

Chapter (4): Accounting for merchandising operations:

Sales:(- Inventory)

*) Selling Merchandise in Cash:

Cash	**
Sales	**

*) Selling Merchandise on account:

Accounts Rec.	**
Sales	**

*) Receiving sales returns and allowances:

Sales (R&A)	**
Cash/ Acc. Rec.	**

*) Receiving cash from Accounts Receivable:

A) During Discount Period:

Cash	**
Sales Discount	**
Accounts Rec.	****

B) After The Discount Period:

Cash	****
Accounts Rec.	****

Purchases:(+ Inventory)

*) Purchasing Merchandise in Cash:

Purchases	**
Cash	**

*) Purchasing Merchandise on account:

Purchases	**
Accounts Pay.	**

*) Making Purchases returns & Allowances:

Cash/ Acc.Pay.	**
Purchases (R&A)	**

Paying in cash the amount owed to accounts Payable:

A) During Discount Period:

Accounts Payable	****
Purchase Discount	**
Cash	**

B) After The Discount Period:

Accounts Payable	****
Cash	****

***) Calculating Net Sales:**

Sales	1000	
(Less:)		
Sales (R&A)	200	
Sales Discount	20	
		(220)
		<hr/>
Net Sales	780	

***) Calculating Net Purchases:**

Purchases	1000	
(Add:)		
Fright In	100	
		<hr/>
		1100
(Less:)		
Purchase (R&A)	200	
Purchase Discount	20	
		<hr/>
		(220)
Net Purchases	880	

Discount Form:

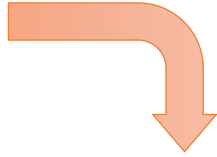
2/10, N/60

2: Discount Percentage (2%).

10: Discount Period: it means if Cash (Payment/ Receiving) Occurs During 10 days, there will be a (Sales/ Purchases) Discount.

N/60: The Period of 60 days, in which cash must be paid/ received, if it doesn't occur (Cash Payment/ Receiving) during the discount period.

Let's Practice



Unsolved Problem (7) From your work book (Exam Q. May 2013):

- 1. Prepare Journal entries to record the following transactions which have been incurred in (ABC) Firm,**
- 2. Calculate Net sales & Net purchases:**

Oct 1: Sold merchandise to Omar on credit, terms 2/10, 40.000\$.

Oct 2: Purchased merchandise on credit from Aly company, terms 2/10, n/30. 28.000\$.

Oct 3: Purchased store supplies on credit from Lila company, terms n/20, 3000\$.

Oct 8: Purchased merchandise on credit from Ammar Company, terms 2/10, n/30 100.000\$.

Oct 10: Received full payment from Omar for his Oct 1 purchase.

Oct. 12: Paid Aly company for Purchase of Oct 2.

Oct. 13: Sold merchandise to Hassan on credit, terms 2/10, n/30. 60.000\$.

Oct. 14: Returned for credit 30.000\$ of merchandise received on Oct 8.

Oct. 18: Paid Ammar company for purchase of Oct. 8.

Oct. 23: Received full payment from Hassan for his Oct.13 purchase.

Solution:

Date	Description	Debit	Credit
1/10	Acc. R. (Omar) Sales	40.000	40.000
2/10	Purchases Acc. P. (Aly Co.)	28.000	28.000
3/10	Supplies Acc. P. (Lila Co.)	3000	3000
8/10	Purchases Acc. P. (Ammar Co.)	100.000	100.000
10/10	Cash Sales Discount (40.000 * 2%) Acc. R. (Omar)	39.200 800	40.000
12/10	Acc. P. (Aly Co.) Cash Purchase Discount (28.000 * 2%)	28.000	27440 560
13/10	Acc. R. (Hassan) Sales	60.000	60.000
14/10	Acc. P. (Ammar. Co.) Purchase returns	3000	3000
18/10	Acc. P. (Ammar. Co.) Cash Purchase Discount (100.000-3000) * 2%	97.000	95060 1940
23/10	Cash Sales Discount (60.000 * 2%) Acc. R. (Hassan)	58.800 1200	60.000

Unsolved Problem (11) From your work book (Exam O. May 2009):

Hassan store sells decorating supplies to various decorating service firms. During March, 2008, the following transactions occurred:

March. 2: Goods with a price of 5000\$ were sold on account to Mohsen, terms: 2/10, n/30.

March. 4: Sales of merchandise for 10.000 \$ cash.

March. 6: Mohsen returned 1000\$ of goods Purchased on March. 2, and received a credit note.

March. 10: Mohsen paid the amount due.

March. 15: Sales of 8000\$ of goods to Ramzy shop, terms: 4/10, n/60.

March. 17: Sales of 2000\$ of goods to Magdy. Because he is a new customer, terms were: 5/10, n/60.

March 20: Payment received from Ramzy shop.

March 31: Payment received from Magdy.

Required: Prepare Journal entries.

