

# 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 |

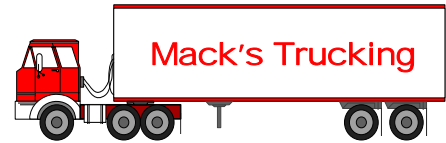
### I. New Accounts

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			

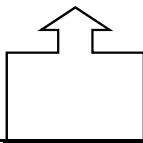
The balance in Merchandise Inventory would be \$ \_\_\_\_\_  
and would represent the \_\_\_\_\_ of the asset.



**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).

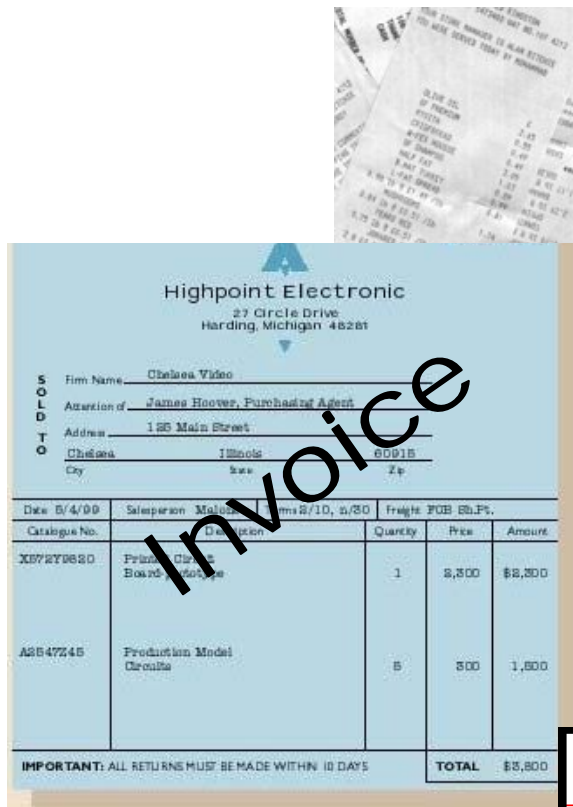
Date	Account Titles	Ref.	Debit	Credit
			20	
				20
			12	
				12

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? \_\_\_\_\_



**Barcode Labeling Software**

**V. Point of View is EVERYTHING!**

