cHAPTER 6

merchandising operations and the  
 multistep income statement

# Student Learning Objectives and Related Assignment Materials

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| **Student Learning Objectives** | **Mini-Exercises** | **Exercises** | **Coached Problems** | **Problems (Groups  A & B)** | **Compre-hensive Problem** | **Skills Develop-ment Cases** | **Continuing Cases** |
| LO 6-1 Distinguish between service and merchandising operations. | 1 | 1 |  |  |  | 3 |  |
| LO 6-2 Explain the differences between periodic and perpetual inventory systems. | 2\*, 12^, 18^ | 2, 3\*, 4, 5\*, 6 |  |  |  | 1, 2 |  |
| LO 6-3 Analyze purchase transactions under a perpetual inventory system. | 2\*, 3, 4, 5, 6, 7 | 7, 8, 9, 10, 11 | 1 | A1, B1 | 1# |  |  |
| LO 6-4 Analyze sales transactions under a perpetual inventory system. | 8, 9, 10, 11 | 11, 12, 13\*, 14, 15, 16, 17, 18, 19 | 2, 3 | A2, A3, B2, B3 | 1# |  | 1†, 2£ |
| LO 6-5 Prepare and analyze a merchandiser’s multistep income statement. | 7, 12^, 13, 14, 15, 16\*, 17, 18^ | 5, 6, 18, 19, 20\*, 21, 22 | 2, 3, 4 | A2, A3, A4, B2, B3, B4 | 1# | 1, 2, 3, 4, 5, 6 | 1†, 2£ |
| LO S-1 Record inventory transactions in a period system. |  | 23 | 5 | A5, B5 |  |  |  |

\* Animated solution included in the PowerPoint Slides.

^ Particularly challenging; requires students to combine multiple concepts in order to advance to the next level of accounting knowledge.

# Comprehensive Problem 6-1 also covers LO5-4.

† Continuing Case 6-1 builds on the story of Nicole’s Getaway Spa, introduced in earlier chapters. This case focuses on analyzing transactions and preparing journal entries, and calculating the company’s gross profit percentage.

# Student Learning Objectives and Related Assignment Materials, continued

£ Continuing Case 6-2 builds on the story of Wiki Art Gallery (WAG), an instructional case in Connect. This case focuses on revenue recognition, the multistep income statement format, and the gross profit percentage. The case will be extended in future chapters.

# Overview

The operating cycle, internal controls, and financial reporting practices of the world’s largest retailer are investigated in this chapter.

Students learn the central elements of a merchandiser’s operating cycle, the accounting procedures applied to purchase and sales transactions, and how to prepare and analyze a merchandiser’s income statement.

# Synopsis of Chapter Revisions

* Substantially changed from the fourth edition: removed internal control topics (now in Chapter 5), relocated journal entries for inventory purchases (previously in Chapter 7) to accompany inventory sales in this chapter (Chapter 6)
* Updated focus company illustrations (Walmart) and introduced Life Time Fitness to contrast financial statements of service company with merchandiser (Exhibit 6.2)
* New illustration of cost of goods sold equations to distinguish periodic and perpetual inventory systems
* Expanded discussion of shrinkage to include book-to-physical adjustment
* New exhibit comparing journal entries for inventory purchase and sale transactions (Exhibit 6.8) in a perpetual system (periodic system entries are included in the chapter supplement)
* New Spotlight on Financial Reporting discussing the cost of shoplifting at J.C. Penney
* Updated demonstration case featuring Oakley and Sunglass Hut
* Reviewed and updated all end-of-chapter material

# PowerPoint Slides

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| --- | --- |
| **Student Learning Objective** | **PowerPoint® Slides** |
| LO 6-1 Distinguish between service and merchandising, operations. | 6-2 through 6-4 |
| LO 6-2 Explain the differences between periodic and perpetual inventory systems. | 6-5 through 6-10 |
| LO 6-3 Analyze purchase transactions under a perpetual inventory system. | 6-11 through 6-17 |
| LO 6-4 Analyze sales transactions under a perpetual inventory system. | 6-18 through 6-26 |
| LO 6-5 Prepare and analyze a merchandiser’s multistep income statement. | 6-27 through 6-30 |
| LO S-1 Record inventory transactions in a period system. | 6-31 through 6-36 |

