

# Accounting for Retail

## Inventory

- Goods or property purchased and held for sale in the operating cycle of a business
- Other assets may be sold from time to time but these are not inventory

## Income Statement for a Retailer

- Sales is the most important revenue (income)
- Cost of sales represents inventory sold during the period
  - COS is subtracted from net sales revenue to arrive at gross profit
- Expenses are grouped by function:
  - Selling and Distribution Expenses
  - Administrative Expenses
  - Finance Expenses

## Accounting for Sales Transactions

- Recorded when inventory is transferred to the customer

General Journal			
Aug 5	Accounts Receivable/Cash	1 980	
	Sales		1 800
	GST Collections		180
	(Sold merchandise on credit (for cash))		

- The entry to record a sales return is as follows:
  - Sales Returns and Allowances is a contra-revenue account
  - Will be subtracted from sales in the income statement

General Journal			
Aug 8	Sales Returns and Allowances	300	
	GST Collections	30	
	Accounts Receivable		330
	(Customer returned merchandise for credit)		

- Cash settlement discounts can be offered if paid within a certain amount of time
  - 2/10, n/30 – 2% discount if paid within 10 days, otherwise 30 days

General Journal			
Aug 10	Cash at Bank (\$1 100 x 98%)	1 078	
	Discount Allowed (\$1 000 x 2%)	20	
	GST Collections(\$100 x 2%)	2	
	Accounts Receivable		1 100
	(Receipt of payment within discount period)		

## Perpetual Inventory System

- Involves keeping current and continuous records of all inventory transactions
- Tracks the movement of inventory in real time
- Purchases are recorded in an *inventory* account
- Only one entry is made for sales to record the selling price of goods that are sold
- Ending balance is determined by a physical stocktake

## Periodic Inventory System

- Recording movement of inventory at the end of the accounting period
- Purchases are recorded in a *purchases* account
- Two entries are required for sales and sales returns

Perpetual Inventory System		Periodic Inventory System
Dr. Inventory	Purchases	Dr. Purchases
Dr. GST Outlays		Dr. GST Outlays
Cr. Cash/Accounts payable		Cr. Cash/Accounts Payable
Dr. Accounts Receivable/Cash	Sales	Dr. Accounts Receivable/Cash
Cr. Sales		Cr. GST collections
Cr. GST Collections		Cr. Sales
Dr. Cost of Goods Sold		
Cr. Inventory		
Dr. Sales, Returns + Allowances	Sales Return	Dr. Sales, Returns + Allowances
Dr. GST Collections		Dr. GST Collections
Cr. Accounts Receivable		Cr. Accounts Receivable
Dr. Inventory		
Cr. Cost of Goods Sold		
Dr. Accounts Payable	Purchase Returns	Dr. Accounts Payable
Cr. Inventory		Cr. Purchases
Cr. GST Outlays		Cr. GST Outlays

# Adjusting Entries

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## Measurement of Profit

### Cash Basis

- Income is recorded when cash is received
- Expenses are recorded when cash is paid

### Accrual Basis

- Income is recognised when the anticipated inflow of economic benefit can be reliably measured
- Expenses are recognised when the consumption of benefits can be reliably measured

#### Income

- Revenue + Gains
- Increases in economic benefits during the period in the form of inflows or enhancements of assets or decreases in liabilities
- Result in increases in equity

#### Expenses

- Decreases in economic benefits during the period in the form of outflows or depletions of assets or incurrences of liabilities
- Results in decreases in equity

## Adjusting Entries

- In many cases the period in which cash is paid or received does not coincide with period in which expense and income are recognised
- Some accounts must be adjusted on the last day of the accounting period to correctly recognise income and expenses not reflected in cash receipts or payments
  - One side of the entry reflects an income statement account
    - Revenue or expense
  - One side of the entry reflects a balance sheet account
    - Asset or liability

<b>Deferrals (Prepayments)</b>	<b>Prepaid Expense</b> Costs/expenses paid before they are consumed	<b>Unearned Revenue</b> Revenues that are collected or received but not yet earned
<b>Accruals (Unrecorded)</b>	<b>Accrued Expense</b> Expenses incurred but not yet paid	<b>Accrued Revenue</b> Revenue earned but not yet received

### Example – Prepaid Rent

- Prepayment of 3 months rent on June 5<sup>th</sup>
- At 30<sup>th</sup> June, only one month of rent has expired

General Journal			
Jun 5	Prepaid Rent	1 200	
	GST Outlays	120	
	Cash at Bank		1 320
	(Payment of rent for 3 months)		

General Journal			
Jun 30	Rent Expense	400	
	Prepaid Rent		400
	(Adjusting entry for rent)		