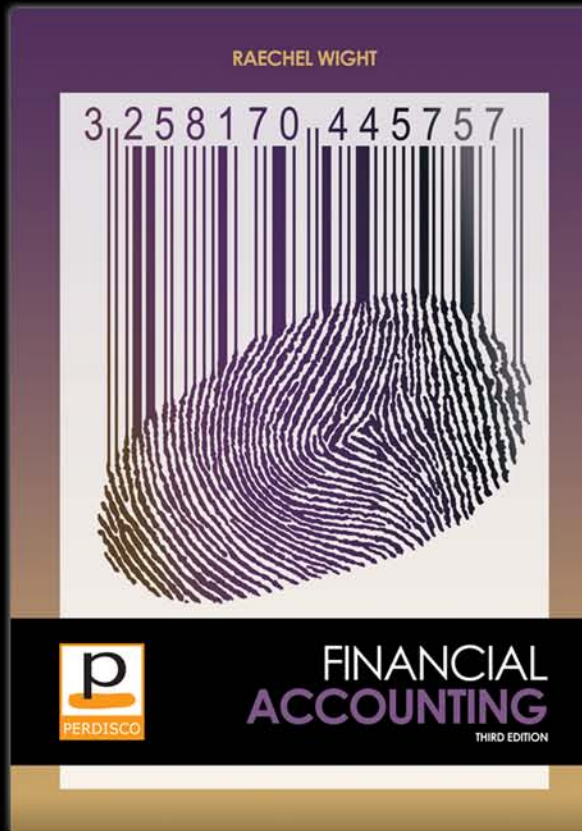




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# Chapter 5

Accounting for  
merchandising operations

Appendix 5B:  
The accounting worksheet  
for merchandisers



# Learning objective

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1. Prepare an accounting worksheet for merchandisers (perpetual and periodic)

# Worksheet for merchandisers

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- Aim is to highlight the differences between the worksheet of a service business and the worksheet prepared for merchandisers under the perpetual and periodic inventory systems
- Assumes you already know how to construct a worksheet
- Refer to chapter 4 if you need a refresher on how a worksheet is constructed

# Worksheet for merchandisers

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- New accounts presented in the worksheet for merchandisers are:
  - Merchandise Inventory (*periodic and perpetual*)
  - Sales Revenues (*periodic and perpetual*)
  - Sales Returns and Allowances (*periodic and perpetual*)
  - Sales Discounts (*periodic and perpetual*)
  - Cost of Goods Sold (*perpetual only*)

# Worksheet – perpetual inventory

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## Under the perpetual inventory system:

- The Merchandise Inventory account in the unadjusted trial balance column shows the balance of the account *before* adjusting entries
- The adjusting entries column includes the adjusting entry for inventory shrinkage

# Worksheet – perpetual inventory

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## Under the perpetual inventory system:

- The income statement column reports:
  - Credit balance for Sales Revenues
  - Debit balance for Sales Returns and Allowances
  - Debit balance for Sales Discounts
  - Debit balance for Cost of Goods Sold
- The balance sheet reports the debit balance of Merchandise Inventory *after* the adjustment for inventory shrinkage

# Worksheet – perpetual inventory

| Worksheet - (perpetual inventory)     |                          |                |             |           |                        |                |                  |                |               |        |
|---------------------------------------|--------------------------|----------------|-------------|-----------|------------------------|----------------|------------------|----------------|---------------|--------|
|                                       | Unadjusted Trial Balance |                | Adjustments |           | Adjusted Trial Balance |                | Income Statement |                | Balance Sheet |        |
| Account                               | Debit                    | Credit         | Debit       | Credit    | Debit                  | Credit         | Debit            | Credit         | Debit         | Credit |
| Cash                                  | 7,700                    |                |             |           | 7,700                  |                |                  |                | 7,700         |        |
| Short-term Investments                | 10,000                   |                |             |           | 10,000                 |                |                  |                | 10,000        |        |
| Accounts Receivable                   | 5,200                    |                |             |           | 5,200                  |                |                  |                | 5,200         |        |
| <b>Merchandise Inventory</b>          | <b>70,000</b>            |                |             | (a) 2,000 | <b>68,000</b>          |                |                  |                | <b>68,000</b> |        |
| Store Supplies                        | 1,800                    |                |             | (b) 600   | 1,200                  |                |                  |                | 1,200         |        |
| Withdrawals                           | 5,000                    |                |             |           | 5,000                  |                |                  |                | 5,000         |        |
| <b>Sales Revenues</b>                 |                          | <b>905,400</b> |             |           |                        | <b>905,400</b> |                  | <b>905,400</b> |               |        |
| <b>Sales Returns &amp; Allowances</b> | <b>3,100</b>             |                |             |           | <b>3,100</b>           |                | <b>3,100</b>     |                |               |        |
| <b>Sales Discounts</b>                | <b>6,800</b>             |                |             |           | <b>6,800</b>           |                | <b>6,800</b>     |                |               |        |
| <b>Cost of Goods Sold</b>             | <b>517,000</b>           |                | (a) 2,000   |           | <b>519,000</b>         |                | <b>519,000</b>   |                |               |        |
| Wages Expense - Sales                 | 118,000                  |                | (g) 8,000   |           | 126,000                |                | 126,000          |                |               |        |