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| **Animated Builds and Animated Solutions** | **PowerPoint® Slides** |
| Mini-Exercise 6-2 | 6-38 |
| Mini-Exercise 6-16 | 6-39 |
| Exercise 6-3 | 6-40 |
| Exercise 6-5 | 6-41 through 6-42 |
| Exercise 6-13 | 6-43 through 6-47 |
| Exercise 6-20 | 6-48 |

# Chapter Summary

**LO 6-1 Distinguish between service and merchandising operations.**

* Service companies sell services rather than physical goods; consequently, their income statements show costs of services rather than cost of goods sold.
* Merchandise companies sell goods that have been obtained from a supplier. Retail merchandise companies sell directly to consumers whereas wholesale merchandise companies sell to retail companies.

**LO 6-2 Explain the differences between periodic and perpetual inventory systems.**

* Periodic inventory records are updated only when inventory is counted, usually at the end of each accounting period.
* Perpetual inventory systems promote efficient and effective operations because they provide an up-to-date record of inventory that should be on hand at any given time. They protect against undetected theft because this up-to-date record can be compared to a count of the physical quantity that actually is on hand.

**LO 6-3 Analyze purchase transactions under a perpetual inventory system.**

* The Inventory account should include costs incurred to get inventory into a condition and location ready for sale.
* The cost of inventory includes its purchase price and transportation (freight-in) minus cost reductions for purchase returns and allowances, purchase discounts, and goods sold. Costs to deliver inventory to customers (freight-out) are a selling expense and are not included in inventory.

**LO 6-4 Analyze sales transactions under a perpetual inventory system.**

* In a perpetual inventory system, two entries are made every time inventory is sold: one entry records the sale (and corresponding debit to Cash or Accounts Receivable) and the other entry records the Cost of Goods Sold (and corresponding credit to Inventory).
* Sales discounts and sales returns and allowances are reported as contra-revenues, reducing net sales.

**LO 6-5 Prepare and analyze a merchandiser’s multistep income statement.**

* One of the key items in a merchandiser’s multistep income statement is gross profit, which is a subtotal calculated by subtracting cost of goods sold from net sales. The gross profit percentage is calculated and interpreted as follows.

***Accounting Decision Tools***

* **Gross Profit Percentage = (Net Sales – COGS) ÷ Net Sales** × **100**
* It tells you the percentage of profit earned on each dollar of sales, after considering the cost of products sold.
* A higher ratio means that greater profit is available to cover operating and other expenses.

