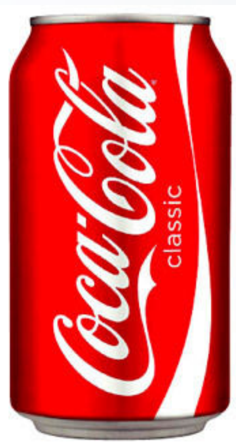
Accounting

for a

Merchandising Business II

Why do we purchase **merchandise**?

- Goods are bought and sold for **profit!**



You sell a can of coke for:	$1.00
You purchase it for :	$0.24
'Gross Profit'	$ 0.76

Note:

Accounting Term: **'Gross Profit'**

- The term 'Gross Profit' refers to the amount:
  - **An item is sold for minus how much it was purchased for.**

  - eg.

USB Bracelet from China	$4.60
Sold for	$10.00
Gross Profit	$5.40

Goods Sold vs. Goods Not Sold

- Once you have purchased inventory, you will either:
  - sell the goods
  - not sell the goods

Periodic Inventory System

- The cost of goods that were sold is determined ‘periodically’.. only **once a year**!

- *It is done in the same fashion as determining <u>how many supplies were used</u> in the fiscal period.*

‘Physical Inventory’

- The <u>unsold</u> goods are physcially counted once a year.
- They are the ones that are counted.. .because they are the only ones that are left.

Merhandise purchased	$100,000
Ending Inventory	$3,000
Cost of Goods Sold	$97,000

Physical Inventory

Note:

Accounting Term: **'Cost of Goods Sold'**

- The term 'Cost of Goods Sold' refers to the amount:
  - Of inventory that was sold during the fiscal period.
  - It is determined by taking a 'physical inventory.'

  - eg.

Merchandise Purchased	$10,000
Physical Inventory	$ 2,000
Cost of Goods Sold	$ 8,000

Calculating
COGS (Cost of Goods Sold) & Gross Profit

Beginning Inventory	10,000
+ Purchases	5,000

= Merchandise Available for Sale	15,000
Less:	
Ending Inventory (Taken by Physical Inventory)	2,000
Cost of Goods Sold (COGS)	13,000

Calculating
COGS (Cost of Goods Sold) & Gross Profit

Cost of Goods Sold (COGS)	13,000
Sales	20,000

Sales – COGS = Gross Profit

Gross Profit = 20,000 – 13,000 = $7,000

Thus, with sales of $20,000, there is a gross profit of $7,000.

HOMEWORK

- Page 428
  - Exercise 1 (First 3 columns only.)
  - What is ‘Gross Profit’ ?

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  - Exercise 3
  - Exercise 4

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1. Workbook Exercise: Completing the chart below by filling in the blank spaces for selling prices, cost prices, and gross profits.

	Selling price	Cost price	Gross profit	Cost of goods sold as a % of selling price	Gross profit as a % of selling price
Easy	$ 250	$	$ 100	%	%
	$	$ 85	$ 40	%	%
	$ 80	$ 56	$	%	%
	$	$ 75	$ 75	%	%
	$ 300	$ 195	$	%	%
	$ 225	$	$ 63	%	%
More difficult	$	$ 54	$	%	40 %
	$ 500	$	$	70 %	%
	$ 200	$	$	65 %	%
	$	$ 120	$	%	52 %

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3. For each of the following, calculate the cost of goods sold and the gross profit.

	Sales	*Beginning Inventory*	*Purchases*	*Ending Inventory*
1.	$125 000	32 000	74 250	33 500
2.	$750 585	85 600	410 360	88 300
3.	$288 635	65 550	110 357	60 548
4.	$174 000	33 800	82 640	33 500
5.	$255 324	48 500	150 650	50 300

4. Given below are some accounts and their balances for a merchandising business, as well as the ending inventory figure. **From this data, calculate the cost of goods sold figure.**

The ending inventory figure is $15 600.

Accounts	*Balances*
Bank	$ 1 500
Accounts Receivable	22 450
Merchandise Inventory	14 500
Supplies	1 300
Automobile	18 000
Equipment	22 000
Accounts Payable	4 532
T. Lao, Capital	77 558
T. Lao, Drawings	12 000
Sales	82 600
Purchases	41 300
Advertising	1 100
Car Expense	5 500
Rent Expense	9 000
Utilities Expense	2 150
Wages Expense	13 890