

UNIT 6 MERCHANDISING

A merchandising company is a Retailer. Retailers buy merchandise from manufacturers and/or wholesalers, mark the merchandise up enough to cover operating expenses and make a profit. Merchandise bought for re-sale is charged to Purchases. Cost of merchandise sold is calculated by subtracting Ending Inventory from Beginning Inventory plus Net Purchases (including

transportation costs). Sales Discounts and Purchase Discounts are given to those who pay early. An example of discount terms would be 2/10,n30 which means 2% is taken off if paid within 10 days, otherwise pay within 30 days. Unsatisfactory goods are accounted for by charging Sales Returns and Allowance or Purchase Returns and Allowance.

I. LOGIC OF MERCHANDISING DEBITS AND CREDITS



Note: Sales and Purchases are opposites and therefore have opposite normal balances. Their return and discount accounts also have opposite balances.

DARIN'S MUSIC EMPORIUM

Darin Jones graduated in December of 1994, and after a brief vacation, took the accumulation from his Laundry business and invested \$10,000 in Darin's Music Emporium, a retailer of computerized musical instruments. Sample Journal Entries and 1995 statements along with Closing Entries appear below. Please read transaction descriptions first.

II. JOURNAL ENTRIES

Jan. 3	Purchases	4000	
	Accounts Payable		4000
READ FIRST-->	Merchandise purchased for \$4,000 on credit from L. Co. invoice dated 1/1, terms 2/10,n30.		
Jan. 7	Accounts Payable	500	
	Purchase Returns and Allowances		500
	Returned \$500 of merchandise purchased 1/1.		
Jan. 11	Accounts Payable	3500	
	Purchase Discount		70
	Cash		3430
	Paid L. Co. for purchase of 1/1 less return and discount.		
Jan. 12	Cash	2000	
	Sales		2000
	Recorded Cash Sales of \$2,000.		
Jan. 14	Accounts Receivable	5000	
	Sales		5000
	Recorded credit sale of \$5,000 to M. Co. terms 2/10,n30.		
Jan. 18	Sales Returns and Allowances	100	
	Accounts Receivable		100
	M. Co. returned \$100 of merchandise purchased 1/14.		
Jan. 24	Cash	4802	
	Sales Discount		98
	Accounts Receivable		4900
	Received payment from M. Co. less return, less discount.		
Feb. 2	Purchases	3960	
	Accounts Payable		3960
	Merchandise purchased from Z Co. with a value of \$4,000, terms 1/10,n30 - Net Method.		
Feb. 28	Accounts Payable	3960	
	Purchase Discount Lost		40
	Cash		4000
	Paid Z Co. for purchase of 2/2 plus discount lost.		
Feb. 28	Transportation-In	50	
	Cash		50
	Paid Transportation charges of \$50 for merchandise purchased 2/2.		

Note: Related transactions have been boxed.

Free Business Textbooks
Library covers many subjects.

Business Software Library
has free accounting, math and statistics software.

28 Free Internet Libraries
have academic and career materials for students, teachers, and professional.

Note: The net method of recording purchases assumes the Purchase Discount will be taken. If it is not taken, a Purchase Discount Lost is recorded. Purchase Discounts Lost are not considered an operating expense and are reported after operating income in an Income Statement section entitled Other Revenue and Expenses.

III. LOGIC OF INCOME STATEMENT

Free Quick Notes books provide help for accounting, economics, statistics, and basic mathematics.

Gross Sales
- Cost of Goods Sold
Gross Profit
- Operating Expenses
Income from Operations

Excel Internet Library has learning materials classified by user type.

IV. INCOME STATEMENT

Darin's Music Emporium
Income Statement
For the Year Ended December 31, 1995

Sales Revenue:	
Gross Sales	\$98,000
Sales Returns and Allowances	\$1,000
Sales Discounts	<u>2,000</u> <u>3,000</u>
Net Sales	\$95,000
Cost of Goods Sold:	
Merchandise Inventory, January 1, 1995	\$10,000
Purchases	\$38,000
Purchase Returns and Allowances	\$1,000
Purchase Discounts	<u>2,000</u> <u>3,000</u>
Net Purchases	\$35,000
Plus Transportation-In	<u>1,000</u>
Cost of Goods Purchased	<u>36,000</u>
Goods Available for Sale	\$46,000
Merchandise Inventory, December 31, 1995	<u>21,000</u>
Cost of Goods Sold	<u>25,000</u>
Gross Profit	\$70,000
Operating Expenses:	
Selling Expenses	\$22,500
General and Administrative Expenses	<u>7,500</u>
Total Operating Expenses	<u>30,000</u>
Income from Operations	<u>\$40,000</u>

Note: Being a Sole Proprietorship, no federal income tax is owed by the business. Darin will file an individual return.

V. BALANCE SHEET

Darin's Music Emporium
Balance Sheet
December 31, 1995

ASSETS	
Current Assets:	
Cash	\$4,000
Accounts Receivable	1,000
Office Supplies	250
Merchandise Inventory	21,000
Prepaid Rent	<u>350</u>
Total Current Assets	\$26,600
Plant and Equipment:	
Store Equipment	\$ 6,000
Less Accumulated Depreciation	<u>600</u> \$5,400
Office Equipment	\$ 5,000
Less Accumulated Depreciation	<u>1,000</u> <u>4,000</u>
Total Assets	<u>\$36,000</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$22,000
Total Liabilities	\$22,000
OWNER'S EQUITY	
Darin Jones Capital, January 1, 1995	\$10,000
Net Income	\$40,000
Withdrawals	<u>36,000</u>
Increase in Capital	<u>4,000</u>
Darin Jones Capital, December 31, 1995	<u>14,000</u>
Total Liabilities and Owner's Equity	<u>\$36,000</u>

VI. CLOSING ENTRIES

	DR.	CR.		DR.	CR.
Dec. 31 Income Summary	82,000		Dec. 31 Ending Inventory	21,000	
Beginning Inventory		10,000	Sales	98,000	
Sales Returns and Allowances		1,000	Purchase Returns and Allowances	1,000	
Sales Discounts		2,000	Purchase Discounts	2,000	
Purchases		38,000	Income Summary		122,000
Transportation-In		1,000	Dec. 31 Income Summary	40,000	
Selling Expenses		22,500	Capital, Darin Jones		40,000
General and Administrative Expenses		7,500	Dec. 31 Capital, Darin Jones	36,000	
			Withdrawals, Darin Jones		36,000

Note: When the list price of an item does not represent its true price and a discount is stated, said discount, called a trade discount, is used to lower the historical cost of the item.

Note: An alternative method to closing Beginning Inventory with a \$10,000 credit and creating the Ending Inventory with a \$21,000 debit would be to adjust inventory with an \$11,000 debit. Either adjusts for all purchases being treated as an expense.

Our Professional Development Resources Center has material to enhance your career.