

ACCT 100 – Chapters 7 & 8 Outline

In these chapters we will be switching from a service business to a merchandising business. To do this we will need to add several new accounts to our chart of accounts to record the additional transactions necessary when selling merchandise.

- I. Merchandising Companies – merchandising companies sell a product, not a service. As such, their accounting practices are different than those of service companies.

- A. New Accounts

	Account Name	Type	Normal Balance	Used to:
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				

II. Revenue

No matter what product we sell, our revenue account is now called "Sales"

- A. To record a sale on account

- B. To record a return – do not want to decrease the revenue account directly, so put all returns in their own account called ***Sales Returns & Allowances***.

To record a return:

Using a separate account for returns enables owners and managers to monitor returns as a large amount of returns indicates a problem.

C. Cash Receipts

Cash is important to businesses. Without cash companies cannot pay their bills or buy new inventory. Therefore, as an incentive for customers to pay us sooner than their allotted 30 days, we will offer our customers discounts for paying in less than 30 days.

Terms of the sale:

To record the receipt of cash when the customer takes advantage of the discount:

Ex 1: A customer owes us \$1,000. We receive the amount due in 30 days.

Ex 2: A customer owes us \$1,000. We receive the amount due in 10 days.

D. How this is reported in the Income Statement:

E. Sales Tax – sales tax is charged on merchandise, not services. As the seller, we collect the sales tax from our customers then pay it to the state. We never get to keep the sales tax money, therefore, it is never revenue or expense. As soon as we collect it from our customers we owe it to the state, therefore it is a *liability* – Sales Tax Payable.

To record a sale on account with sales tax:

Ex: We sold \$1,000 of merchandise to a customer on account. The sale is subject to a 9% sales tax.

Thirty days later we received the cash from the sale.

III. Purchases

Inventory is the items that we own for resale to our customers.

A. When we buy items for resale we will increase ***Purchases***.

To record a purchase of merchandise on account:

- B. If we return some of the items purchased, we want to record the return in a separate account so owners and managers can monitor the amount of returns as a significant amount of returns indicates a problem.

To record a return of merchandise purchased on account:

- C. Cash Payments - cash is important to all businesses. The companies that we owe money to need to receive our payments so they can pay their bills or buy new inventory. Therefore, our vendors and suppliers will offer us an incentive to pay sooner than our allotted 30 days.

To record a cash payment when we take advantage of the discount:

Ex 1: We owe a vendor \$600. We pay the amount due in 30 days.

Ex 2: We owe a vendor \$600. We pay the amount due in 10 days.

- D. 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.

E. How this is reported on the Income Statement

IV. Freight – now that we are selling a product, we must arrange shipping as we need to have merchandise in our store or warehouse to sell to our customers.

This raises two questions: 1) who owns the merchandise during the shipping process? and, 2) who pays for the shipping costs?

The answer lies in the shipping terms agreed on by the buyer and seller. Whoever owns the merchandise during shipping must pay the shipping charges.

1. FOB Shipping Point

2. FOB Destination

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
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39						39
40						40

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

NAME **Belle's Flowers**

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
May					

NAME **Flora's Flower Shop**

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
May					

NAME **Grand Party Supply**

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
May					

NAME **Nanako Floral Designs**

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
May					

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
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8						8
9						9
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General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
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General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
1						1
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41						41

ACCOUNTS PAYABLE SUBSIDIARY LEDGER

NAME Business Forms, Inc.

TERMS n/30

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
April					

NAME Packing and Mailing Center

TERMS n/30

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
April					

NAME Special Occasion Cards

TERMS 1/10, n/30

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
April					

NAME Victoria's Cards & Novelties

TERMS n/30

ADDRESS

DATE	DESCRIPTION	Post Ref.	DEBIT	CREDIT	BALANCE
20X1					
April					