ACT201 with Saif: (5) Accounting for Merchandising Operations

Schedule: Sundays & Tuesdays
Sections, Timing & Room:
1: Sun 3:30pm (Room:09G-31T) & Tue 3:30pm (Room:09G-31T)
2: Sun 3:30pm (Room:09G-31T) & Tue 3:30pm (Room:09G-31T)
3: Sun 3:30pm (Room:09G-31T) & Tue 3:30pm (Room:09G-31T)

Tutorial Session: Sun 5:00pm (Room:07A-08C)

Instructor: Saif Hossain
Initial: SHO

afnan.mohammad.hafiz@g.bracu.ac.bd
Switch account

Resubmit to save

The name, email, and photo associated with your Google account will be recorded when you upload files and submit this form

Any files that are uploaded will be shared outside of the organization they belong to.

* Indicates required question

Email *

☑ Record **afnan.mohammad.hafiz@g.bracu.ac.bd** as the email to be included with my response

Your Name * — 1 point
Capitalize only the first letters, example: **Hamzah Hossain**

Afnan Mohammad Hafiz

Your G-suite email address * — 1 point
only G-suite.

afnan.mohammad.hafiz@g.bracu.ac.bd

Your Student ID * — 1 point
Writing student ID incorrectly will result in the dismissal of the entire submission

23241004

Your Student ID (re-enter) * — 1 point
Writing student ID incorrectly will result in the dismissal of the entire submission

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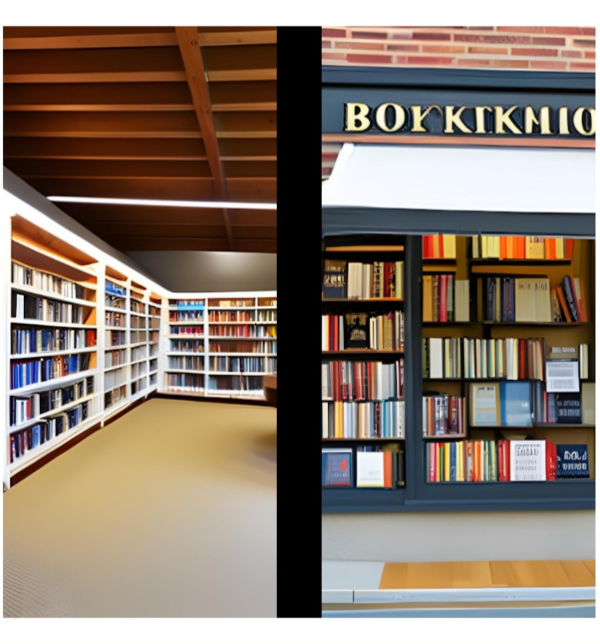
Your Section * — 1 point
Write the appropriate section number

02

Section 1: Merchandising Operation

Spot the difference???
what are these for???



1.1) What is the key difference between service companies and merchandising companies? — 2 points

- ○ A) Service companies have inventory, while merchandising companies do not.
- ○ B) Service companies operate only online, while merchandising companies operate in stores.
- ○ C) Service companies focus on profits, while merchandising companies focus on costs.
- ◉ D) Service companies provide intangible services, while merchandising companies sell physical products.

Clear selection

1.2) For each statement below, select whether it applies to Service Companies or Merchandising Companies. * — 8 points

	Service Companies	Merchandising Companies
Provide intangible value, like consulting or repairs.	☑	☐
Earn revenue through the sale of tangible products.	☐	☑
Maintain and manage inventory.	☐	☑
Cost of Goods Sold is a key expense.	☐	☑
Examples include retail stores and supermarkets.	☐	☑
Operating cycle is shorter as it mainly involves service delivery.	☑	☐
Gross profit is calculated as Sales Revenue minus Cost of Goods Sold.	☐	☑
Examples include law firms, salons, and consulting agencies.	☑	☐

Section 2: Income Statement

2.1) Discussion Points: — 1 point

a) Cost of Goods Sold

b) Importance of Gross Profit

c) Multiple-step VS single-step income statement

d) Recording of purchases and sales under a perpetual and a periodic inventory system

◉ OK

Clear selection

2.1) Which of the following best describes the main cost that a merchandising company must account for? — 1 point

- ○ A) Total operating expenses, including rent, utilities, and salaries.
- ○ B) The cost of advertising and marketing campaigns.
- ◉ C) Cost of Goods Sold (COGS), representing the expense of inventory sold during the period.
- ○ D) Interest and finance charges on business loans.

