

# ACC100: Shipping Terms

## TRAIN TO LEARN EFFECTIVELY: TIP SHEETS

**Shipping Terms:** determine who pays for the cost of shipping inventory, who owns the inventory while in transit, and who is responsible for any damage during transit.

After being given a transaction between a buyer and seller, you will see either:

- Shipping terms are **FOB Origin (also called FOB Shipping Point)** or
- Shipping terms are **FOB Destination**

**KEY:** determine who YOU are in the scenario

- Are you the **BUYER** of the inventory? Or are you **SELLING** the inventory?

FOB Origin/Shipping Point The <b>buyer/receiver</b> pays	FOB Destination The <b>seller/shipper</b> pays
<p>If <b>YOU</b> are the <b>BUYER</b> of inventory</p> <ol style="list-style-type: none"> <li>1. ↑ (+) Increase Inventory Value</li> <li>2. ↑ (+) Accounts Payable (if you bought the inventory on credit)</li> </ol> <p>OR</p> <ol style="list-style-type: none"> <li>↓ (-) Cash (if you bought the inventory using cash)</li> </ol>	<p>If <b>YOU</b> are the <b>SHIPPER</b> of inventory</p> <ol style="list-style-type: none"> <li>1. ↑ (+) Freight Expense</li> <li>2. ↓ (-) Cash</li> </ol>
If you are <u>not</u> the buyer/receiver, you don't have to record anything for shipping costs (the other party paid!)	If you are <u>not</u> the shipper, you don't have to record anything for shipping costs (the other party paid!)

**Practice** (see pg. 2)

1. In each scenario determine who you are: **buyer** or **seller**
2. Identify the shipping terms: **FOB shipping point** or **FOB destination**
3. Given your role and the shipping term, decide whether you have to record shipping costs
4. *If* you are responsible for shipping costs, record the appropriate shipping cost transaction

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1. You purchase 60 cookies from your supplier for \$2 each, paying cash. Shipping terms are FOB destination, \$20.

- Who are you? The **buyer**
- What are the terms? **FOB destination**
- Do you pay for shipping? **No!**

$$60 \text{ cookies} \times \$2 = \$120 \text{ inventory}$$

2. You sell 15 cookies to Bakery Z, on account, for \$3 each. Shipping terms are FOB destination and the appropriate party paid the \$20 shipping cost.

- Who are you? The **seller**
- What are the terms? **FOB destination**
- Do you pay for shipping? **Yes!**

$$\begin{aligned} \text{Sales Revenue} &= 15 \times \$3 & \text{COG Sold} &= 15 \times \$2 \\ \text{Shipping: } & \uparrow \text{ Freight Expense \& } \downarrow \text{ Cash} \end{aligned}$$

3. You sell another 25 cookies to Bakery X for \$3 each; they pay you in cash. Shipping terms are FOB shipping point, \$15.

- Who are you? The **seller**
- What are the terms? **FOB shipping point**
- Do you pay for shipping? **No!**

$$\text{Sales Revenue} = 25 \times \$3 \quad \text{COG Sold} = 25 \times \$2$$

4. You purchase 50 cupcakes from Sweet Treats Inc for \$4 each on credit. Shipping terms are FOB shipping point, \$20.

- Who are you? The **buyer**
- What are the terms? **FOB shipping point**
- Do you pay for shipping? **Yes!**

Shipping:  $\uparrow$  the value of your inventory &  $\uparrow$  A/P by the shipping cost

$$\text{Inventory} = (50 \times \$4) + \$20. \quad \text{A/P} = (50 \times \$4) + \$20$$

(see expanded accounting equation on pg. 3)

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TRAIN TO LEARN EFFECTIVELY: TIP SHEETS

	Assets			Liabilities	Equity		
	Cash	Inventory	A/R	A/P	Sales Revenue	COG Sold	Freight Expense
1	-120	+120					
2	<b>-20</b>	-30	+45		+45	+30	<b>+20</b>
3	+75	-50			+75	+50	
4		<b>+220</b>		<b>+220</b>			