



Accounting for Merchandising Firms

- Accounting Principles

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Recap the last class

- Financial Statements:
 - Statement of Financial Position
(Balance Sheet, B/S)
 - Statement of Comprehensive Income
(Profit and Loss statement, P/L, P&L)
 - Statement of Changes in Equity
 - Statement of Cash Flows
 - Notes

Recap the last class

- Rules:
 - Natural law
 - Man-made rules
- Accounting rules (GAAP, Generally Accepted Accounting Principles)
 - IFRS, K-IFRS, K-GAAP, etc.
 - Let's find some:

<https://www.google.com/>

(http://www.kasb.or.kr/fe/accstd/NR_list.do?sortCd=K-IFRS&divCd=01)

(<https://www.ifrs.org/issued-standards/list-of-standards/>)

Any Questions?

Accounting for Merchandising Firms

- Merchandising Firms:
 - Buying goods and selling goods



Accounting for Merchandising Firms

- When they buy goods:

Inventory	\$5,000	Cash	\$5,000
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- When they sell all the goods:

Cash	\$8,000	Revenue	\$8,000
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Cost of goods	\$5,000	Inventory	\$5,000
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→ What if they sell just half of the goods?

What if they bought goods multiple times?

Accounting for Merchandising Firms

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasolines from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
- 20X1. 2. 26. the shop sold 600 liters. How much is the cost of goods?

Inventory Cost Assumptions

- First-in, first out (FIFO)
 - First purchase amount is the first cost assigned to cost of goods sold
 - Ending inventory is based on the latest purchase amounts
- Last-in, first-out (LIFO)
 - Costing is the opposite of FIFO
 - Last purchase amount goes immediately to cost of goods sold
 - Ending inventory is based on the oldest purchase amount
- Weighted-Average Cost
 - Based on the average unit amount of inventory during the period

First-in, first out (FIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
 $100 * 20$
 $+ 250 * 15 = 2000 + 3750 = 5,750$
- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?
 $50 * 15$
 $+ 500 * 18$
 $+ 50 * 16 = 750 + 9000 + 800 = 10050$

First-in, first out (FIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,750	Inventory	5,750

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,050	Inventory	10,050

Last-in, first-out (LIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

$$50 * 20$$

$$+ 300 * 15 = 1000 + 4500 = 5,500$$

$$\text{or } 350 * 16 = 5,600$$

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

$$200 * 18$$

$$+ 400 * 16 = 3600 + 6400 = 10,000$$

$$\text{or } 50 * 16 + 500 * 18 \\ + 50 * 15 = 10,550$$

Last-in, first-out (LIFO)

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,500	Inventory	5,500

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,000	Inventory	10,000

Weighted-Average Cost

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?
$$[(100 * 20 + 300 * 15) / 400] * 250 = 16.25 * 250 = 5,687.5$$
- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?
$$[16.25 * (100+300-350) + 500 * 18 + 400 * 16] / (50+500+400) * 600$$
$$= 16212.5 / 950 * 600 = 10239.47$$

Weighted-Average Cost

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	15	4,500
20X2. 2. 20.	500	18	9,000
20X2. 3. 25.	400	16	6,400

- 20X1. 2. 1. the shop sold 350 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	5,687.5	Inventory	5,687.5

- 20X1. 3. 26. the shop sold 600 liters. How much is the cost of goods?

Cash	XXX	Revenue	XXXX
Cost of goods	10,239.47	Inventory	10,239.47

Cost of goods vs. Inventory Balance

- The ABC OIL started its business on 20X2. 1.10.
This is a gasoline station, and it sells only one type of gasoline.
It has bought gasoline from its suppliers.

Date	Amounts (liters)	Unit price (\$/liter)	Total Value
20X2. 1. 15.	100	20	2,000
20X2. 1. 25.	300	30	9,000
20X2. 2. 20.	500	70	35,000
Total			46,000

- 20X1. 2. 25. the shop sold 200 liters. How much is the cost of goods?
- The unit price is increasing rapidly.
- How much is the cost of goods?
4,000 or 14,000 or other?
- How much is the inventory balance at the end of February?
42,000 or 32,000 or other?

Inventory Cost Assumptions

- Accounting Rules:
 - Man-made rules
- Accounting rules (GAAP, Generally Accepted Accounting Principles)
 - IFRS, K-IFRS, K-GAAP, etc.
 - Let's find some (Is LIFO method allowed in IFRS?):

<https://www.google.com/>

(http://www.kasb.or.kr/fe/accstd/NR_list.do?sortCd=K-IFRS&divCd=01)

(<https://www.ifrs.org/issued-standards/list-of-standards/>)

Accounting for Merchandising Firms

- Now, you can make [journal entries for a merchandising company](#).
- You can prepare the financial statements for a merchandising company.
 - Statement of Financial Position
 - Statement of Comprehensive Income
 - Statement of Changes in Equity
 - Statement of Cash Flows
 - Notes

Any Questions?