

# **Principles Accounting in English 1**

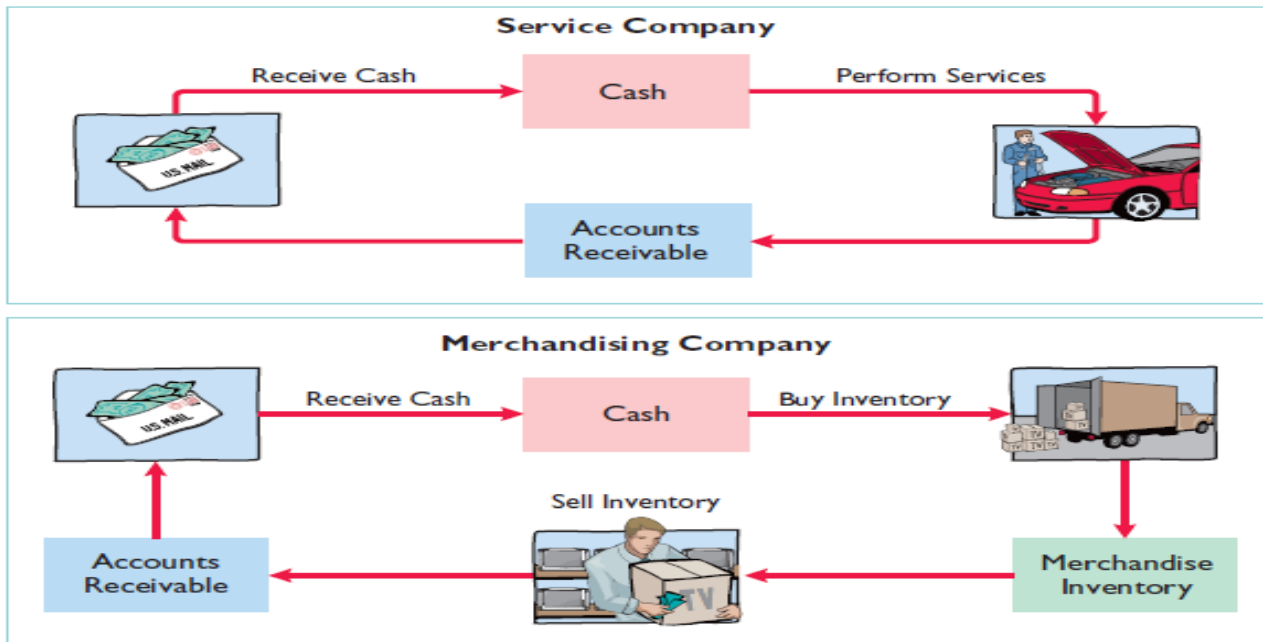
## **CHAPTER FOUR (Accounting for Merchandising Operations)**

**ACCOUNTING DEPARTMENT**

**2022-2023**

**CHAPTER (4)  
(Accounting for Merchandising Operations)**


**Operating Cycles**



**periodic inventory system**

In a periodic inventory system, companies do not keep detailed inventory records of the goods on hand throughout the period. Instead, they determine the cost of goods sold only at the end of the accounting period—that is, periodically. At that point, the company takes a physical inventory count to determine the cost of goods on hand.

INVOICE NO. 731



**PW AUDIO SUPPLY, INC.**  
 27 CIRCLE DRIVE  
 HARDING, MICHIGAN 48281

**S** Firm Name Sauk Stereo

**O** Attention of James Hoover, Purchasing Agent

**L** Address 125 Main Street

**D** Chelsea Illinois 60915

**T** City State Zip

**O**

Date <u>5/4/10</u>	Salesperson <u>Malone</u>	Terms <u>2/10, n/30</u>	FOB Shipping Point	
Catalog No.	Description	Quantity	Price	Amount
<u>X572Y9820</u>	<u>Printed Circuit Board-prototype</u>	<u>1</u>	<u>2,300</u>	<u>\$2,300</u>
<u>A2547Z45</u>	<u>Production Model Circuits</u>	<u>5</u>	<u>300</u>	<u>1,500</u>
IMPORTANT: ALL RETURNS MUST BE MADE WITHIN 10 DAYS			TOTAL	\$3,800

### Recording Purchases of Merchandise

On the basis of the sales invoice and receipt of the merchandise ordered from PW Audio Supply, Sauk Stereo records the \$3,800 purchase as follows.

