Recording Sales of Merchandise

Sales revenue is generally recorded when there is an increase in assets like Cash or Accounts Receivable. For merchandising businesses, this is when ownership of the goods is transferred from the buyer to the seller.

- In a perpetual inventory system, two entries are made for every sale:
    - The first records the sales revenue. Ie:

Accounts Rec or Cash	**xxx**	
Sales		**xxx**

    - The second records the cost of the merchandise sold. As the merchandise (asset) is used, it becomes an expense (COGS). This ensures that the Merchandise Inventory account will always show the amount of inventory that should be on hand.

Cost of Goods Sold	**xxx**	
Merchandise Inventory		**xxx**

SALES TAXES

- As sellers, we collect tax on goods that we sell. This collection is recorded as a liability to the government(s) until it is paid.

FREIGHT COSTS

- If the term is FOB destination, the seller is responsible for getting the goods to their intended destination.
- The journal entry would looks something like this for FOB destination:

Freight Out	**xxx**	
Cash or A/P		**xxx**

SALES RETURNS AND ALLOWANCES

- This is the flip side of purchase returns and allowances.
- When the purchaser returns goods or are given some form of a price reduction, the seller will either return cash to the buyer or reduce the purchaser's A/R if the goods were bought on credit.
- Management generally likes to have information about the quantity of goods returned in order to make decisions.
  - A contra revenue account called *Sales Returns and Allowances* works against the *Sales* account.
  - A typical journal entry from the seller receiving goods BACK from a purchase on account would look like:

Sales Returns and Allowances	**xxx**	
Accounts Receivable		**xxx**

  - If the product returned can be resold, the return needs a second entry as we are increasing our level of inventory:

Merchandise Inventory	**xxx**	
Cost of Goods Sold		**xxx**

  - This second entry is not done if the seller gives the buyer an allowance.

DISCOUNTS

Quantity Discounts

- A discount given to customers to encourage bulk purchases.
- All accounting entries are based on the invoice price, so no separate entry is made to record a quantity discount.

Sales Discounts

- A reward for prompt payment.
- If the terms were 2/10 n/30 on a $20,000 purchase on account and the customer paid within 10 days, you will give them 2% or $400 off. The journal entry would be as follows:

Cash	**19,600**	
Sales Discounts	**400**	
Accounts Receivable		**20,000**

SUMMARY OF SALES TRANSACTIONS