

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		\$ _____