Clear selection

2.2) What is the key adjustment made to the income statement formula to account for merchandising operations? — 1 point

Net income = **Revenues** - **Expenses**
or, **Net income** = *Sales revenues* + *Other Revenues* - **Cost of goods sold** - **Operating expenses**
or, **Net income** = **Sales revenues** - **Cost of goods sold** - **Operating expenses** + **Other Revenues**

- ○ A) Adding Other Revenues to Sales Revenues.
- ○ B) Ignoring operating expenses to focus only on Cost of Goods Sold.
- ◉ C) Subtracting Cost of Goods Sold from Sales Revenues to calculate Gross Profit.
- ○ D) Combining all expenses into a single line item.

Clear selection

2.3) Which of the following represents the amount left after deducting the cost of goods sold from total sales revenue? — 4 points

- ○ A) Net income
- ○ B) Operating profit
- ◉ C) Gross profit
- ○ D) Total revenue

Clear selection

2.4) What are the reasons why calculating Gross Profit is important? Check the correct option(s). — 10 points

- ☑ Core Profitability: Shows if the main operations are profitable before other expenses.
- ☑ Efficiency: Indicates how well sourcing costs are managed.
- ☑ Pricing Strategy: Helps set product prices to cover costs and make a profit.
- ☑ Cost Control: Identifies if the cost of goods sold is within limits.
- ☑ Financial Health: Provides insight into the business's overall financial condition.
- ☑ Decision Making: Supports informed choices about products and operations.
- ☑ Comparative Analysis: Allows for performance comparison with industry benchmarks and multiple products
- ☑ Planning: Aids in budgeting and forecasting future profits.
- ☑ Investor Confidence: Strong gross profit attracts investors and builds trust.
- ☑ Operational Improvements: Highlights areas for better cost management and higher margins.

2.5) A company starts the month with an inventory worth $10,000. During the month, it purchases additional inventory costing $5,000. By the end of the month, the inventory on hand is valued at $8,000. How much money worth of products have been sold? — 3 points

[don't put any signs or symbols, just write the numerical value]

7000

2.6) A company starts the month with an inventory worth $10,000. During the month, it purchases additional inventory costing $5,000. The company also had purchase returns amounting to $500, purchase discounts totaling $200, and freight-in costs of $300. Additionally, inventory valued at $150 was lost during the month. By the end of the month, the inventory on hand is valued at $8,000. What is the cost of goods sold? — 4 points
[don't put any signs or symbols, just write the numerical value]

6450

2.7) So, which of the following formulas correctly represents the calculation of **Cost of Goods Sold (COGS)**? — 1 point

- ○ A) COGS = Beginning Inventory + Purchases - Freight-in Costs - Ending Inventory
- ◉ B) COGS = Beginning Inventory + Purchases - Purchase Returns - Purchase Discounts + Freight-in Costs - Ending Inventory
- ○ C) COGS = Beginning Inventory + Purchases + Freight-in Costs + Purchase Returns + Purchase Discounts - Ending Inventory
- ○ D) COGS = Beginning Inventory - Purchases + Freight-in Costs - Ending Inventory

Clear selection

2.8) The next 3 questions are related to the following case: — 1 point

A company started the month with an inventory worth $12,000. During the month, it purchased additional inventory costing $8,000, with purchase returns of $500 and purchase discounts of $300. Freight-in costs amounted to $400. Inventory lost during the month was valued at $200. The company also had sales revenues of $25,000. Additional revenues included interest income of $500 and a gain on the sale of equipment for $1,000.

Operating expenses for the month included rent expense of $2,000, salaries of $3,500, utility expenses of $800, and advertising expenses of $1,000.

