

ACC 131 Study Guide 3

Chapter 8

- **Cost of Goods Sold Model**

Beginning Inventory + Purchases = Cost of Goods Available for Sale

Cost of Goods Available for Sale – COGS = Ending Inventory

Gross Profit = Net Sales – COGS

Ex. on purchase and sale journal entries including freight terms

On October 9, 2020, Steven Company purchased \$4,500 of product on account from Bryant Company on with credit terms of 2/15 n/30. The product cost Bryant Company \$3,750. The freight terms were F.O.B. shipping point, the cost was \$125 and the freight was paid in cash to ABC Trucking Company on Oct 12, 2020.

On October 15, Bryant Company purchased \$2,000 of product from Mitchell Company, with credit terms of 3/10, n/60. The product cost Mitchell Company \$1,200. The freight terms were F.O.B. destination. the cost was \$75 and the freight was paid in cash to ABC Trucking Company on October 16.

On October 17, Steven Company paid for the purchase made on October 9.

On October 30, Bryant Company paid for the purchase made on October 15.

Prepare the journal entries for Steven, Bryant, and Mitchell Companies. Calculate the gross margin on Bryant's sale to Steven Company and on Mitchell's sale to Bryant Company.

Steven Company

Oct 9	Inventory	4,500	
	Accounts Payable		4,500
Oct 12	Inventory	125	
	Cash		125
Oct 17	Accounts Payable	4,500	
	Inventory		90
	Cash		4,410

Bryant Company

Oct 9	Accounts Receivable	4,500	
	Sales Revenue		4,500
	Cost of Goods Sold	3,750	
	Inventory		3,750
Oct 15	Inventory	2,000	

	Accounts Payable	2,000	
Oct 17	Cash	4,410	
	Sales Discounts	90	
	Accounts Receivable		4,500
Oct 30	Accounts Payable	2,000	
	Cash		2,000

Gross margin on sale to Steven Company = $4,500 - 90 = 4,410$ net sales – $3,750$ COGS = \$660

Mitchell Company

Oct 15	Accounts Receivable	2,000	
	Sales Revenue		2,000
	Cost of Goods Sold	1,200	
	Inventory		1,200
Oct 16	Freight Out	75	
	Cash		75
Oct 30	Cash	2,000	
	Accounts Receivable		2,000

Gross margin on sale to Bryant Company = $2,000 - 1,200$ COGS = \$800

- Credit Terms
 - A/B, n/C
 - o “A” is the discount percentage
 - o “B” is the number of days in the discount period
 - o “n” stand for net amount
 - o “C” is the number of in which the net amount is due

Ex. of Credit Terms

2/10, n/30

- 2% discount
- If paid within 10 days
- Net amount
- Due in 30 days

Ex. of Sales Returns & Allowance and Sales Discounts

Birkey Company and Nelson Company both use a perpetual inventory system. These transactions occurred during August 2019. Prepare the journal entries to record these transactions for both the Birkey Company and the Nelson Company.

August 1 Birkey Company purchased \$6,000 of merchandise on account from Nelson Company with credit terms of 2/10, n/30. The cost of the merchandise was \$4,500.

Birkey

Inventory	6000	
Accounts Payable		6000

Nelson

Accounts Receivable	6000	
Sales Revenue		6000
Cost of Goods Sold	4500	
Inventory		4500

August 7 Birkey returned \$800 of the merchandise to Nelson. The cost of the returned merchandise was \$600.

Birkey

Accounts Payable	800	
Inventory		800

Nelson

Sales Returns and Allowance	800	
Accounts Receivable		800
Inventory	600	
Cost of Goods Sold		600

August 10 Birkey paid Nelson \$3000 of the amount owed.

Birkey

Accounts Payable	3000	
Cash		2940
Inventory		60

Nelson

Cash	2940	
Sales Discounts	60	
Accounts Receivable		3000

August 31 Birkey paid Nelson the balance due.

Birkey

Accounts Payable	2200	
Cash		2200

Nelson

Cash	2200	
Accounts Receivable		2200