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ACCOUNTING FOR MERCHANDISING OPS (1 of 2)

- Learning objectives
- Merchandising firms
- Acquiring merchandise for sale
- Sale of merchandise

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ACCOUNTING FOR MERCHANDISING OPS (2 of 2)

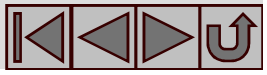
- Recording inventory
- Multiple-step income statement
- Financial statement analysis
- Business risk, controls, and ethics

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Learning Objectives
(1 of 2)

1. Describe the differences between service and merchandising firms
2. Explain how merchandise in acquired and perform the related record-keeping
3. Explain how sales are made and perform the related record-keeping
4. Explain the differences between a periodic and perpetual inventory system

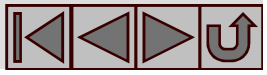
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Learning Objectives
(2 of 2)

5. Explain the difference between a single-step income statement and a multiple-step income statement
6. Compute the gross profit ratio and profit margin ratio to evaluate a firm's profitability
7. Recognize the special risks and controls related to inventory

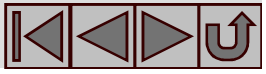
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Merchandising Firms
(1 of 3)

- Two types of merchandising firms
  - Retailers sell products to the final consumer
  - Wholesalers sell products to retailers or other wholesalers
- Cost of Goods Sold (CoGS)
  - Cost of merchandise sold during the period

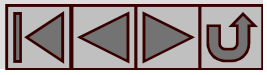
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Merchandising Firms
(2 of 2)

- Gross profit (also called gross margin)
  - Sales Revenue – CoGS
- Operating cycle for merchandising firm
  - Purchase inventory
  - Sell inventory, creating accounts receivable (AR)
  - Collect cash from customers, reducing AR

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Acquiring Merchandise For Sale
(1 of 2)

- What is merchandise inventory?
  - Where on the balance sheet is it?
- Acquisition process for inventory
- Periodic & perpetual inventory

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Acquiring Merchandise For Sale
(2 of 2)

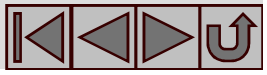
- Recording purchases: perpetual
  - Freight costs
  - Purchase Returns and Allowances
  - Purchase Discounts
  - Goods available for sale

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Acquisition Process for Inventory
(1 of 3)

- Inventory manager sends *purchase requisition* to purchase agent
- Purchase agent sends *purchase order* (PO) to chosen vendor
  - Copies to accounts payable (AP) and receiving departments
    - No quantity on receiving dept's copy

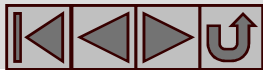
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Acquisition Process for Inventory
(2 of 3)

- Objectives of purchase process
  - Quality
    - Purchase from reliable vendors
  - Timeliness
    - Vendors must have an adequate supply of merchandise to avoid stock-outs
  - Accuracy
    - Receive only items ordered

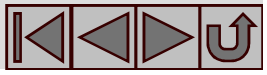
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Acquisition Process for Inventory
(3 of 3)

- Receiving dept notifies AP dept when goods arrive
- AP pays for goods when it receives invoice from vendor
  - Invoice matched with purchase order
- How does a computer change this process?

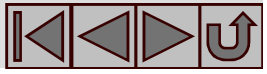
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Periodic and Perpetual Inventory

- Perpetual inventory system
  - Every purchase of inventory is recorded directly to inventory account
- Periodic inventory system
  - Inventory account only updated at the end of the accounting period

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Recording Purchases: Perpetual

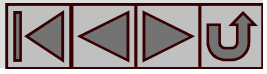
Transaction 1

- Gravity Power Sports (GPS) Purchase 20 skateboards on account for $150 each
  - Increase inventory $3,000
  - Increase AP $3,000
- Record the journal entry

Dr.	Cr.

Dr.	Cr.

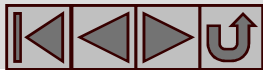
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Freight Costs
Transaction 2 (1 of 3)

- *FOB (free on board) shipping point*
  - Shipping is free until it leaves the seller's loading dock
  - Buying firm pays freight
    - Recorded as *freight-in*
    - Included in cost of inventory
  - Who owns the goods while they are in transit? Where does title pass?

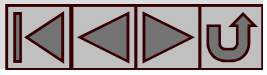
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Freight Costs
Transaction 2 (2 of 3)

- *FOB destination*
  - Shipping is free until it arrives at the buyer's place of business
  - Selling firm pays the freight
    - No freight-in charge
    - Not included in cost of inventory
  - Who owns the goods while they are in transit? Where does title pass?

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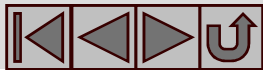
Freight Costs
Transaction 2 (3 of 3)

- Shipping charges to GPS on skateboards were $100 with terms FOB shipping point
  - What accounts are affected?
    - Do they increase or decrease?

Dr.	Cr.

Dr.	Cr.

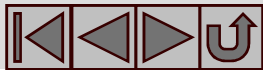
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Purchase Returns and Allowances
Transaction 3 (1 of 3)

- Amounts that reduce $$ of inventory purchases due to returned or damaged inventory
  - Also reduce accounts payable for inventory purchased on account
    - Which account is affected if the inventory was purchased for cash?

