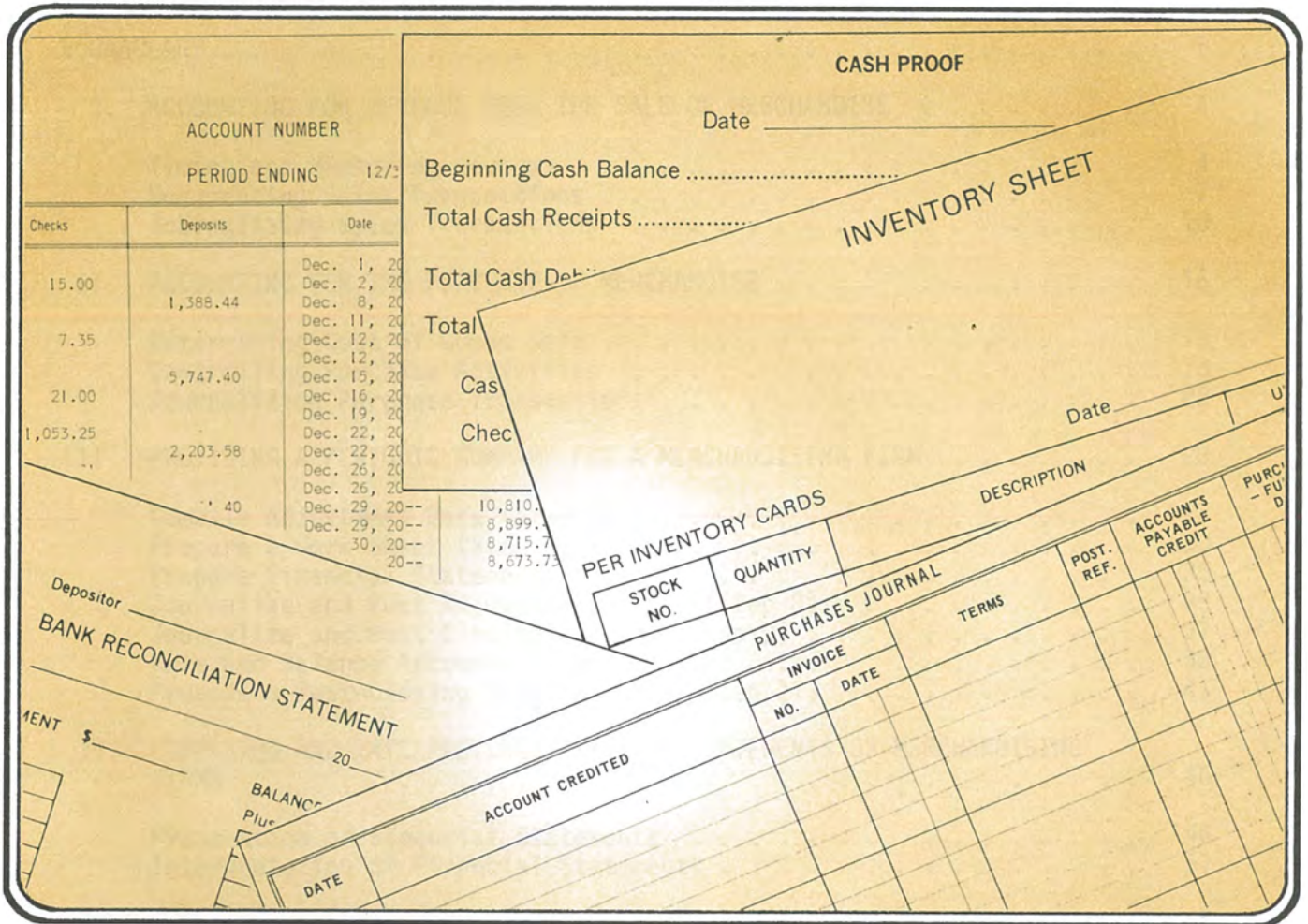


BASIC ACCOUNTING



Self-Pac[®]
of Basic Education

Name _____

STUDENT'S GOAL

Target test date _____

Pages in Self-Pac _____

School days until test _____

Pages per day _____

Date Self-Pac completed _____



ACCOUNTING FOR MERCHANDISING ACTIVITIES

Carefully read these pages. The objectives tell you what you should learn in this PACE. The vocabulary gives the definitions of new words you should be able to learn.