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| Chapter Outline | Teaching Notes |
| I. Understand the Business |  |
| ***LO 6-1 Distinguish among service, merchandising, and manufacturing operations.*** | |
| A. Operating Cycles |  |
| 1. Operating cycle—A series of activities that a company undertakes to generate revenues and, ultimately, cash. | Illustrated in Exhibit 6.1 |
| 2. Types of companies: |  |
| a. **Service company**––Sells services rather than physical goods. |  |
| b. **Merchandising company**—Sells goods that have been obtained from a supplier; includes retailers and wholesalers. |  |
| c. Manufacturing company—Sells goods that it has made itself. | *Covered in managerial and cost accounting courses* |
| 3. **Inventory**––Assets acquired for resale to customers. |  |
| 4. Three key differences in the balance sheet and income statement of a service company and a merchandiser company: | Illustrated in Exhibit 6.2 |
| a. Merchandisers report inventories as a current asset; service companies do not. |  |
| b. Merchandisers earn revenue from sales; service companies earn revenue from service. |  |
| c. Merchandisers report an expense called Cost of Goods Sold, which represents the total cost of all goods sold to customers during the period; service companies do not incur this expense because they do not sell goods. |  |
| 5. Some companies operate as both service and merchandising companies. |  |
| ***LO 6-2 Explain the differences between periodic and perpetual inventory systems.*** | |
| B. Inventory Systems |  |
| 1. Particularly important to merchandisers: |  |
| a. Inventories—reports the merchandiser’s total cost of acquiring goods that it has not yet sold, |  |
| b. Sales Revenue and Cost of Goods Sold—indicate the total selling price and cost of all goods that the merchandiser did sell to customers during the period. |  |
| c. Gross profit—represents the profit earned before taking into account other expenses. |  |
| 2. Cost of goods sold |  |
| a. **Goods available for sale**––Equals beginning inventory plus cost of new purchases. |  |
| b. Cost of goods sold equals goods available for sale minus ending inventory. |  |
| c. **Cost of Goods Sold Equation** Beginning inventory + Purchases – Ending Inventory = Cost of Goods Sold  *or* Beginning inventory + Purchases – Cost of Goods Sold = Ending Inventory | Illustrated in Exhibit 6.3 |
| Chapter Outline | Teaching Notes |
| C. Periodic Inventory System |  |
| 1. **Periodic inventory system**––Inventory records are updated “periodically” at the end of the accounting period. |  |
| 2. Simple to maintain; major drawback is that accurate records of the inventory on hand and sold are unavailable during the accounting period. |  |
| 3. Employees must physically count the inventory, which they do at the end of the period. |  |
| 4. Inventory count is used to adjust the balances for Inventories and Cost of Goods Sold. |  |
| D. Perpetual Inventory System |  |
| 1. **Perpetual inventory system**––Inventory records are updated every time an item is bought, sold or returned. |  |
| 2. As a result, the Inventory and Cost of Goods Sold accounts are always up to date. |  |
| E. Inventory Control |  |
| 1. A perpetual inventory system’s continuous tracking allows companies to instantly determine the quantity of products on the shelves and to evaluate the amount of time they have spent there. |  |
| 2. **Shrinkage**––The cost of inventory lost to theft, fraud, and error. |  |
| a. Can be estimated only when a perpetual inventory system is in use. |  |
| b. Accounted for by recording a “book-to-physical adjustment” that reduces inventory; shrinkage is an expense included in Cost of Goods Sold. | The “Spotlight on Ethics” feature addresses causes of inventory shrinkages. |
| 3. Even if a perpetual inventory system is in use, the inventory should still be counted occasionally (at least yearly) to ensure the accounting records are accurate and that any shrinkage is detected. |  |
| 4. Once too costly, computerized inventory systems have become so cheap that most merchandisers use perpetual inventory systems. |  |
| II. Recording Inventory Purchases |  |
| ***LO 6-3 Analyze purchase transactions under a perpetual inventory system.*** | |
| LO 6-3 and LO 6-4 assume that all inventory-related transactions are recorded in the Inventory account; this approach is generally associated with a perpetual inventory system. | *Accounting under a periodic inventory system is covered in the Supplement 6A.* |
| A. Inventory Purchases | * Supplemental Enrichment Activity (Activity) #1 |
| 1. Most large retailers use perpetual inventory systems that monitor inventory quantities and automatically issue purchase orders to replenish inventory. |
| a. Purchase order instructs supplier to send specified quantities of particular products at certain dates. |  |
| b. No journal entry recoded yet. |  |

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| Chapter Outline | Teaching Notes |
| 2. Upon receipt, purchases of merchandise inventory are recorded in the Inventory account (with a debit). |  |
| 3. Transportation Cost |  |
| a. **FOB shipping point**––A term of sale indicating that goods are owned by the buyer the moment they leave the seller’s shipping department. |  |
| b. **FOB destination**––A term of sale indicating that goods are owned by the seller until they are delivered to the buyer. |  |
| c. If the terms are FOB shipping point, the purchaser pays for shipping. The additional cost of transporting the goods (called freight-in) is added to Inventory. |  |
| 4. Other Costs |  |
| a. In general, a purchaser should include in the Inventory account any costs needed to get the inventory into a condition and location ready for sale. |  |
| b. Costs that are incurred after the inventory has been made ready for sale, such as freight-out to deliver goods to customers, are selling expenses. |  |
| B. Purchase Returns and Allowances |  |
| 1. **Purchase returns and allowance**s––A reduction in the cost of inventory purchases associated with unsatisfactory goods. |  |
| 2. When goods purchased arrive in damaged condition or do not meet specifications, the buyer can either (1) return them for a full refund or (2) keep them and ask for a cost reduction (called an allowance). |  |
| 3. Either way, these purchase returns and allowances are accounted for by reducing the cost of the inventory and recording the cash refund or the reduction in the liability owed to the supplier. |  |
| C. **Purchase Discount**—Cash discount received for prompt payment of a purchase on account. |  |
| 1. When merchandise is bought on credit, terms, such as 2/10, n/30 may be specified. | Illustrated in Exhibit 6.4 |
| a. The “2/10” part means that if the purchaser pays by the 10th day of taking ownership of the goods, a 2% purchase discount can be deducted from the amount owed. |  |
| b. The “n/30” part means that if payment is not made within the 10-day discount period, the full amount is due 30 days after ownership transferred. |  |
| 2. When a purchase discount is offered at the time of purchase, the purchaser accounts for it in two stages. |  |
| a. Initially, the inventory purchase is accounted for at its full cost because it is not clear whether the company will take advantage of the discount. |  |

