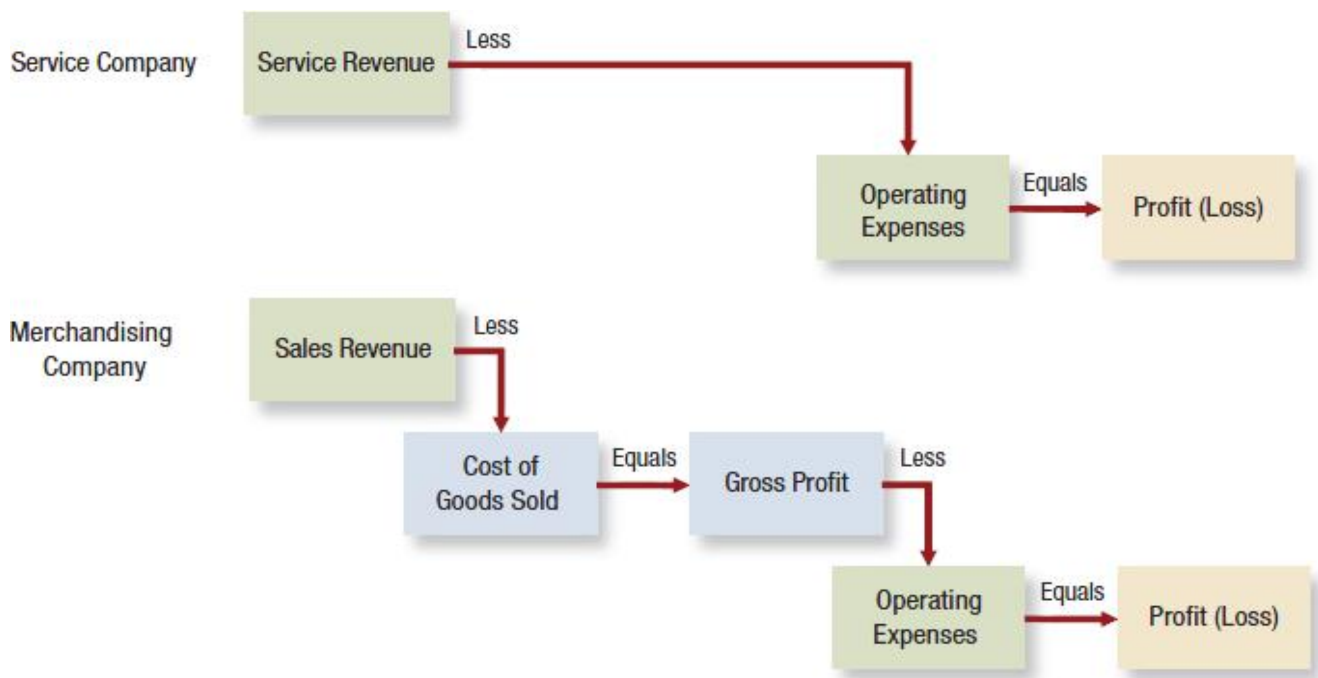
Merchandising Operations

Merchandising Entity

- Earns its revenue by selling products (inventory).



Sales Revenue

- The selling price of merchandise sold by a business.

Cost of Goods Sold (COGS)

- Total cost of merchandise sold during the period.
- A.k.a. the cost of sales.
- A type of expense – as inventory is USED UP, it becomes an expense known as COGS.

Gross Profit

- Sales Revenue – COGS = Gross Profit (Margin)
- A measure of business success.
- All <u>other</u> expenses are deducted from gross margin.

Inventory

- All <u>goods</u> the company owns and expects to sell in the normal course of operations.
- Some companies buy inventory that is ready for sale, others have to assembly.
- Inventory is an *asset*, but when it is sold, it becomes an *expense*, known as COST OF GOODS SOLD.
- Includes **ALL COSTS** incurred to bring the asset to the point of sale:
    - Cost of the product.
    - Shipping costs.
    - Any customs, duties, tariffs.
    - Any insurance while being shipped or stored.
- The *Ending Inventory* from one fiscal year becomes the *Beginning Inventory* for the next fiscal year.

Operating Expenses

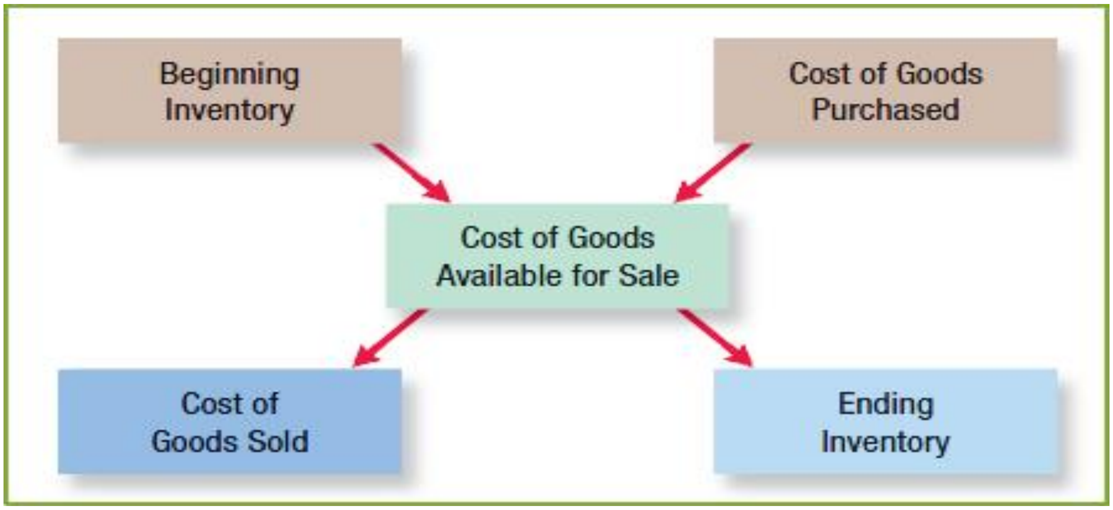
- The (indirect) expenses that are incurred in the process of earning sales revenue or service revenue.
- Includes things such as salaries, advertising, insurance, rent, and depreciation.

Cost Principle

- The cost of any asset is the sum of all the costs incurred to bring the asset to its intended use.

Periodic and Perpetual Inventory Systems

Flow of Inventory Costs



Beginning Inventory
+ Cost of Goods Purchased
= Cost of Goods Available for Sale

An Asset

Two Main Types of Inventory Systems

1. Periodic Inventory System

- Used by businesses that sell relatively inexpensive goods or by smaller businesses.
- Inventory counted once a year
  - At this point, a calculation of the costs of goods sold is made.

2. Perpetual Inventory System

- Business maintains a running record of inventory <u>and</u> cost of goods sold.
- Inventory is still counted (at least) once a year.

How do Companies Decide which System to Use? Pros and Cons

- They compare the <u>cost</u> of the detailed record keeping for a perpetual system with the <u>benefits</u> of having additional information about, and control over, their inventory.
- A *perpetual inventory* system:
    - gives better knowledge and control over inventories – we know how much of any item is on hand.
    - Is much more expensive to set up and operate.
- A *periodic system:*
    - doesn't require costly computers and software.
    - you have less knowledge about your inventory quantities.