transactions of inventory:

A. The purchase of Inventory (on account):

B. The return of merchandise previously purchased:

C. The discounts taken for paying for the merchandise within the specified discount period:

1. Terms of the purchase

D. Transportation costs

1. FOB Destination

2. FOB Shipping Point

IV. Merchandise Sales

A. The sale of merchandise to customers (on account):

B. The return of merchandise from customers (originally sold on account):

C. The receipt of payment from customers within the specified discount period

Terms of the sale:

D. How this is reported in the Income Statement:

E. No Discounts Allowed

When calculating the amount of a sales or purchase discount, there is no discount on freight charges and there is no discount on returns.

F. Trade Discounts

IV. Income Statement for a Merchandising Business

A. Multiple Step Income Statement

1. Revenue

2. Cost of Goods Sold

Cost of Goods Sold is no longer a calculation; it is an account and transactions are recorded directly into the inventory account and the Cost of Goods Sold account.

3. Gross Profit

4. Operating Expenses

a. Selling Expenses

b. General & Administrative Expenses

5. Income from Operations

6. Other Income

7. Other Expense

8. Net Income

ACCT 101
Chapter 4 - Accounting for Merchandising Businesses



PERIODIC - ACCT 100	<u>Purchases</u>	PERPETUAL - ACCT 101
Purchases Accounts Payable		Accounts Payable
<u>Freight-In</u>		
Freight-In Cash		Cash
<u>Purchase Returns</u>		
Accounts Payable Purchase Returns		Accounts Payable
<u>Purchase Discounts</u>		
Accounts Payable Purchase Discounts Cash		Accounts Payable Cash
<u>Sales</u>		
Accounts Receivable Sales		Accounts Receivable Sales
<u>Sales Returns</u>		
Sales Returns Accounts Receivable		Sales Returns Accounts Receivable
<u>Sales Discounts</u>		
Cash Sales Discounts Accounts Receivable		Cash Sales Discounts Accounts Receivable
<u>Sales with Sales Tax</u>		
Cash Sales Sales Tax Payable		Cash Sales Sales Tax Payable
<u>Adjusting month end</u>		
Cost of Goods Sold Inventory		Cost of Goods Sold Inventory

The partial Adjusted Trial Balance for Dewey, Cheetum & Howe Auto Repair is presented below:

Dewey, Cheetum & Howe Auto Repair Adjusted Trial Balance December 31, 2021		
Account Title	Adj. T/Balance	
	Dr.	Cr.
Sales		520,680
Sales Returns & Allowances	2,640	
Sales Discounts	1,155	
Cost of Goods Sold	380,000	
Interest Income		3,280
Rent Expense	24,000	
Wages Expense	48,000	
Advertising Expense	10,600	
Depreciation Expense -Repair Equip	4,800	
Depreciation Expense -Store Equip	3,800	
Store Supplies Expense	3,200	
Interest Expense	2,215	
Delivery Expense	1,959	
Office Supplies Expense	820	
Insurance Expense	1,840	
	1,840	

Instructions:

Compute the amounts as indicated on the following page for the Multi-Step Income Statement of Dewey, Cheetum & Howe Auto Repair.

SHOW ALL CALCULATIONS IN THE SPACE PROVIDED!

Income Statement Calculations:

1. Net Sales

2. Cost of Goods Sold

3. Gross Profit

4. Total Operating Expenses

Selling Expenses

General Expenses

5. Income from Operations

6. Other Income

7. Other Expense

8. Net Income