By the end of the month, the inventory on hand is valued at $10,000.
[don't put any signs or symbols while answering, just write the numerical values]

◉ OK

Clear selection

a) The **cost of goods sold** for the month is — 2 points

9400

b) The **gross profit** for the month is: — 2 points

15600

c) The **net profit** for the month is: — 2 points

9800

2.9) Remember, COGS is an expense, so if — 4 points
[hint: what happens to expense if it increases?]

	Debited	Credited
Purchases increase, it's being	◉	○
Purchase Returns increase, it's being	○	◉
Purchase Discount increases, it's being	○	◉
Freight-in Cost increases, it's being	◉	○

Clear selection

2.10) Journalize the next seven transactions are related to a merchandising operation. — 1 point

◉ OK

Clear selection

a) Purchase merchandise inventory for $5,000 on account. — 1 point

A) Debit Purchases $5,000; Credit Accounts Payable $5,000

b) Returned merchandise inventory costing $500 to the supplier. — 1 point

D) Debit Accounts Payable $500; Credit Purchases Returns and Allowances $500

c) Sold merchandise inventory costing $2,000 for $3,500 on account. — 1 point

A) Debit Accounts Receivable $3,500; Credit Sales $3,500

d) The customer returned merchandise inventory of $1,200 which had a cost of $800. — 1 point

A) Debit Sales Returns and Allowances $1,200; Credit Accounts Receivable $1,20

f) Who bears the freight costs when the term is: — 2 points

	Buyer as Freight-in	Seller as Freight-out
FoB Shipping Point	☑	☐
FoB Destination	☐	☑

g) Bought merchandise inventory for $500 on account with FOB shipping point for shipping arrangement. The appropriate party paid the shipping cost of $100 by cash. — 2 points

- ◉ A) Debit Purchases $500; Credit Accounts Payable $500; Debit Freight-In $100; Credit Cash $100
- ○ B) Debit Purchases $500; Credit Accounts Payable $500; Debit Freight-In $100; Credit Accounts Payable $100
- ○ C) Debit Inventory $500; Credit Accounts Payable $500; Debit Freight-In $100; Credit Cash $100
- ○ D) Debit Inventory $500; Credit Accounts Payable $500; Debit Freight-In $100; Credit Accounts Payable $100

Clear selection

h) Sold merchandise inventory costing $500 for $700 on account. The shipment term was FOB destination, and the appropriate party made the payment by cash for $70. (assume periodic method) — 2 points

- ○ A) Debit Accounts Receivable $700; Credit Sales $700; Debit Cost of Goods Sold $500; Credit Purchases $500
- ○ B) Debit Accounts Receivable $700; Credit Sales $700; Debit Sales Discounts $70; Credit Cash $70
- ◉ C) Debit Accounts Receivable $700; Credit Sales $700; Debit Freight-Out $70; Credit Cash $70
- ○ D) Debit Accounts Receivable $700; Credit Sales $700; Debit Cost of Goods Sold $500; Credit Inventory $500

Clear selection

2.11) Solve the following problems in your notebook, scan the answers of yours and upload

P5-2A Olaf Distributing Company completed the following merchandising transactions in the month of April. At the beginning of April, the ledger of Olaf showed Cash of $9,000 and M. Olaf, Capital of $9,000.

Apr. 2 Purchased merchandise on account from Dakota Supply Co. $6,900, terms 1/10, n/30.
4 Sold merchandise on account $5,500, FOB destination, terms 1/10, n/30. The cost of the merchandise sold was $4,100.
5 Paid $240 freight on April 4 sale.
6 Received credit from Dakota Supply Co. for merchandise returned $500.
11 Paid Dakota Supply Co. in full, less discount.
13 Received collections in full, less discounts, from customers billed on April 4.
14 Purchased merchandise for cash $3,800.
16 Received refund from supplier for returned goods on cash purchase of April 14, $500.
18 Purchased merchandise from Skywalker Distributors $4,500, FOB shipping point, terms 2/10, n/30.
20 Paid freight on April 18 purchase $100.
23 Sold merchandise for cash $6,400. The merchandise sold had a cost of $5,120.
26 Purchased merchandise for cash $2,300.
27 Paid Skywalker Distributors in full, less discount.
29 Made refunds to cash customers for defective merchandise $90. The returned merchandise had a scrap value of $30.
30 Sold merchandise on account $3,700, terms n/30. The cost of the merchandise sold was $2,800.