# Worksheet – periodic inventory

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## Under the periodic inventory system:

- New accounts presented in the worksheet for the periodic inventory system are:
  - Purchases
  - Purchase Returns and Allowances
  - Purchase Discounts
  - Transportation In

# Worksheet – periodic inventory

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## Under the periodic inventory system:

- The Merchandise Inventory account in the unadjusted trial balance column shows the balance of the account *at the beginning of the accounting period*
  - Merchandise Inventory account is only updated once at the end of the period
- The adjusting entries column has no adjusting entry for inventory shrinkage
  - Shrinkage is accounted for when taking inventory

# Worksheet – periodic inventory

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- The income statement column reports the accounts used in the calculation of cost of goods sold

| Calculation of the Cost of Goods Sold under the periodic inventory system |         |
|---------------------------------------------------------------------------|---------|
|                                                                           | \$      |
| Opening inventory                                                         | 56,000  |
| Add: Purchases                                                            | 530,000 |
| Less: Purchase Returns and Allowances                                     | 4,000   |
| Less: Purchase Discounts                                                  | 8,000   |
| Add: Transportation In                                                    | 13,000  |
| Equals: Cost of merchandise available for sale                            | 587,000 |
| Less: Ending inventory                                                    | 68,000  |
| Equals: Cost of Goods Sold                                                | 519,000 |

# Worksheet – periodic inventory

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- Accounts that **increase** cost of goods sold are recorded in the debit column
  - Opening inventory
  - Purchases
  - Transportation In
- Accounts that **decrease** cost of goods sold are to be reported in the credit column
  - Purchase Returns and Allowances
  - Purchase Discounts
  - Ending inventory

# Worksheet – periodic inventory

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- The balance sheet reports the ending balance of inventory as revealed by the physical count of inventory taken at the end of the period

# Worksheet – periodic inventory

| Worksheet - (periodic inventory)       |                          |              |             |         |                        |              |                  |               |               |        |
|----------------------------------------|--------------------------|--------------|-------------|---------|------------------------|--------------|------------------|---------------|---------------|--------|
| Account                                | Unadjusted Trial Balance |              | Adjustments |         | Adjusted Trial Balance |              | Income Statement |               | Balance Sheet |        |
|                                        | Debit                    | Credit       | Debit       | Credit  | Debit                  | Credit       | Debit            | Credit        | Debit         | Credit |
| Cash                                   | 7,700                    |              |             |         | 7,700                  |              |                  |               | 7,700         |        |
| Short-term Investments                 | 10,000                   |              |             |         | 10,000                 |              |                  |               | 10,000        |        |
| Accounts Receivable                    | 5,200                    |              |             |         | 5,200                  |              |                  |               | 5,200         |        |
| <b>Merchandise Inventory</b>           | <b>56,000</b>            |              |             |         | <b>56,000</b>          |              | <b>56,000</b>    | <b>68,000</b> | <b>68,000</b> |        |
| Store Supplies                         | 1,800                    |              |             | (b) 600 | 1,200                  |              |                  |               | 1,200         |        |
| Sales Revenues                         |                          | 905,400      |             |         |                        | 905,400      |                  | 905,400       |               |        |
| Sales Returns & Allowances             | 3,100                    |              |             |         | 3,100                  |              | 3,100            |               |               |        |
| Sales Discounts                        | 6,800                    |              |             |         | 6,800                  |              | 6,800            |               |               |        |
| <b>Purchases</b>                       | <b>530,000</b>           |              |             |         | <b>530,000</b>         |              | <b>530,000</b>   |               |               |        |
| <b>Purch. Returns &amp; Allowances</b> |                          | <b>4,000</b> |             |         |                        | <b>4,000</b> |                  | <b>4,000</b>  |               |        |
| <b>Purchase Discounts</b>              |                          | <b>8,000</b> |             |         |                        | <b>8,000</b> |                  | <b>8,000</b>  |               |        |
| <b>Transportation In</b>               | <b>13,000</b>            |              |             |         | <b>13,000</b>          |              | <b>13,000</b>    |               |               |        |
| Wages Expense - Sales                  |                          |              | (a) 8,000   |         | 126,000                |              |                  |               |               |        |