

Service vs. Merchandising

Service Income Statement

ROMNEY'S MARKETING COMPANY

Income Statement

For the Year Ended December 31, 2015

Operating Revenues:

Sales revenue	<u>\$ 38,500</u>
Total operating revenues	<u>38,500</u>

Operating Expenses:

Wages expense	
Depreciation expense	19,500
Utilities expense	1,800
Insurance expense	380
Rent expense	750
Total operating expenses	<u>9,000</u>

Operating Income 31,430

Other Items: 7,070

Interest revenue

Rent revenue 100

Pretax Income 800

Income tax expense 7,970

2,700

Net Income \$ 5,270

Earnings per share* \$9.58

Proof General Store			
Income Statement			
For the Year Ended December 31, 2014			
Net sales:			
	Sales		\$297,000
	Less sales returns and allowances		<u>15,200</u>
	Net sales		\$281,800
Cost of goods sold:			
	Merchandise inventory, December 31, 2013		\$ 26,000
	Purchases	\$114,800	
	Less purchases returns and allowances	<u>4,000</u>	
	Net purchases	\$110,800	
	+ Freight-in	<u>5,600</u>	
	Net cost of purchases		<u>116,400</u>
	Cost of goods available for sale		\$142,400
	Less merchandise inventory, December 31, 2014		<u>22,000</u>
	Cost of goods sold		<u>120,400</u>
	Gross margin		\$161,400
Operating expenses:			
	Selling expenses		\$ 48,500
	General and administrative expenses		<u>37,200</u>
	Total operating expenses		<u>85,700</u>
	Income before income taxes		\$ 75,700
	Income tax expense		<u>6,800</u>
	Net income		<u>\$ 68,900</u>

This example demonstrates a Multi-Step Income Statement

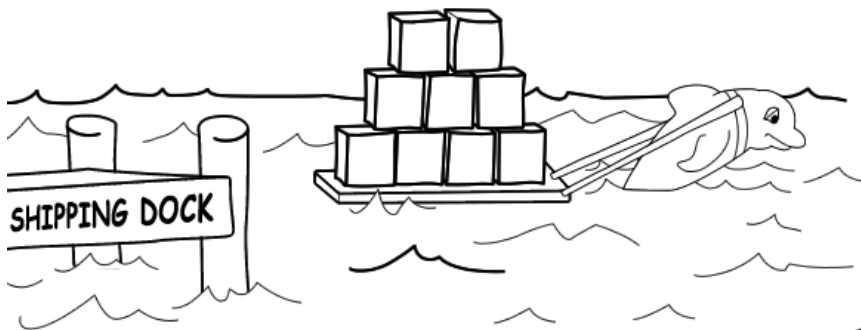
Terminology



- Periodic Inventory System
- Perpetual Inventory System
- Terms of Sale, e.g., **2/10 n30**
 - What date would be used?
- FOB Destination, FOB Shipping Point

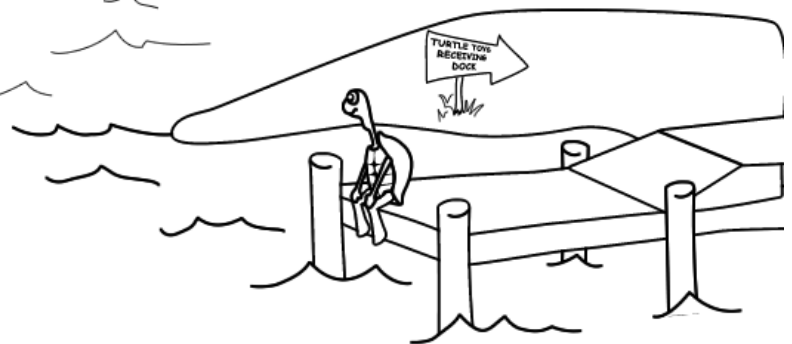
FOB Shipping point v. FOB destination

FOB Shipping point



Sale when shipped

FOB Destination



Sale when arrives

Purchasing Inventory with Perpetual System

General Journal					
					Page 3
	date	description	post ref.	Dr.	Cr.
1	3-Jun	Merchandise Inventory		\$ 35,000.00	
2		Accounts Payable			\$ 35,000.00
3		Purchased Inventory-Perpetual system			
4					
5					
6	15-Jun	Accounts Payable		\$ 35,000.00	
7		Merchandise Inventory			\$ 1,050.00
8		Cash			\$ 33,950.00
9		Paid for Inventory taking Discount			
10					

What would be different if the discount was not taken (paid after the 10 days)?



What would be the journal entry for a Return or an Allowance?

General Journal					
					Page 3
	date	description	post ref.	Dr.	Cr.
1	4-Jun	Accounts Payable		\$ 7,000.00	
2		Cash			\$ 7,000.00
3					

How do you record a Sale under the Perpetual System?

General Journal					
					Page 4
	date	description	post ref.	Dr.	Cr.
1	21-Jun	Cost of Goods Sold		\$ 3,500.00	
2		Merchandise Inventory			\$ 3,500.00
3					
4		Accounts Receivable (or Cash)		\$ 5,000.00	
5		Sales			\$ 5,000.00
6					

Sales Return and Allowance

General Journal					
					Page 4
	date	description	post ref.	Dr.	Cr.
1	25-Jun	Sales Return and Allowance		\$ 1,500.00	
2		Accounts Receivable			\$ 1,500.00
3					
4		Merchandise Inventory		\$ 1,050.00	
5		Cost of Goods Sold			\$ 1,050.00
6					

What if paid to you within the sales discount period?

General Journal					
					Page 4
	date	description	post ref.	Dr.	Cr.
1	25-Jun	Cash		\$ 3,332.00	
2		Sales Discount (2%)		\$ 68.00	
3		Accounts Receivable			\$ 3,400.00
4					



How are the journal entries different for a Periodic System?

Let's use the document camera and look at Exhibit 5-3 in your book pg. 278, 5th edition

Exhibit 5A-3 | Perpetual Versus Periodic Inventory System

PERPETUAL INVENTORY SYSTEM				PERIODIC INVENTORY SYSTEM			
Purchased inventory on account:							
Date	Accounts and Explanation	Debit	Credit	Date	Accounts and Explanation	Debit	Credit
	Merchandise Inventory	5,250			Purchases	5,250	
	Accounts Payable		5,250		Accounts Payable		5,250
	<i>Purchased inventory on account.</i>				<i>Purchased inventory on account.</i>		
Returned inventory to seller (vendor):							
Date	Accounts and Explanation	Debit	Credit	Date	Accounts and Explanation	Debit	Credit
	Accounts Payable	1,750			Accounts Payable	1,750	
	Merchandise Inventory		1,750		Purchase Returns and Allowances		1,750
	<i>Returned inventory to seller (vendor).</i>				<i>Returned inventory to seller (vendor).</i>		