# ACC100 Merchandising Businesses: Recording Transactions

What is a merchandising business?

- A business that purchases finished goods and resells them at a higher price to generate profit (e.g. Walmart).

What differentiates a merchandising business from a service business?

- Merchandising businesses have inventory, while service businesses do not.

## 1.1 Shipping Terms Summary

| Shipping terms | Point of view | |
|---|---|---|
| | **Seller (you)** | **Buyer (you)** |
| **Shipping point** | Buyer pays | You pay |
| **Destination** | You pay | Seller pays |

## 1.2 Sales Transactions Summary

- For merchandising businesses: when a sale occurs, two entries are necessary to account for the price and the cost of the merchandise.
- Price: what the buyer pays for the product/s.
- Cost: what the seller has paid for the product/s (i.e. inventory).

| Transaction | | Assets | Liabilities | Equity |
|---|---|---|---|---|
| **Seller generates a sale** | Price | Cash or A/R ↑ | | Revenue ↑ |
| | Cost | Inventory ↓ | | COGS ↑ |
| **Seller issues refund for return of inventory** | Price | Cash or A/R ↓ | | Sales returns and allowances*** ↓ |
| | Cost | Inventory ↑ | | COGS ↓ |

## 1.3 Sales Discounts Summary

| Activity | Assets | Liabilities | Equity |
|---|---|---|---|
| **Grant sales discount*** | Cash ↑, A/R ↓ | | Sales discounts*** ↓ |
| **Receive sales discount**** | Cash ↓, Inventory ↓ | A/P ↓ | |

*Cash increases by the actual amount received, Accounts Receivable decreases by the full amount owed, Sales Discounts decreases by the discount given.

**Cash decreases by the actual amount paid, Accounts Payable decreased by the full amount owing, Inventory decreases by the discount received.

***Sales returns and allowances and sales discounts are contra-revenue accounts – they decrease revenue.

## 1.4 Sample Problem

Hertz Inc. is in the business of selling 3D printers. On September 9, Hertz Inc. sells $22,000 worth of 3D printers to iTech Co. for $33,000 on account 2/10, n/60, and shipping terms FOB shipping point.

What is the impact on Hertz Inc.'s accounts?

| | Assets | | Liabilities | Equity | |
|---|---|---|---|---|---|
| | Accounts Receivable | Inventory | | Sales Revenue | COGS |
| **Price** | 33,000 | | | 33,000 | |
| **Cost** | | -22,000 | | | 22,000 |

# **ACC100** Merchandising Businesses: Recording Transactions

On September 10, the appropriate party pays $570 for shipping.

- Since the shipping terms are FOB shipping point and Hertz Inc. is the seller, iTech Co. is responsible for shipping costs.

On September 12, iTech Co. returns $9,000 worth of printers because they were the wrong model. How are Hertz Inc.'s accounts impacted?

- First, we need to find the cost of inventory based on the given price of $9,000.
- $\frac{33,000}{22,000}$ = 1.5 → $\frac{9,000}{cost}$ = 1.5 → cost = 9,000/1.5 = $6,000 (COGS)

| | Assets | | Liabilities | Equity | |
|---|---|---|---|---|---|
| | Accounts Receivable | Inventory | | Sales Returns | COGS |
| **Price** | -9,000 | | | -9,000 | |
| **Cost** | | 6,000 | | | -6,000 |

On September 17, iTech Co. pays the outstanding balance to Hertz Inc. for the purchase on September 9. What does the transaction look like?

- Does iTech Co. get the discount? Yes, because they paid within 10 days of the purchase.
- How much does iTech Co. actually pay to Hertz Inc.? (Note: consider the sales return)
- 33,000 – 9,000 = 24,000 is the total owed by iTech Co.
- 24,000 x 0.98 = $23,520 (what iTech Co. actually pays) Discount = $480

| Assets | | Liabilities | Equity |
|---|---|---|---|
| Cash | Accounts Receivable | | Sales Discounts |
| 23,520 | -24,000 | | -480 |

**Textbook: Found on D2L Brightspace.**