OBJECTIVES

When you have successfully completed this PACE, you will be able

- to measure and account for revenue arising from the sale of merchandise.
- to measure and account for the cost of goods sold during the accounting period.
- to complete the periodic summary for merchandising firms.
- to prepare and interpret financial statements of merchandising firms.

VOCABULARY

cost of goods sold. An expense to be recognized consisting of the cost of merchandise sold to customers during the period. Essential components of calculation:
beginning inventory + net purchases - ending inventory.

credit memorandum. A business document used by a seller to notify a buyer that the buyer's account is being credited (reduced) for reasons such as errors, returns, or allowances granted. Upon notification, the buyer will debit accounts payable for the same amount.

current ratio. A ratio determined by dividing current assets by current liabilities.

cut-off procedures. Procedures used toward the end of the period to assure that revenue and expense accounts and corresponding asset and liability accounts properly reflect events applicable to that period.

debit memorandum. A business document used to indicate the intent to change an account balance. The seller may notify the buyer that his account is being debited for some reason, usually that an error has been discovered. When used by buyer, the document serves as a request to debit Accounts Payable for merchandise returned, for an allowance because of damaged or inferior goods received, or because of an error discovered by the buyer.

F.O.B. destination. Freight term that means goods are shipped to their destination without cost to the buyer. The *seller* incurs the cost of transporting the goods.

F.O.B. point of origin. Freight term that means goods are placed in the hands of the agent handling the shipment without charge, but the buyer must pay all remaining transportation charges.

gross profit on sales. The difference determined by deducting the cost of goods sold from net sales. Also called the *gross margin*.

ORIGINAL INVOICE

West

 OFFICE PRODUCTS CO. • OFFICE SUPPLIES & FURNITURE
 711 WEST UNIVERSITY DRIVE • PHOENIX, ARIZONA 85007
 602 / 967-0569

 SOLD TO PINETOP OFFICE SUPPLY Co. SHIP TO SAME
222 WEST FIRST STREET
PINETOP, ARIZONA 85381

DATE			CUSTOMER ORDER NUMBER	F.O.B.	SALESMAN	TERMS	
7-29-			4096	DESTINATION	103	2/10, N/30	
QTY. ORD'D.	QTY. SHIPPED	QTY. B/O	DESCRIPTION		UNIT PRICE	EXTENSION	
20	20		RM 11" - 20# WHITE MIMED PAPER		2.60	52	00
20	20		RM 11" - 20# CANARY MIMED PAPER		2.75	55	00
10	10		RM 11" - 20# BLUE MIMED PAPER		2.75	27	50
						134	50
					SALES TAX	6	73
FINANCE CHARGE OF 1% PER MONTH APPLIED TO OVERDUE BALANCE ANNUAL RATE OF 12%					TOTAL	141	23

Documenting Sales Transactions

Sales of merchandise may be for cash or on credit. The source document for journalizing cash sales is usually the cash-register tape. Sales of merchandise on credit are evidenced by a *sales invoice* (sometimes called a *sales ticket*).

The sales invoice is legal recognition of a contract between the buyer and seller. The seller complies by providing the buyer merchandise of the type and quantity specified by the buyer. The buyer, in turn, complies by agreeing to pay the amount in accordance with the credit provisions of the invoice.

Journalizing Sales Transactions

To illustrate the accounting for the sale of merchandise on account, refer to the illustration of the invoice of West Office Products Company. According to this invoice, the Pinetop Office Supply Company purchased merchandise on July 29, 19-- amounting to \$141.23, and the credit terms were 2/10, n/30. The entry to record the sale is

July	29	Accounts Receivable	141.23	
		Sales		141.23
		Sold merchandise on credit, terms 2/10, n/30.		

If the Pinetop Office Supply Company elects to pay the invoice on or before August 8, only \$138.54 will be remitted. In this case, the entry to record the receipts of cash is

Aug.	9	Cash	138.54	
		Sales Discounts	2.69	
		Accounts Receivable		141.23
		Collection of account less discount. (\$134.50 x 98% + \$6.73)		

If the Pinetop Office Supply Company so desires, it may postpone payment of the invoice until August 28. In this case, the entire amount of the invoice, \$141.23, must be paid and would be recorded by making this entry:

Aug.	29	Cash	141.23	
		Accounts Receivable		141.23
		Collection of account from Pinetop Office Supply Company.		

