

Merchandising: Periodic Procedures

(more of) Chapter 5

Overview

- I. Last Week: Perpetual (Chapter 5: pp. 208-231 and Appendix 5B)
- II. This Week: Periodic (Chapter 5: Appendix 5A, pp. 232 - 235)
 - A. Contrast periodic and perpetual
 - B. Financial Statement preparation and formulas

Contrast Periodic and Perpetual

Changes in Accounts

When merchandise is acquired the account debited is _____.

| New Account Title | Classification? (A,L,C,R,E) | Normal Balance? | Fin. Stmt.? (BS or IS) | Closed? |
|------------------------------|--------------------------------|--------------------|---------------------------|---------|
| Purchases | | debit | | yes - 2 |
| | | debit | | yes - |
| Purchases Returns and Allow. | | credit | | yes - |
| Purchases Discount | contra exp | credit | I.S. | yes - 1 |

Buyer's Point of View

These are the entries which would have been made using perpetual procedures. You are to reflect the changes for **PERIODIC** inventory.

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

| Date | Account Titles | Ref. | Debit | Credit |
|-------|----------------------------|------|-------|--------|
| Oct 4 | Inventory | | 1,000 | |
| | Accounts Payable -- Seller | | | 1,000 |

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

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

Returned \$200 of defective goods receiving credit.

| Date | Account Titles | Ref. | Debit | Credit |
|------|-----------------------------------|------|------------|------------|
| | Accounts Payable -- Seller | | 200 | |
| | Inventory | | | 200 |

Paid the balance due within the discount period.

| Date | Account Titles | Ref. | Debit | Credit |
|--------|-----------------------------------|------|------------|------------|
| Oct 14 | Accounts Payable -- Seller | | 800 | |
| | Inventory | | | 16 |
| | Cash | | | 784 |

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 |
|------|-------------------------------------|------|------------|------------|
| | Accounts Receivable -- Buyer | | 100 | |
| | Sales | | | 100 |
| | | | | |
| | Cost of Goods Sold | | 60 | |
| | Inventory | | | 60 |

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

| Date | Account Titles | Ref. | Debit | Credit |
|------|-------------------------------------|------|-----------|-----------|
| | Sales Returns and Allowances | | 20 | |
| | Accounts Receivable -- Buyer | | | 20 |
| | | | | |
| | Inventory | | 12 | |
| | Cost of Goods Sold | | | 12 |

Also refer to periodic and perpetual comparison on page 235 in the textbook.

Summary of Periodic Procedures

1. _____ account is debited when goods are acquired.
2. _____ is credited to record the sales price when goods are sold, but _____ is made to reduce the inventory.

THEREFORE

3. Must COMPUTE _____ in order to find net income.



_____ minus COST OF GOODS SOLD equals GROSS PROFIT
(where "Sales" means "_____")

Cost of Goods Sold

Beginning Inventory
+ _____
= Goods Available for Sale
- Ending Inventory
= Cost of Goods Sold

(where "Purchases" means "_____" and "net purchases", according to the authors, means "cost of goods purchased")

Try to understand the cost of goods sold formula with this illustration about "OUR Company:



Practice Exercise

The following list of account balances was taken from the adjusted trial balance columns of a work sheet for Cellar Company at December 31 of the current year. Merchandise inventory on January 1 was \$22,000. Prepare an income statement through gross profit.

| | |
|---|----------|
| Accounts Payable | \$ 9,800 |
| Depreciation Expense | 45,000 |
| Freight-in | 4,000 |
| Freight-out | 3,000 |
| Insurance Expense | 4,500 |
| Merchandise Inventory | 30,000 |
| Salaries Expense | 30,000 |
| Purchases | 80,000 |
| Purchase Discounts | 6,000 |
| Purchase Returns and Allowances | 3,500 |
| Sales | 300,000 |
| Sales Commissions Expense | 15,000 |
| Sales Discounts | 3,000 |
| Sales Returns and Allowances | 1,500 |
| D. Cellar, Capital | 50,000 |
| Property Taxes Expense | 4,000 |
| Utilities Expense | 7,000 |

Cellar Company (Partial) Income Statement For the Year Ended December 31, 20xx

| | | |
|------------------------------------|----------|----------|
| Sales | | \$ _____ |
| Less: Sales Returns and Allowances | | \$ _____ |
| Sales Discounts | | _____ |
| Net Sales | | \$ _____ |
| Cost of Goods Sold: | | |
| Merchandise Inventory, 1/1/xx | | \$ _____ |
| _____ | | \$ _____ |
| Less: _____ | \$ _____ | |
| _____ | _____ | |
| Net Purchases | | \$ _____ |
| Add: _____ | | _____ |
| _____ | | _____ |
| Goods Available for Sale | | \$ _____ |
| Less: _____ | | _____ |
| _____ | | _____ |
| Gross Profit | | \$ _____ |