

Merchandising: Perpetual Procedures

Chapter 5 (pp. 208-231 and Appendix 5B)

Introduction

Major theme of Chapters 1 - 4 was _____ industries.

Major shift in focus to _____ concerns.

Two acceptable ways to account for merchandise:

1. _____
(inventory level not updated at the time of sale of item; must take physical count to determine amount on hand; less costly; historically used by most businesses)

2. _____
(accounting system continuously discloses the amount of inventory on hand; advances in technology have enabled many industries to use this method that would not have been able to in the past)



Major points for today and this week:

- | | |
|---------------------|------------------------------------|
| 1. new accounts | 4. new source documents |
| 2. new terms | 5. new emphasis on point of view |
| 3. new transactions | 6. new format for Income Statement |

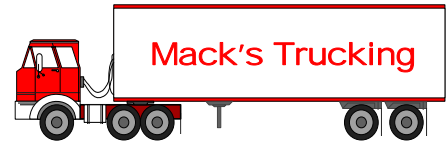
I. New Accounts

| New Account Title | Classification? (A,L,C,R,E) | Normal Balance? | Fin. Stmt.? (BS or IS) | Closed? |
|------------------------------|--------------------------------|-----------------|---------------------------|---------|
| Inventory | | debit | | no |
| | revenue | | I.S. | |
| Sales Returns and Allowances | | debit | | yes - 2 |
| | contra rev | debit | I.S. | |
| Cost of Goods Sold | expense | debit | I.S. | yes - 2 |

Some Company
Income Statement
For the Year Ended 12/31/xxxx

| | | |
|------------------------------------|---------|-----------|
| Sales | | \$xxx,xxx |
| Less: Sales Returns and Allowances | \$x,xxx | |
| Sales Discounts | _xxx | _x,xxx |
| _____ | | \$xxx,xxx |
| Cost of Goods Sold | | |
| _____ | | _xx,xxx |
| | | \$ x,xxx |

II. New Terms (vocabulary)



- A. FOB shipping point
- B. FOB destination

Who pays the freight costs when the terms are FOB shipping point? _____

The _____ pays the freight when the terms are FOB destination.

C. Terms of Sale:

“Two ten net thirty” would be written _____

Incentive to pay promptly. Considered to be a sound business practice. _____% discount if paid within _____ days; if not paid then, _____ would be due within _____ days.

Also: 1/10,n/60 2/10,n/eom n/eom

III. New Transactions

Buyer's Point of View

Purchased merchandise from Seller, Inc., FOB shipping point, 2/10,n/30, \$1,000.

| Date | Account Titles | Ref. | Debit | Credit |
|-------|----------------|------|-------|--------|
| Oct 4 | | | 1,000 | |
| | | | | 1,000 |
| | | | | |

What about the discount?

Paid Mack Trucking Company for freight charges, \$100.

| Date | Account Titles | Ref. | Debit | Credit |
|-------|----------------|------|-------|--------|
| Oct 4 | | | 100 | |
| | | | | 100 |
| | | | | |

Returned \$200 of defective goods receiving credit.

| Date | Account Titles | Ref. | Debit | Credit |
|------|----------------|------|-------|--------|
| | | | 200 | |
| | | | | 200 |
| | | | | |

Paid the balance due within the discount period.

| Date | Account Titles | Ref. | Debit | Credit |
|--------|----------------|------|-------|--------|
| Oct 14 | | | | |
| | | | | |
| | Cash | | | |

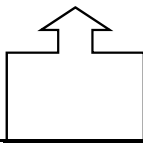
The balance in Merchandise Inventory would be \$ _____
and would represent the _____ of the asset.



Seller's Point of View

Sold merchandise (costing \$60) to Buyer Company, FOB shipping point, 1/10,n/30, \$100.

| Date | Account Titles | Ref. | Debit | Credit |
|------|----------------|------|-------|--------|
| | | | 100 | |
| | | | | 100 |
| | | | | |
| | | | | |
| | | | | |



What about the discount?

Issued a credit memo to Buyer for good returned, \$20 (\$12 cost).

| Date | Account Titles | Ref. | Debit | Credit |
|------|----------------|------|-------|--------|
| | | | 20 | |
| | | | | 20 |
| | | | 12 | |
| | | | | 12 |

Received the balance due within the discount period.

| Date | Account Titles | Ref. | Debit | Credit |
|------|----------------|------|-------|--------|
| | | | | |
| | | | | |
| | | | | |

IV. New Source Documents (not all answered here; watch for answers this week)

- A. for debiting Merchandise Inventory? _____
- B. for crediting Merchandise Inventory for return? _____
- C. for crediting Sales? _____
- D. for crediting Merchandise Inventory for sale? _____
- E. for crediting Accounting Receivable? _____

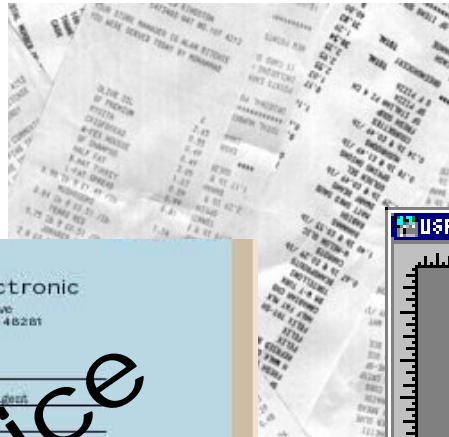
Highpoint Electronic
27 Circle Drive
Harding, Michigan 48261

SOLD TO

Firm Name: Cleaves Video
 Attention of: James Hoover, Purchasing Agent
 Address: 185 Main Street
Chesana Illinois 60915
 City State Zip

| Date | Salesperson | Material | Units | Q/10, 5/20 | Freight | FOB | Ex.P.S. | |
|---|-------------|---------------------------|-------|------------|---------|-----|--------------|----------------|
| X07270620 | | Prime Class Board | 1 | | \$2,200 | | \$2,200 | |
| A2547245 | | Production Model Chronite | 5 | | 300 | | 1,500 | |
| IMPORTANT: ALL RETURNS MUST BE MADE WITHIN 10 DAYS | | | | | | | TOTAL | \$3,800 |

INVOICE



Barcode Labeling Software

V. Point of View is EVERYTHING!