Olaf Company's chart of accounts includes the following: No. 101 Cash, No. 112 Accounts Receivable, No. 120 Merchandise Inventory, No. 201 Accounts Payable, No. 301 M. Olaf, Capital, No. 401 Sales, No. 412 Sales Returns and Allowances, No. 414 Sales Discounts, No. 505 Cost of Goods Sold, and No. 644 Freight-out.

Instructions:
Journalize the above using:
(a) the periodic method
(b) the perpetual method

***P5-5A** At the end of Gordman Department Store's fiscal year on December 31, 2010, these accounts appeared in its adjusted trial balance.

Freight-in	$ 5,600
Merchandise Inventory	40,500
Purchases	447,000
Purchase Discounts	12,000
Purchase Returns and Allowances	6,400
Sales	718,000
Sales Returns and Allowances	8,000

Additional facts:
1. Merchandise inventory on December 31, 2010, is $75,000.
2. Note that Gordman Department Store uses a periodic system.

Instructions
Prepare an income statement through gross profit for the year ended December 31, 2010.

***P5-6A** Kristen Montana operates a retail clothing operation. She purchases all merchandise inventory on credit and uses a periodic inventory system. The accounts payable account is used for recording inventory purchases only; all other current liabilities are accrued in separate accounts. You are provided with the following selected information for the fiscal years 2007, 2008, 2009, and 2010.

	2007	2008	2009	2010
Inventory (ending)	$ 13,000	$ 11,300	$ 14,700	$ 12,200
Accounts payable (ending)	20,000			
Sales		225,700	227,600	219,500
Purchases of merchandise inventory on account		146,000	145,000	129,000
Cash payments to suppliers		135,000	161,000	127,000

Instructions
(a) Calculate cost of goods sold for each of the 2008, 2009, and 2010 fiscal years.
(b) Calculate the gross profit for each of the 2008, 2009, and 2010 fiscal years.
(c) Calculate the ending balance of accounts payable for each of the 2008, 2009, and 2010 fiscal years.
(d) Sales declined in fiscal 2010. Does that mean that profitability, as measured by the gross profit rate, necessarily also declined? Explain, calculating the gross profit rate for each fiscal year to help support your answer. (Round to one decimal place.)

Instructions: Answer on your notebook, scan the page(s) and upload your answers in the next sub-section as a single file. You may use cam-scanner.

Answer Upload — 100 points

Upload 1 supported file: PDF, document, or image. Max 10 MB.

Assignment 4 So...

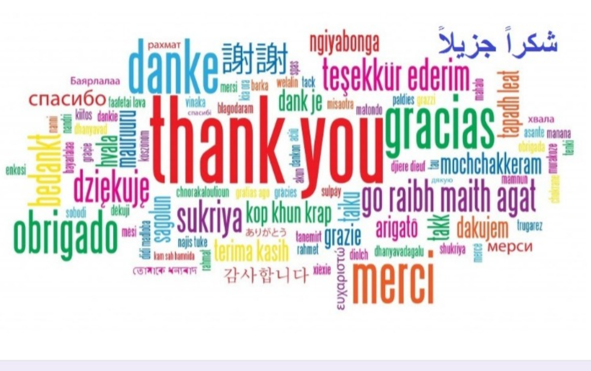
2.12) Problems & Exercises for Practice at Home

- **Exercises:** E5-2, E5-3, E5-7, E5-8, E5-14, E5-17,E-19
- **Problems:** P5-2A, P5-3A, P5-4A, P5-8A

(Non-graded assignment)

2.13) Which of the following statements best summarizes the accounting for merchandising operations? * — 1 point

- ○ A) Merchandising companies only record sales transactions and never consider the cost of inventory.
- ◉ B) Merchandising operations involve tracking purchases, sales, and inventory adjustments, which impact the calculation of cost of goods sold and gross profit.
- ○ C) The income statement for a merchandising company is the same as that of a service company, with no distinction in revenue and expense items.
- ○ D) Merchandising companies focus only on operating expenses, and cost of goods sold is not relevant to their financial reporting.



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