

Lesson: Merchandise Accounting

There are two methods:

1. Periodic
2. Perpetual

To Learn and Practice:

"First Practice" Whole Cycle from Worksheet on.

Remember you can review ALL of this online *WITH* practice exercises at:

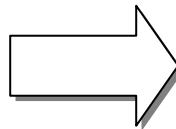
www.StudCo.ca

1. Journalize

New concept of selling a good versus a service
 Requires understanding of Inventory vs. Supplies
 Go over inventory cycle here.

New accounts:

Merchandise Inventory
 Sales, not Fees Earned
 Sales Discounts
 Sales Returns and Allowances (contra)
 Purchases
 Purchase Discounts
 Purchase Returns and Allowances (contra)
 Freight-in
 Freight-out (delivery expense)



To Learn and Practice:

"Merch. Lesson" Journal Entries (printout)

2. Post

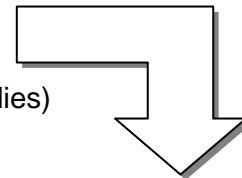
Nothing new.

3. On Worksheet: Balance with Trial Balance

Nothing new.

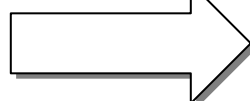
4. On Worksheet: Perform adjustments and complete

Inventory cycle: $(B+P-PD-PRA+FI-E=COGS)$; inventory count (just like supplies)
 O/H – New lines, calculate COGS



5. Produce Financial Statements

New Format for I/S



To Learn and Practice:

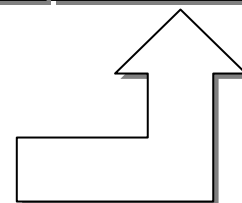
"Exercise 22" pg 395 in workbook
 Schedule of Cost of Goods Sold (COGS section of Income Statement.)

To Learn and Practice:

"Exercise 17" pg 386
 Assignment (worksheet, adjustments, closing entries)

6. Journalise and Post Adjustments

Same



7. Closing Entries

Still close out all accounts from Drawings down.
 But also must update Merchandise inventory

Service Business vs. Merchandising Business

1. Journal Entries

(A) Paying for Goods or Services or Buying Assets (A)

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
Jan	4	Supplies		540	-				
		GST Recoverable		30	-				
		Accounts Payable				570	-		
Purchased \$500 of supplies on account plus GST and PST.									

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
Jan	4	Auto Expense		540	-				
		GST Recoverable		30	-				
		Accounts Payable				570	-		
Bought \$500 of gas on account all taxes were applicable.									

Whether an expense or an asset, there is **NO** difference here between the two.

(A) Returning (or receiving credit for) Items Other Than Merchandise (A)

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
Jan	5	Accounts Payable		570	-				
		GST Recoverable				30	-		
		Supplies				540	-		
Returned \$500 of supplies bought on account GST and PST were applicable									

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
Jan	5	Accounts Payable		570	-				
		GST Recoverable				30	-		
		Auto Expense				540	-		
Received credit for \$500 of gas GST and PST was applicable									

NOTE that instead of *Accounts Payable*, this could be *Bank* or *Accounts Receivable*, if we've already paid for the goods. This is true for ALL returns.

(A2) Paying for the Purchase of MERCHANDISE (Goods for Resale) (A2)

Remember: the "PURCHASES" account is only for the purchase of merchandise for resale.

IMPORTANT: Suppliers do not charge PST on items that will be resold.

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
		Purchases		700	-				
		GST Recoverable		42	-				
		Accounts Payable				742	-		
Purchased \$700 of goods on account Only GST applies.									

The **difference** is **here** when merchandise is bought or returned. There is no comparable equivalent for a service business.

(A2) Returning a Purchase of MERCHANDISE (A2)

Likewise, BOTH of the Returns and Allowances accounts are for use only when merchandise items are returned.

