Unit 14

Merchandising Accounts

Page 317

Up until now we have been doing the books for service businesses.
ex. spots club, motel, cinema, contractor, & doctor.

Merchandising Companies
Many businesses sell products and not services and are known as merchandising companies.
Wholesalers and retailers are included in this group. see diagram pg. bottom 317

A firm that converts raw materials into saleable products is called a **manufacturing company**.

Accounting procedures of a merchandising company are different from those of a service company.

Goods bought for resale are called **merchandise.**

The Merchandise Inventory account represents the total dollar value of goods on hand for sale.

Determining the Net Income for a Merchandising Company.

In the past we have done

Revenue - Expenses = Net Income

Now our formula looks like

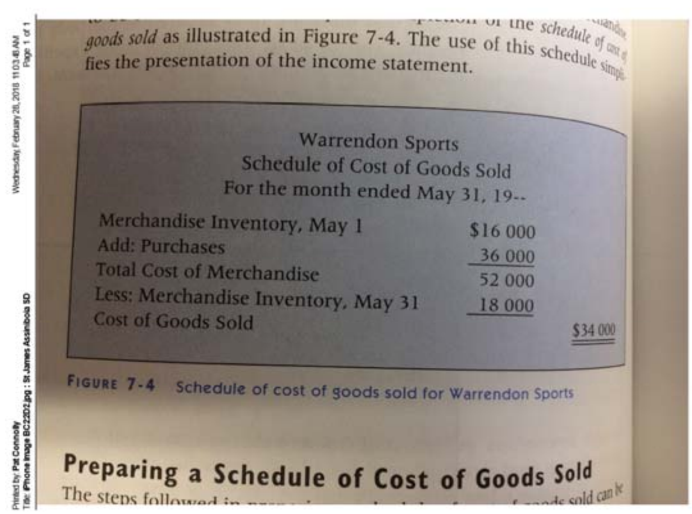
Revenue - Cost of Goods Sold = Gross Profit

Gross Profit - Expenses = Net Income

see example on pg. 319

One of the major expenses for a merchandising company is the cost of goods that it buys for resale. Since the cost of goods sold is a major expense, it receives special attention on the income statement or in a separate schedule.

A schedule is a supporting statement providing details if an item on a main statement.



goods sold as illustrated in Figure 7-4. The use of this schedule simpli-
fies the presentation of the income statement.

Warrendon Sports
Schedule of Cost of Goods Sold
For the month ended May 31, 19--

Merchandise Inventory, May 1	$16 000	
Add: Purchases	36 000	
Total Cost of Merchandise	52 000	
Less: Merchandise Inventory, May 31	18 000	
Cost of Goods Sold		$34 000

FIGURE 7-4 Schedule of cost of goods sold for Warrendon Sports

Preparing a Schedule of Cost of Goods Sold

There are several other items which affect the cost of goods sold. These include:

- Purchases returns and allowances
- Purchase discounts
- Transportation-in

Below is an expanded schedule of cost of goods sold

UNIT 14 / MERCHANDISING ACCOUNTS .. 321

Warrendon Sports
Schedule of Cost of Goods Sold
For the month ended June 30, 19--

Merchandise Inventory, June 1			$18 000	
Add: Purchases		$42 400		
Less: Purchases Returns and Allowances	$8 000			
Purchases Discounts	400	8 400		
Net Purchase Cost		34 000		
Add: Transportation-in		2 000		
Total Cost of Merchandise Purchased			36 000	
Cost of Merchandise Available for Sale			54 000	
Less: Merchandise Inventory, June 30			20 000	
Cost of Goods Sold				$34 000

FIGURE 7-5 Expanded schedule of cost of goods sold including net purchases calculation and transportation cost

PURCHASES RETURNS AND ALLOWANCES

... which have been purchased and recorded in the Purchas... ...chases decreases. The Purcha...

Purchase Returns and Allowances
Goods which have been purchased and recorded in the purchases account are returned (cost of purchase decreases)SUBTRACTION

Purchases Discount
A cash discount off the invoice price is received, the discount is recorded in the Purchases Discounts account (cost of purchases decreases) SUBTRACTION ex. 2/10 (2% discount off of invoice if paid in 10 days of receiving)

Transportation on Purchases
The cost of the merchandise for resale is increased by the cost of transporting the merchandise to the retailer. Transportation-in, Transportation on Purchases, or Freight-in is the account used.

Merchandise Inventory

The Merchandise Inventory account contains the total dollar value of goods on hand for resale (merchandise). The dollar value of inventory may be determined in two ways:

Perpetual Inventory Method

A perpetual inventory system is commonly used by retailers who need to know exactly how much of each item of merchandise is on hand. (cars/appliances). Records are kept on each item that is sold. The record (stock card) is updated each time the item is purchased or sold.

Periodic Inventory Method

This method is used by retailers who do not feel it is necessary to keep a continuously updated record of items of merchandise.

If a business sells a large quantity of relatively low-priced merchandise, (candy, potato chips), it is not practical to record the umber of each item bought and sold during the accounting period. These retailers usually determine the amount of each item on hand and the cost of merchandise only at the end of the period when the cost is needed in order to prepare financial statements.

Businesses using the periodic inventory system determine the value of the ending inventory by taking a **physical inventory.** A physical inventory simply means counting all of the various types of merchandise on the quantity of each item by its cost price and adding the cost of all the various units together

Chart of Accounts for Merchandising Business

Merchandising Company Chart of Accounts

Section	No.	Title
(1) Assets	101	Cash
	110	Accounts Receivable
	120	Merchandise Inventory
	125	Office Supplies
	126	Store Supplies
	150	Building
	151	Equipment
	160	Land
(2) Liabilities	200	Accounts Payable
	205	Sales Tax Payable
	206	GST Payable
	207	GST Refundable
	210	Bank Loan
	250	Mortgage Payable
(3) Owner's Equity	300	Owner, Capital
	301	Owner, Drawings
	302	Income Summary
(4) Revenue	400	Sales
	401	Sales Returns and Allowances
	402	Sales Discounts
(5) Cost of Goods Sold	500	Purchases
	501	Purchases Returns and Allowances
	502	Purchases Discounts
	503	Transportation-in
	550	Cost of Goods Sold
(6) Expenses	600	Advertising Expense
	601	Delivery Expense
	602	Miscellaneous Expense
	603	Office Expense
	604	Salaries Expense
	605	Utilities Expense

in the new section—the cost of goods sold section. The new merchandising accounts are shown in Figure 7-7 and include:

New Merchandising Accounts

120	Merchandise Inventory	500	Purchases
205	Sales Tax Payable	501	Purchases Returns and Allowances
206	GST Payable	502	Purchases Discounts
207	GST Refundable	503	Transportation-in
400	Sales	550	Cost of Goods Sold
401	Sales Returns and Allowances	601	Delivery Expense
402	Sales Discounts		

DEBIT AND CREDIT RULES FOR

Debit and Credit Rules for Merchandising Accounts

Revenue increases owner's equity

Expenses decrease owner's equity