**May 4**

**Purchases 3,800**

**Accounts Payable 3,800**

(To record goods purchased on account from PW Audio Supply)

Purchases is a temporary account whose normal balance is a debit.

### Freight Costs

Freight terms are expressed as either **FOB shipping point** or **FOB destination**.

The letters **FOB mean free on board**. Thus, FOB shipping point means **buyer pays the freight costs**. Conversely, **FOB destination means** that the **seller pays the freight**. For example, the sales invoice in Illustration 1 indicates FOB shipping point. Thus, the buyer (Sauk Stereo) pays the freight charges.





## PRINCIPLES OF ACCOUNTING

### Example :

(Azad) bought goods worth 1000 \$ by cash from (Kawa) with trade discount 5%.

#### Required:

**Journalize this transaction .**

Trade discount =  $1000 \times 5\% = 50$

Actual price =  $1000 - 50 = 950$

<b>Dr. Purchases</b>	<b>950</b>
<b>Cr. Cash</b>	<b>950</b>

**(bought goods by cash with trade discount )**

### Example:

(Ahmed store) sold goods worth 2000 \$ by check to (Ali) with trade discount 10 % and 5 %.

#### Required:

**Journalize this transaction to both the buyer and seller records.**

First trade discount =  $2000 \times 10\% = 200$

$2000 - 200 = 1800$

Second trade discount =  $1800 \times 5\% = 90$

The actual price =  $1800 - 90 = 1710$  \$

Buyer' record ( Ali )		Seller's record ( Ahmed )	
By Purchases	1710	By Cash in bank	1710
To Cash in bank	1710	To Sales	1710
(bought goods by check with tow trade discount 10% and 5 %)		(sold goods by check with tow trade discount 10% and 5 % )	

## 2. Cash discount:

To motivate the customer (buyers) bought on credit for early payment, the seller usually grant discount on the amounts paid.

The cash discount is entered or recorded in the books (accounts) and it takes two types or sides:

### 1. Purchases Discount.

### 2. Sales Discount.

### Terms of cash discount:

There are many terms of cash discount but the most known term is: **2 / 10, 1 / 20, N / 30.**

This is mean:

- 2 % discount will be allowed if the buyer pays within the first 10 days.
- 1 % discount will be allowed if the buyer pays within the second 10 days.
- No discount will be allowed but net payment should be made within the third 10 days.

### 3- Quantity discount:

For example, of the quantity discount:

- 1<sup>st</sup> 1000 \$ no quantity discount is allowed.
- 2<sup>nd</sup> 1000 \$ 5 % quantity discount is allowed.
- 3<sup>rd</sup> 1000 \$ 10 % quantity discount is allowed.
- 4<sup>th</sup> 1000 \$ and more 20 % quantity discount is allowed.

#### Example 1:

This information relates to Aram Co.

1. On April 5 purchased merchandise from Azad Company for \$20,000, terms 2/10, net/30, FOB shipping point.
2. On April 6 paid freight costs of \$900 on merchandise purchased from Azad Company.
3. On April 7 purchased equipment on account for \$26,000.
4. On April 8 returned some of April 5 merchandise, which cost \$2,800, to Azad Company.
5. On April 15 paid the amount due to Azad Company in full.

#### Instructions

- (a) Prepare the journal entries to record these transactions on the books of Aram Co.
- (b) Assume that Aram Co. paid the balance due to Azad Company on May 4 instead of April 15. Prepare the journal entry to record this payment.

#### Example 2:

Presented below is information related to Ali Co.

