**Merchandising Part 2 Script**

Slide 1: In merchandising part 1, we discussed what makes a merchandising business different from a service business and we also looked at how to record purchases of merchandise, along with recording discounts, returns and allowances. This time, we’ll look at similar transactions from the standpoint of the seller, as well as shipping terms.

Slide 2: This is a quick review of the differences between a Service Business income statement and an income statement for a Merchandising Business.

Slide 3: This is the same transaction we see in the part 1 presentation, except we are recording it from the standpoint of the seller (XYZ Company) instead of the purchaser (ABC Company).

On May 1st, XYZ Company sold 10,000 in merchandise that had cost them 5,000 to ABC Company. The terms were 2/10, n/30. We record a 10,000 debit to A/R and a 10,000 credit to Sales. Since this is from the standpoint of the seller, we need to add two more parts: we debit Cost of Goods Sold 5,000 to match that cost to the sale and credit inventory 5,000 to remove that amount from that asset.

XYZ received the asset A/R in exchange for the asset Inventory. That exchange of assets allowed them to recognize the Sale, and the matching principle had us match the Cost (COGS) to that sale.

On the 9th, XYZ received ABC’s payment within the discount period. They record this with a 9,800 debit to Cash, a 200 debit to Sales Discounts and a 10,000 credit to A/R to get rid of that asset.

Slide 4: Again, we’ll use the same transaction from May 21st we used in part 1, except we will record from the standpoint of XYZ. Assume they sold 20,000 in merchandise to ABC that had a cost of 10,000 with the same credit terms. XYZ will debit A/R and credit Sales 20,000, and will debit Cost of Goods Sold and credit Inventory 10,000.

On the 22nd, XYZ was notified by ABC that they would be returning 5,000 of that merchandise that had cost XYZ 2,500. We’d record this return with a 5,000 debit to Sales Returns & Allowances, a 5,000 credit to A/R since ABC no longer owes that, a 2,500 debit to Inventory to restore that cost to that asset and a 5,000 credit to Cost of Goods Sold – we can’t match cost when there is no sale.

On the 31st, we record ABC’s payment within the discount period with a debit to Cash for 14,700 and a 300 debit to Sales Discounts, along with a 15,000 credit to A/R to reduce that asset.

Slide 5: Let’s see how XYZ handles the next transaction. On June 7th, they sold another 12,000 in merchandise to ABC with the same terms as before. The cost of that merchandise was 6,000. XYZ would debit A/R for 12,000, credit Sales for 12,000, debit Cost of Goods Sold for 6,000 and reduce Inventory with a 6,000 credit.

To record the Allowance granted to ABC on the 9th, XYZ would debit Sales Returns & Allowances 3,000 and credit A/R the same amount.

To record ABC’s payment within the discount period on the 16th, XYZ would debit Cash 8,820, debit Sales Returns & Allowances 180 (2% of the 9,000 owed), and credit A/R by 9,000.

Slide 6: When it comes to sales of merchandise, sellers and buyers can negotiate price, and they can negotiate credit terms. They also can negotiate shipping terms – who will pay to get the merchandise from the seller to the buyer?

The two choices are FOB Shipping Point and FOB Destination. FOB Shipping Point, or Free on Board Shipping Point says that the purchaser is responsible for paying it’s free until it leaves the shipping point, if you will. FOB Destination indicates that the seller is responsible – it’s free to the purchaser until it reaches the destination.

When the purchaser pays, that cost is added to Inventory cost – anything we need to do to get that asset inventory ready to generate revenues is included in the cost of that asset. When the seller pays, it is part of operating expenses, we we’ll see in the next slide.

Slide 7: Let’s take one last look at some transactions between ABC and XYZ. Assume that XYZ sold 14,000 in merchandise that had cost 7,000 to ABC with credit terms 2/10, n/30.

ABC records the purchase with a 14,000 debit to Inventory and a 14,000 credit to A/P. XYZ records the sale with a 14,000 debit to A/R, a 14,000 credit to sales, a 7,000 debit to Cost of Goods Sold and a 7,000 credit to inventory.

Further, assume the cost to ship that merchandise is 1,000.

If the terms are FOB Shipping Point, ABC would be responsible and would record a 1,000 debit to Inventory and a 1,000 credit to Cash. If the terms are FOB Destination, XYZ would be responsible and record a debit to Shipping Expense and a credit to Cash.

Slide 8: It’s Important to remember that discounts do not apply to shipping costs. The transportation of merchandise is usually performed by other businesses.

Slide 9: I hope these two presentations on merchandising have helped you to better understand the unique aspects and further your overall accounting knowledge.