The Sales-Discounts account is a *negative revenue* account. The accumulated amount will be deducted from gross sales in the revenue section of the income statement prepared at the end of the accounting period. Because it is a temporary owner's equity account, it will be closed along with the other revenue and expense accounts.

To illustrate the accounting for transportation costs, refer to the invoice in the previous illustration which includes the term F.O.B. destination.

To record shipping charges of \$15 which the seller agrees to pay, the following entry would be made to record the expense.

July	29	Freight Out	15.00	
		Cash (or Accounts Payable)		15.00
		Paid transportation charges on shipment of merchandise.		

If, instead of F.O.B. destination, the invoice had provided for shipping costs to be borne by the buyer (F.O.B. point of origin), no entry would be made by West unless they paid the shipping costs on behalf of the buyer. In this case, the entry would be

July	29	Accounts Receivable	15.00	
		Cash		15.00
		Paid shipping charges for customer, \$15.		

(6) The expense, cost of goods sold, is determined by deducting the _____ from cost of goods available.

(7) The amount determined by deducting cost of goods sold from revenue is called _____.

➔ Supply the missing amounts in each of the independent cases:

(8) Sales

Cost of Goods Sold:

Beginning Inventory

(9) Purchases

Cost of Goods Available

Ending Inventory

Cost of Goods Sold

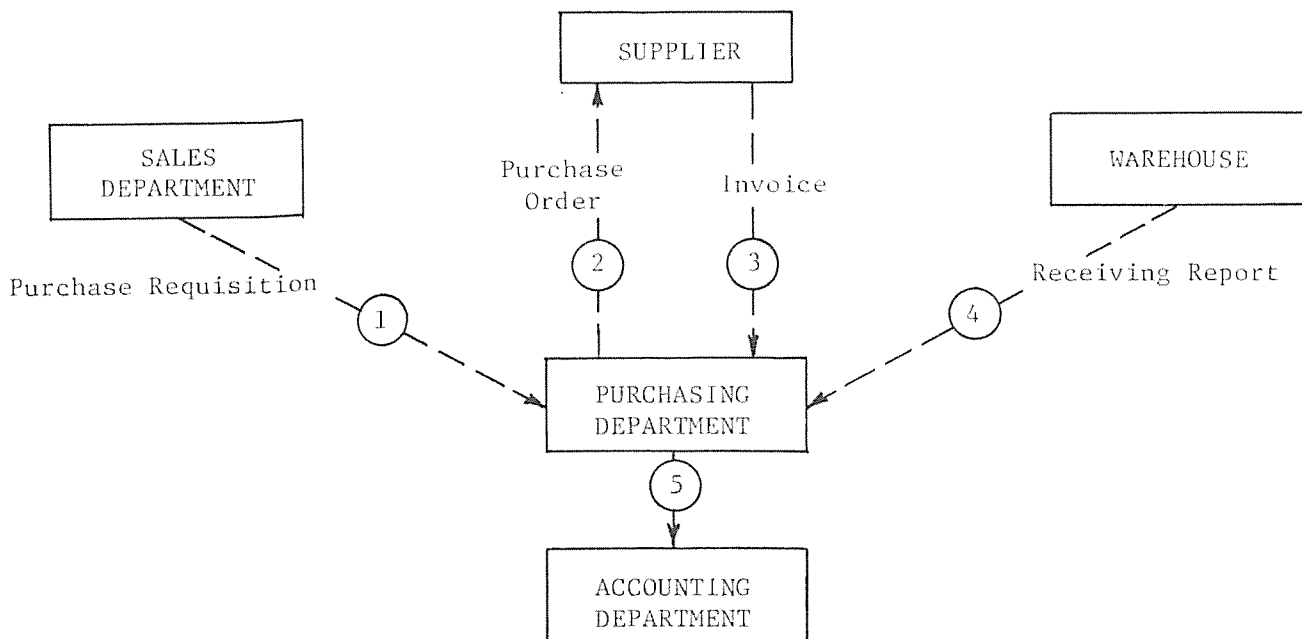
(10) Gross Profit

32,000	_____	36,000
6,000	5,000	8,000
_____	18,000	26,000
23,000	23,000	34,000
5,000	8,000	9,000
18,000	17,000	<u>25,000</u>
14,000	10,000	_____

