Accounting for Merchandising Operations

Recording transactions related to the purchase of merchandise can be difficult as the entries change depending on whether the transaction is occurring from the perspective of the BUYER or the SELLER. It is very important to be clear about which company is which when asked to record a transaction in the journal.

There are four transactions listed below, with the BUYER's journal entries to the left and the corresponding entries in the SELLER's journal to the right.

(1) Purchase/sale of merchandise:
For the **buyer**, purchases of merchandise are recorded in the Merchandise Inventory account. Merchandise can either be bought on account or paid for with cash. For the **seller**, the journal entries are a bit more involved. The first entry recognizes the revenue earned on the sale and the second entry deals with recognizing the expense (Cost of Goods Sold) and the depletion of the seller's Merchandise Inventory.

SALES OF MERCHANDISE							
Date	**BUYER**	Debit	Credit		**SELLER**	Debit	Credit
	Merchandise Inventory	$800			Accounts Receivable**	$800	
	Accounts Payable**		$800		Sales Revenue		$800
					Cost of Goods Sold	$560	
					Merchandise Inventory		$560
	***could also be Cash*						

(2) Sales returns & allowances:
The **buyer** returns goods that are damaged or defective, or are not what the buyer ordered. The buyer receives a credit (if the goods were bought on account) or cash (if the goods were bought with cash) and merchandise inventory is reduced by the value of the goods returned. A purchase allowance is similar, except the **buyer** chooses to keep the merchandise. For the **seller**, the expense account Sales Returns & Allowances must be debited, and the payment (A/R or cash) credited for the amount of returned goods. Similarly, Merchandise Inventory and Cost of Goods Sold must also be adjusted for the cost of goods **returned**. (This second entry does not occur when a sales allowance is granted).

SALES RETURNS & ALLOWANCES							
Date	**BUYER**	Debit	Credit		**SELLER**	Debit	Credit
	Accounts Payable**	$400			Sales Returns & Allowances	$400	
	Merchandise Inventory		$400		Accounts Receivable**		$400
					Merchandise Inventory	$280	
					Cost of Goods Sold		$280
	***could also be Cash*						

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Authored by Emily Simpson