Solution:

Date	Description	Debit	Credit
2/3	Acc. R. (Mohsen) Sales	5000	5000
4/3	Cash Sales	10.000	10.000
6/3	Sales returns & allowances Acc. R. (Mohsen)	1000	1000

10/3	Cash Sales discount (4000* 2%) Acc. R. (Mohsen)	3920 80	4000
15/3	Acc. R. (Ramzy shop) Sales	8000	8000
17/3	Acc. R. (Magdy) Sales	2000	2000
20/3	Cash Sales discount (8000* 4%) Acc. R. (Ramzy shop)	7680 320	8000
31/3	Cash Acc. R. (Magdy)	2000	2000

Classified Income Statement

company Income statement For the year ended December 31, 2012			
Sales revenue		xx	
(-) Sales returns and allowances		(xx)	
(-) Sales discount		(xx)	
Net sales (1)			xx
<u>(-) Cost of goods sold:</u>			
Beginning Inventory, January 1		xx	
+ Purchases	xx		
(-) Purchases returns and allowances	(xx)		
(-) Purchases discount	(xx)		
= Net purchases	xx		
+ Freight – in	xx		
Cost of Purchases		xx	
(a) Cost of goods available for sale		xx	
(b) Ending Inventory, Dec. 31		(xx)	
= Cost of goods sold (2) = (a-b)			(xx)
Gross profit (1-2)			xx
<u>(-) Operating expenses:</u>			
Salaries expense		xx	
Utilities expense		xx	
Advertising expense		xx	
Depreciation expense		xx	
Freight-out		xx	
Insurance expense		xx	
			(xx)
Income from operation			xx
<u>+ Other revenues and gains</u>			
Interest revenue		xx	
Gain on disposal of plant assets		xx	
			xx
<u>(-) Other expenses and losses</u>			
Interest expense		xx	
			xx
Net income			xx

Important Equations In The Classified Income Statement:

1) Net Sales:

Net Sales =

Sales revenue

(-) Sales returns and allowances

(-) Sales discount

2) Cost of Purchases:

تكلفة المشتريات

Cost of Purchases=

Purchases

(-) Purchases returns and allowances

(-) Purchases discount

= Net Purchases

(+) Freight – in

3) Cost of goods available for sale:

تكلفة البضاعة المتاحة للبيع

Cost of goods available for sale =

Beginning Inventory, January 1

(+)

Cost of goods purchased

4) Cost of goods Sold:

تكلفة البضاعة المباعة

Cost of goods Sold =
Cost of goods available for sale
(-)
Ending Inventory, Dec. 31

5) Gross profit

Gross Profit=
Net sales
(-)
Cost of goods sold

6) Income from operation:

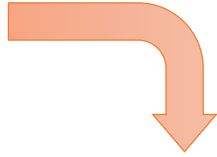
ربح (خسارة) التشغيل

Income from operation=
Gross profit
(-)
Operating expenses

7) Net income

Net income =
Income from operation
(+) Other revenues and gains
(-) Other expenses and losses

Let's Practice



The Following balances were obtained from the ledger accounts on Dec. 31/2013 from XYZ Company:

Merchandise Inventory, Jan. 31/ 2013	20.000
Sales	40.000
Sales Discounts	1000
Purchases	2000
Purchases R&A	30.000
Purchases Discounts	2000
Freight in	2000
Selling Expenses	3000
Selling Expenses	6000
Administrative Expenses	8000

Required: Prepare a 2013 income statement, if you know that ending inventory was 15.000\$.

Solution:

XYZ company
Income statement
For the year ended December 31, 2013

Sales revenue			40.000	
(-) Sales returns and allowances		(1000)		
(-) Sales discount		(2000)	(3000)	
Net sales (1)				37.000
<u>(-) Cost of goods sold:</u>				
Beginning Inventory, January 1			20.000	
+ Purchases	30.000			
(-) Purchases returns and allowances	(2000)			
(-) Purchases discount	(2000)			
= Net purchases		26.000		
+ Freight – in		3000		
Cost of Purchases			29.000	
(a)Cost of goods available for sale			49.000	
(b)Ending Inventory, Dec. 31			(15.000)	
= Cost of goods sold (2) = (a-b)				34.000
Gross profit (1-2)				3000
<u>(-) Operating expenses:</u>				
Selling expenses			6000	
Administrative expenses			8000	
Total Operating expenses				(14.000)
Loss from operation				(11.000)
+ Other revenues and gains				-
(-) Other expenses and losses				-
Net Loss				(11.000)

Terminology:

Sales	مبيعات
Sales Returns & Allowances	مردودات ومسموحات المبيعات
Sales Discount	الخصم المسموح به (على المبيعات) = خسارة
Discount Period	فترة الخصم
Purchases	مشتريات
Purchases Returns & Allowances	مردودات ومسموحات المشتريات
Purchases Discount	الخصم المكتسب (على المشتريات) = ربح
Net Sales	صافي المبيعات
Net Purchases	صافي المشتريات
Freight In	مصروفات نقل للداخل
Cost of Goods sold	تكلفة البضاعة المباعة
Discount Form	صيغة الخصم
Discount Percentage	نسبة الخصم
Sold	باع
Bought	اشترى
Merchandise	بضاعة
Terms	شروط السداد
Full Payment	المبلغ كاملاً
Returned	ردّ
Credit note	ورقة دفع
Beginning Inventory	مخزون أول المدة

Ending Inventory	مخزون آخر المدة
Cost of Purchases= Cost of goods purchased	تكلفة البضاعة المشتراه
Cost of goods available for sale	تكلفة البضاعة المتاحة للبيع
Cost of goods sold	تكلفة البضاعة المباعة
Gross profit (Loss)	مجمّل الربح/ الخسارة
Operating expenses	المصروفات التشغيلية
Depreciation expense	مصروف الإهلاك
Freight-out	مصروفات نقل للخارج
Income/ Loss from operation	ربح/ خسارة التشغيل
Other revenues and gains	إيرادات أو مكاسب أخرى
Other expenses and losses	مصروفات أو خسائر أخرى
Interest Revenue	إيرادات فوائد
Interest Expense	مصروفات فوائد
Gain on disposal of Fixed assets	أرباح التخلص من الأصول الثابتة
Losses from disposal of Fixed assets	خسائر التخلص من الأصول الثابتة
Net Income/ Loss	صافي الربح/ الخسارة
Selling expenses	مصروفات بيعيه
Administrative & General expenses	مصروفات إدارية وعمومية