Controlling Purchase Activities

The *purchasing department* of a retail or wholesale business has the responsibility of buying merchandise [Ⓐ] that meets the specifications of the managers of the various sales departments [Ⓑ] at the lowest possible cost. Purchasing procedures must be followed that will provide control and will assure management that these two objectives have been achieved. A typical series of purchasing procedures involves these steps:

PURCHASING PROCEDURES



PURCHASE ORDER

PINETOP OFFICE SUPPLY COMPANY
 222 WEST FIRST STREET
 PINETOP, ARIZONA 85381

ORDER NO. 5-426

Please Refer To This Number
 On Your Invoice Labels, and
 Correspondence.

ORDERED • West Office Products Company
 FROM • 711 West First Street
 • Phoenix, Arizona 85007

Date Ordered	Ship Via	Deliver Order By	Budget Code	Acct. No.	Terms
7/26/20	Greyhound Frt. Lines	7/30/20	124	306	2/10,n/30
QUANTITY	DESCRIPTION			UNIT PRICE	AMOUNT
20	rm	11"	20# White Mimeo Paper	\$2.60	52 00
20	rm	11"	20# Canary Mimeo Paper	2.75	55 00
10	rm	11"	20# Blue Mimeo Paper	2.75	27 50
					<u>134 50</u>

Bob Frederick Purchasing Agent
 AUTHORIZED SIGNATURE

- Step 3--The supplier ships the merchandise ordered together with a *sales invoice*. When the sales invoice is received in the purchasing department, it may be referred to as a *purchase invoice*.
- Step 4--The merchandise is received in the warehouse and is examined by the receiving department. After the merchandise is counted and inspected, a *receiving report* is sent to the purchasing department.
- Step 5--The purchasing department reviews all business documents related to the purchase. If the purchasing department is satisfied that the transaction has been properly consummated, it forwards the papers to the accounting department.
- Step 6--The sheaf of documents consisting of the purchase order, receiving report, and invoice is reviewed again in the accounting department. If the accounting department is satisfied, it journalizes the transaction and authorizes payment according to the terms of the invoice.

La Fon Furniture Company
Work sheet
For The Year Ending December 31, 20—

ACCOUNT TITLES	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DB.	CR.	DB.	CR.	DB.	CR.	DB.	CR.	DB.	CR.
Cash	6500 00				6500 00				6500 00	
Accounts receivable	8200 00				8200 00				8200 00	
Merchandise Inventory	18000 00		a) 25000 00	f) 18000 00	25000 00				25000 00	
Supplies on Hand	800 00			b) 420 00	380 00				380 00	
Prepaid Insurance	1500 00			d) 500 00	1000 00				1000 00	
Accounts Payable		7600 00				7600 00				7600 00
C. LaFon, Equity		20000 00				20000 00				20000 00
Sales		102,000				102,000 00		102,000 00		
Sales Returned Allowance	700 00				700 00		700 00			
Sales Discounts	500 00				500 00		500 00			
Purchases	70000 00				70000 00		70000 00			
Purchases Returns & Allowances		400 00				400 00		400 00		
Purchases Discounts		600 00				600 00		600 00		
Transportation In	1000 00				1000 00		1000 00			
Salaries & Wages	15000 00		b) 320 00		15320 00		15320 00			
Rent Expense	6600 00		a) 600 00		7200 00		7200 00			
Transportation Expense	200 00				200 00		200 00			
Utilities	1500 00				1500 00		1500 00			
Miscellaneous Expenses	100 00				100 00		100 00			
	130,600 00	130,600 00								
Rent Payable				a) 600 00		600 00				600 00
Salaries & Wages Payable				b) 320 00		320 00				320 00
Supplies Used			c) 420 00		420 00		420 00			
Insurance Expense			d) 500 00		500 00		500 00			
Income Summary			f) 18000 00	e) 25000 00	18000 00	25000 00	18000 00	25000 00		
			44840 00	44840 00	156520 00	156520 00	115440 00	128000 00	41080 00	28520 00
Net Income							12560 00			12560 00
							128000 00	128000 00	41080 00	41080 00