1. On April 5, purchased merchandise from Ako Company for \$22,000, terms 2/10, net/30, FOB shipping point.
2. On April 6, paid freight costs of \$800 on merchandise purchased from Ako.
3. On April 7, purchased equipment on account from Erbil. Co. for \$26,000.
4. On April 8, returned merchandise, which cost \$4,000, to Ako Company.
5. On April 15, paid the amount due to Ako Company in full.

#### Instructions

- (a) Prepare the journal entries to record these transactions on the books of Ali Co. using a periodic inventory system.
- (b) Assume that Ali Co. paid the balance due to Ako Company on May 4 instead of April 15. Prepare the journal entry to record this payment.

## PRINCIPLES OF ACCOUNTING

### Example 3:

Information related to Hawre Co. is presented below.

1. On April 5, purchased merchandise from Renas Company for \$25,000 terms 2/10, net/30, FOB shipping point.
2. On April 6 paid freight costs of \$900 on merchandise purchased from Renas.
3. On April 7, purchased equipment on account for \$26,000.
4. On April 8, returned damaged merchandise to Renas Company and was granted a \$4,000 credit for returned merchandise.
5. On April 15 paid the amount due to Renas Company in full.

### Instructions

- (a) Prepare the journal entries to record these transactions on the books of Hawre Co..
- (b) Assume that Hawre Co. paid the balance due to Renas Company on May 4 instead of April 15. Prepare the journal entry to record this payment.

### Example 4:

- At 1 / 4 / 2008 (Salim Co.) Started business with the following:  
Cash 10000 \$ - Cash in bank 10000 \$ - Goods 5000 \$ - Capital?
- At 3 / 4 / Purchased goods worth 3500 \$ from (Salah Co.), (1000 \$ by cash – 1000 \$ by check – 1000 \$ by credit – 500 \$ by note that due after 2 months), and paid 250 \$ by cash as purchases expenses.
- At 5 / 4 / Sold goods worth 1500 \$ to (Noor Co.) by credit with terms 3 / 5, 2 / 10, 1 / 20, N / 30.
- At 7 / 4 / Settled the account of (Salah Co.) by check.
- At 15 / 4 / (Noor Co.) settled the account by cash.

### Required:

**Journalize the above transactions (By systematic method).**

### Example 5:

- At 1 / 4 / 2008 (Ali Co.) started business with the following assets;  
Cash 15000 \$ - Cash in Bank 20000 \$ - Furniture 5000 \$ - Inventory (Beginning) 15000 \$ - Capital?
- At 3 / 4 / Sold goods to (Hasan Co.) worth 6000 \$ on account with terms of payment -2 / 10, 1 / 20, N / 30.
- At 5 / 4 / Purchased goods from (Yasser Co.) worth 4000 \$ by cash with trade discount 5 %, and paid purchases expenses 300 \$ by check.
- At 7 / 4 / We returned goods worth 250 \$ to (Yasser Co.) and received the amount by cash.
- At 11 / 4 / We received 3000 \$ from (Hasan Co.) by cash.

### Required:

**Journalize the above transactions.**



## PRINCIPLES OF ACCOUNTING

### Example 6:

- At Sep. 1<sup>st</sup> 2008 ( kamel ) deposited 75000 \$ in a bank account in the name of the company.
- At Sep. 5<sup>th</sup> Purchased goods worth 15000 \$ from (Hana Co.). A part payment of 5000 \$ was made by check and the remaining amount on credit by terms 2 / 10 , 1 / 20 , N / 30.
- At Sep. 8<sup>th</sup> Purchased office equipment from (Zana Co.) worth 1000 \$ by check.
- At Sep. 10<sup>th</sup> Sold goods to (Ali Co.) worth 6000 \$ by cash.
- At Sep. 14<sup>th</sup> Settled 5000 \$ from ( Hana Co.) account by check.
- At Sep. 23<sup>rd</sup> ( Ali Co.) returned goods worth 250 \$ and settled the amount of this goods by cash.

### Required:

**Journalize the above transactions.**