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Purchase Returns and Allowances

Transaction 3a (2 of 3)

- *Purchase return*
  - Three skateboards were defective (3@$150) and returned to the vendor

Dr.	Cr.

Dr.	Cr.

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Purchase Returns and Allowances

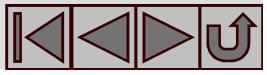
Transaction 3b (3 of 3)

- *Purchase allowance*
  - The decks had graphics for *Bores of Hogtown* movie instead of *Lords of Dogtown* movie
  - GPS received a $250 purchase allowance

Dr.	Cr.

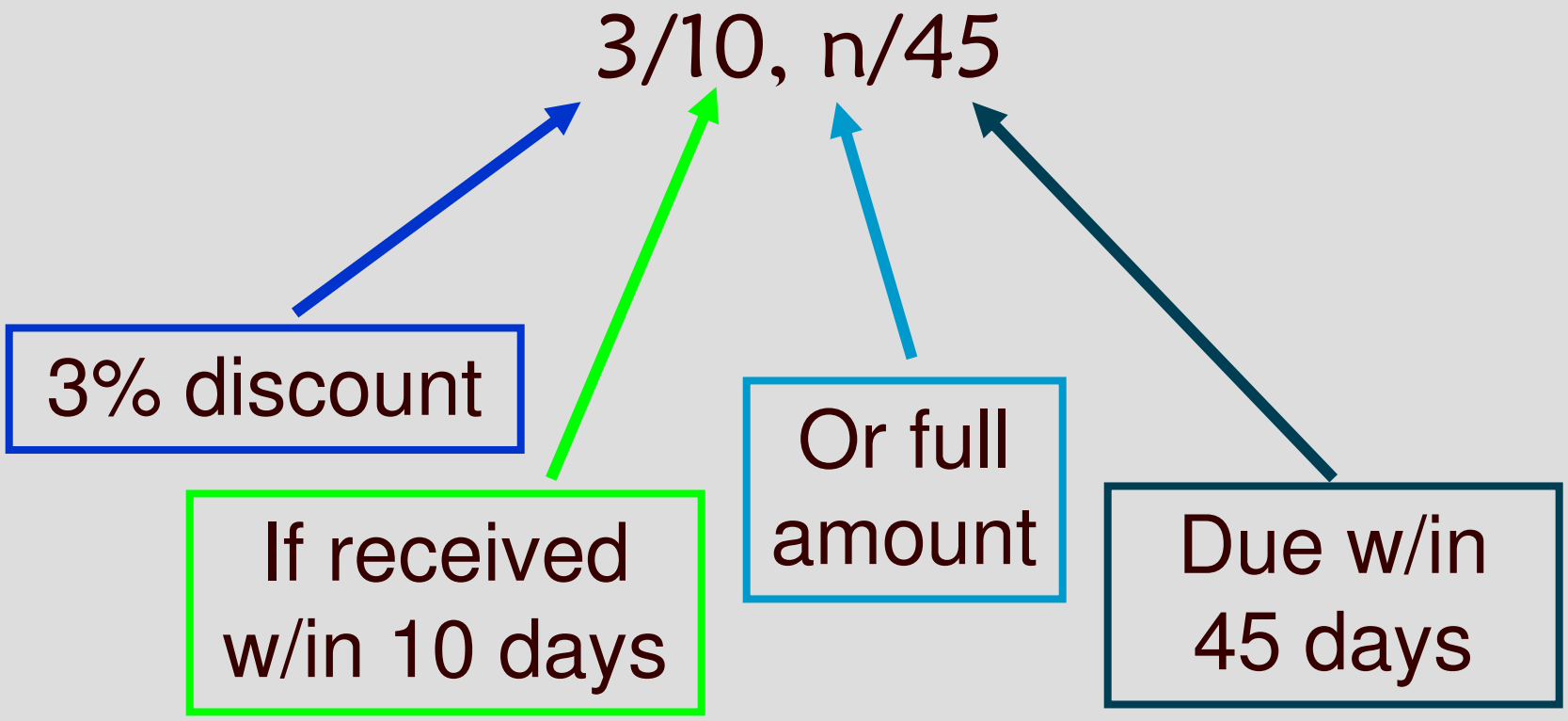
Dr.	Cr.

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Purchase Discounts

Transaction 4 (1 of 4)



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Purchase Discounts

Transaction 4 (2 of 4)

- Annual rate of return if taking advantage of discount

Discount	÷	# of days paid early	x	360 (or 365)	=	Annual rate of return

- Calculate the annual rate of return if you pay early with terms 3/10, n/45

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Purchase Discounts

Transaction 4a (3 of 4)

- GPS pays the balance due within the discount period with terms 3/10, n/45
  - Discount calculated on balance due

		Inventory		Accts. Payable	
Dr.	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
		❶3,000	❸450	❸450	❶3,000
		❷100	❸250	❸250	

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Purchase Discounts

Transaction 4b (4 of 4)

- How would the transaction change if GPS paid outside of the discount period?

		Inventory		Accts. Payable	
Dr.	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
		❶3,000	❸450	❸450	❶3,000
		❷100	❸250	❸250	

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Goods Available for Sale

Beginning inventory

\+ Net purchases (total purchases less returns and allowances and discounts)

\+ Shipping costs (freight in)

Goods available for sale

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