REVIEW FOR EXAM NO. 2, ACCT-2301 (SAC)
(Chapters 4- 6)

A. Chapter 4 (Merchandising Operations).

1. Inventory Systems. (Page 144)

   a. Periodic System -- Inventory on hand is counted periodically (usually end of the accounting period).

   b. Perpetual System -- Records are maintained of the quantity and cost of individual items as they are bought and sold (running balance).

2. Discounts. (Page 145)

   a. Trade Discounts
      (1) Allowed for high volume purchases.
      (2) Purchase is recorded at net (list price less the quantity discount amount).
      (3) A reduction in price below the list price.

   b. Purchase Discounts
      (1) Allowed if invoice is paid within a specified period. Time (prompt payment) discount.
      (2) Discount Terms.
         (a) n/eom.............(Net due by end of month)
         (b) n/30..............(Net due 30 days after date of invoice)
         (c) 2/10,n/30.......(2% discount in 10 days, net due in 30 days)
         (d) 1/15,n/60.......(1% discount in 15 days, net due in 60 days)

3. Review Journal Entries. (Pages 147-152)

   a. Purchases
   b. Purchases Discounts
   c. Purchases Returns and Allowances
   d. Sales (cash, on account, credit cards
   e. Sales Discounts
   f. Sales Returns and Allowances
   g. Inventory Shrinkage
   h. Payment of Purchase (with discount)

4. Credit Card Sales.
   a. Visa and MasterCard sales are treated as cash sales.
   b. All other credit card sales are recorded as accounts receivable.

5. Transportation Costs. (Page 148)

   a. FOB Origin (Shipping Point) - Buyer pays transportation costs from Supplier's place of business to destination.
   b. FOB Destination - Seller (Supplier) pays the transportation costs to Buyer's place of business at destination.
   c. Transportation costs are a part of inventory cost.

6. Inventory Shrinkage. (Page 153)

   a. Loss of merchandise due to damage, theft, and deterioration.
   b. Determined by comparison of physical count to recorded book value.
   c. Usually debited to Cost of Goods Sold in the adjusting entry.

7. Multiple-Step Income Statement. (Page 156)

   a. Contains details of all revenues and expenses.
   b. Selling Expenses - includes expenses of promoting sales, advertising, making sales, and delivery of goods.
   c. General & Administrative Expenses - supports company's overall operations (i.e., accounting, personnel, procurement, etc.)
   d. Gross Profit (Net Sales - Cost of Goods Sold)

B. Chapter 5 (Inventories & Cost of Sales).

1. Inventory Costing Methods. (Pages 193-197)

   a Specific Identification
   b. First-In, First-Out (FIFO)
   c. Last-In, First-Out (LIFO)
   d. Weighted-Average

2. Merchandise Inventory. (Page 191)

   a. All goods owned by a company and held for sale.

   b. Inclusions: (1) Units on hand in store and warehouse
   (2) Units in-transit, shipped FOB shipping point.

   c. Exclusions: (1) Units on consignment
   (2) Units in-transit, shipped FOB destination

3. Cost of Inventory. All expenditures required to bring item to a salable condition (invoice cost less discounts, insurance, freight, storage, etc.)

4. Example Inventory Computations:

   a. Information Available:

	Units	Per Unit Cost	Total Cost
Beginning Inventory............	400	$ 4	$1,600
First Purchase......................	900	6	5,400
Second Purchase..................	300	7	2,100
Totals................................	1,600		$9,100

Sales..................................	1,100
Ending Inventory..............	500
	1,600

b. FIFO:

Ending Inventory	Cost of Goods Sold
(300 x $7 = $2,100)	(400 x $4 = $1,600)
(200 x $6 = 1,200)	(700 x $6 = $4,200)
Total........$3,300	Total....... $5,800

c. LIFO:

Ending Inventory	Cost of Goods Sold
(400 x $4 = $1,600)	(300 x $7 = $2,100)
(100 x $6 = 600)	(800 x $6 = 4,800)
Total........$2,200	Total.........$6,900

d. Weighted-Average:

$$\text{Average Unit Cost} = \frac{\$9{,}100}{1{,}600 \text{ Units}} = \$5.6875$$

Ending Inventory	Cost of Goods Sold
500 x $5.6875 = $2,844	1,100 x $5.6875 = $6,256

5. Inventory Estimation Methods. (Page 214)
Occasionally, companies may need to estimate inventories for (1) interim reporting purposes, or (2) for lost or destroyed inventory. The two methods used are:

a. Retail Method.
b. Gross Profit Method.

C. **Chapter 6** (Cash, Fraud, & Internal Control)

1. Voucher System. (Page 241)

a. Special form for recording relevant data about a liability and details of its' payment.

b. Supporting Documents:
(1) Purchase requisition
(2) Purchase order
(3) Receiving report
(4) Vendor invoice

c. Designed to control cash disbursements and acceptance of obligations.

2. Petty Cash. (Page 242)

a. Established to avoid writing numerous checks for frequent small purchases.
b. Fund should always contain receipts and money equal to the authorized fund amount.

c. Entry to Establish a Fund:

Jul 5	Petty Cash.............................	$200	
	Cash in Bank.................		$200

d. Entry to Replenish a Fund: (Performed when the fund is depleted, or at least at the end of the accounting period)

Jul 19	Postage	$ 17	
	Transportation Expense	23	
	Office Supplies	60	
	Misc. General Expense	10	
	Cash		$110

3. Cash Over/Short Account. (Page 244)

   a. No normal balance
   b. Debit Balance - Miscellaneous Expense on Income Statement
   c. Credit Balance - Other Revenue on Income Statement

4. Cash/Bank Reconciliation. (Page 245)

   a. Balance on the depositor's books and the balance on the bank statement do not always agree.

   b. Purpose of the reconciliation is to prove the accuracy of the depositor's and bank's records. Also, it produces the data for adjusting entries.

   c. Items Causing Differences between Bank and Depositor's Records:
      (1) Outstanding Checks (written, recorded, and sent, but not paid by bank)
      (2) Unrecorded Deposits (in-transit)
      (3) Charges for Service/Uncollectible Items
      (4) Collections (i.e., promissory notes)
      (5) Errors (bank and depositor)
      (6) NSF checks (customer checks returned for non-sufficient funds)

   d. Bank Reconciliation Example:

      (1) Statement Preparation:

WESTERN SHOP
Bank Reconciliation, November 30, 2Oxx

Bank Statement Balance	$1,295	Depositor Record Balance	$1,420
Add: Deposit of Nov. 30	315	Add: Error on Check #8l5	45
	$1,610		$1,465
Deduct: Outstanding Checks	(150)	Deduct: Bank Service Charge	(5)
Adjusted Balance	$1,460	Adjusted Balance	$1,460