General Journal					PAGE: _____				
Date		Particulars	P.R.	Debit		Credit			
Jan	5	Accounts Payable		742	-				
		GST Recoverable				42	-		
		Purchase Returns & Allowances				700	-		
Returned \$500 of goods bought on account Only GST was applicable.									

Service Business

Merchandise

(B) Selling a Good or Service (B)

General Journal			PAGE: _____				
Date 2002	Particulars	P.R.	Debit		Credit		
Jan	5	Accounts Receivable	1	0	6	0	-
		GST Payable				6	0 -
		Fees Revenue			1	0	0 0 -
		Performed legal services on account for \$1000. No PST					

General Journal			PAGE: _____				
Date 2002	Particulars	P.R.	Debit		Credit		
Jan	5	Accounts Receivable	1	1	4	0	-
		GST Payable				6	0 -
		PST Payable				8	0 -
		Sales			1	0	0 0 -
		Sold goods on account for \$1000. GST and PST applied					

Remember: there is no PST on services.

(B) Having a Sale Returned or Granting a Credit for a Service Performed (B)

General Journal			PAGE: _____				
Date 2002	Particulars	P.R.	Debit		Credit		
Jan	5	Fees Revenue	1	0	0	0	-
		GST Payable			6	0	-
		Accounts Receivable			1	0	6 0 -
		Credit given to irate customer for \$1000. No PST applied					

General Journal			PAGE: _____				
Date 2002	Particulars	P.R.	Debit		Credit		
Jan	5	Sales Returns & Allowances	1	0	0	0	-
		GST Payable			6	0	-
		PST Payable			8	0	-
		Accounts Receivable				1	1 4 0 -
		Sales on account of \$1000 were returned. Both taxes applied.					

NOTE that instead of *Accounts Receivable*, this could be *Bank* or *Accounts Payable* if the customer has already paid.

Remember: there is no PST on services.

BOTH of the Returns and Allowances accounts are for use only when merchandise items are returned.

Remember:

$$\text{Value Before Taxes} = \frac{\text{Value with taxes}}{(1 + \text{tax rate})}$$

2. Posting

There is no difference here.

3. Worksheet

NOTE: the only difference on the Worksheet is the line for Merchandise Inventory. All other accounts (new and old) are handled in the same fashion. Can you see how the 5 lines below calculate the Cost of Goods Sold? That's why they're listed on the Income Statement.

A Partial Worksheet for a **Merchandising** Company

Accounts	Trial Balance				Adjustments				Income Statement				Balance Sheet																					
	DR		CR		DR		CR		DR		CR		DR		CR																			
Merchandise Inventory	13	5	0	0	~						13	5	0	0	~				15	2	5	0	~				15	2	5	0	~			
Purchases		5	0	0	~						5	0	0	~																				
Purchase Discounts							2	5	~							2	5	~																
Purchase Returns and Allowances							5	0	~							5	0	~																
Freight-in		5	0	0	~						5	0	0	~																				

Beginning Inventory

Inventory appears on the I/S because it is needed to calculate the C.O.G.S.

Ending Inventory

4. Adjusting Entries

There is no difference here

5. The Financial Statements

NOTE: there is no real difference in the way you construct the Balance Sheet. You use the new 3-column format for both types of businesses. The only exception is the Merchandise Inventory account: it obviously doesn't appear on the Balance Sheet of a Service company since you have no inventory.

There are numerous differences in the Income Statement between a service company and a merchandising business. The largest difference is that a service business has no need for a *Cost of Goods Sold* section.

From the worksheet the following statements would be constructed:

A Service Company		
Income Statement		
Month Ended January 31, 2003		

Revenue		
----------------	--	--

Fees Revenue	\$ 10,000	
	\$ 10,000	
<i>Total Revenue</i>		\$ 10,000

Operating Expenses		
---------------------------	--	--

Auto Expense	\$ 1,000	
Delivery Expense	100	
Depreciation Expense - Auto	300	
Insurance Expense	200	
Salaries Expense	1,500	
Supplies Expense	500	
	3,600	
<i>Total Operating Expenses</i>		3,600

Income before Interest, Taxes		
(and Extraordinary Items)		\$ 6,400

Loss on Disposal of Asset	\$ 1,000	
		1,000
<i>Total Non-Operating Expenses</i>		1,000

Net Income		\$ 5,400
-------------------	--	-----------------

A Merchandising Company

Income Statement Month Ended January 31, 2003

Operating Revenue

Sales		\$	10,000
Less: Sales Discounts	(100)		
Less: Sales Returns and Allowances	<u>(400)</u>	<u>(500)</u>	
<i>Net Sales</i>		\$	9,500

Cost of Goods Sold

Merchandise Inventory, January 1		\$	13,500
Add: Purchases	\$ 5,000		
Less: Purchase Discounts	(250)		
Less: Purchase Returns and Allowances	<u>(500)</u>		
Net Purchases			4,250
Add: Freight-in		<u>500</u>	
Goods Available for Sale			18,250
Less: Merchandise Inventory, January 31		<u>(15,250)</u>	
Cost of Goods Sold			<u>3,000</u>
<i>Gross Profit</i>		\$	6,500

Operating Expenses

Auto Expense	\$	1,000
Freight-out/Delivery Expense		100
Depreciation Exp. - Auto		300
Insurance Expense		200
Salaries Expense		1,500
Supplies Expense		<u>500</u>
<i>Total Operating Expenses</i>		<u>3,600</u>

Operating Income (Income before Interest,
Taxes and Extraordinary Items) **\$ 2,900**

Loss on Disposal of Asset	\$	1,000
<i>Total Non-Operating Expenses</i>		<u>1,000</u>

Net Income **\$ 1,900**

6. Closing Entries

This is an asset. It is the new inventory balance. This is why it's a debit. This entry sets up the new inventory balance in the account for next period.

General Journal				PAGE: _____			
Date 2003	Particulars	P.R.	Debit	Credit			
Jan 31	Fees Revenue		10 0 0 0 -				
	Income Summary			10 0 0 0 -			
31	Income Summary		4 6 0 0 -				
	Auto Expense			1 0 0 0 -			
	Delivery Expense			1 0 0 -			
	Depreciation Exp. - Auto			3 0 0 -			
	Insurance Expense			2 0 0 -			
	Loss on disposal of Asset			1 0 0 0 -			
	Salaries Expense			1 5 0 0 -			
	Supplies Expense			5 0 0 -			
31	Income Summary		5 4 0 0 -				
	J. Smith, Capital			5 4 0 0 -			
31	J. Smith, Capital		5 0 0 -				
	J. Smith, Drawings			5 0 -			

This credit entry eliminates the old inventory balance from the account to start fresh for next period.

General Journal				PAGE: _____			
Date 2003	Particulars	P.R.	Debit	Credit			
Jan 31	Sales		10 0 0 0 0 -				
	Purchase Discounts		2 5 0 -				
	Purchase Returns & Allowances		5 0 0 -				
	Merchandise Inventory (ending)		15 2 5 0 -				
	Income Summary				26 0 0 0 -		
31	Income Summary		24 1 0 0 0 -				
	Merchandise Inventory (begin.)				13 5 0 0 -		
	Auto Expense				1 0 0 0 -		
	Delivery Expense				1 0 0 -		
	Depreciation Exp. - Auto				3 0 0 -		
	Insurance Expense				2 0 0 -		
	Loss on disposal of Asset				1 0 0 0 -		
	Purchases				5 0 0 0 -		
	Freight-in				5 0 0 -		
	Salaries Expense				1 5 0 0 -		
	Sales Discounts				1 0 0 -		
	Sales Returns & Allowances				4 0 0 -		
	Supplies Expense				5 0 0 -		
31	Income Summary		1 9 0 0 0 -				
	J. Smith, Capital				1 9 0 0 0 -		
31	J. Smith, Capital		5 0 0 0 -				
	J. Smith, Drawings				5 0 0 0 -		