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| Chapter Outline | Teaching Notes |
| b. Later, if payment is made within the discount period, the purchaser reduces the Inventory account by the amount of the discount because it effectively reduces the cost of the inventory. |  |
| c. The purchase discount is calculated using the net amount owing to the supplier, after considering purchase returns and allowances. |  |
| D. When the company pays, Accounts Payable is reduced by the amount owed (with a debit), Cash is reduced by the amount paid (with a credit), and, because the discount represents a reduction in the purchase price of the inventory, Inventory is reduced by the amount of the discount (with a credit). |  |
| E. Summary of Inventory Transactions | Summarized in Exhibit 6.5 |
| III. Recording Inventory Sales |  |
| ***LO 6-4 Analyze sales transactions under a perpetual inventory system.*** | |
| A. Inventory Sales |  |
| 1. Merchandisers record revenue when they fulfill their performance obligations by transferring ownership of the goods to customers; the sales agreement specifies one of two possible times: | * Activity #2 |
| a. FOB shipping point—Sale is recorded when the goods leave the seller’s shipping department. | *Unless otherwise indicated, assumed in text.* |
| b. FOB destination—Sale is recorded when the goods reach their destination (customer). |  |
| 2. Every merchandise sale has two components; each requires an entry in a perpetual inventory system: | Illustrated in Exhibit 6.6 |
| a. Selling price—Record as increase in Sales Revenue and increase in either Cash (if a cash sale) or Accounts Receivable (if a sale on account).  b. Cost—Record a decrease in Inventory and increase in Cost of Goods Sold, an expense. | *Many merchandising companies use different Sales and Cost of Goods Sold accounts for different product lines* |
| 3. Gross profit is not directly recorded in an account by itself, but instead is a subtotal produced by subtracting the Cost of Goods Sold from the Sales Revenue. |  |
| B. Sales Returns and Allowances |  |
| 1. **Sales returns and allowances**––Refunds and price reductions given to customers after goods have been sold and found unsatisfactory. |  |
| a. The company would make two entries that basically reverse what this seller recorded above when the item was initially sold. |  |
| b. The Sales Revenue account is not directly reduced; instead, a contra-revenue account (like Sales Returns and Allowances) is used. | *Contra account allows management to monitor amount of returns* |
| 2. A sales allowance (without return of goods) is accounted for in a similar way, except the increase in Inventory and decrease in Cost of Goods Sold are not recorded. |  |

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| Chapter Outline | Teaching Notes |
| C. Sales on Account and Sales Discounts |  |
| 1. **Sales discount**––A sales price reduction given to customers for prompt payment of their account balance. |  |
| 2. Sales discount is calculated after taking into account any sales returns and allowances. |  |
| 3. When the customer pays, Cash is increased with a debit, Sales Discounts, a contra revenue account, is increased with a debit, and Accounts Receivable is reduced with a credit. |  |
| 4. Summary of Sales-Related Transactions | Summarized in Exhibit 6.7 |
| a. Sales returns and allowances and sales discounts are recorded using contra-revenue accounts. |  |
| b. Net Sales = Sales Revenues – Sales Returns and Allowances – Sales Discounts. |  |
| D. Inventory Purchases and Sales Transactions Compared | Compared in Exhibit 6.8 |
| 1. Purchase transactions affect only balance sheet accounts. | The “Spotlight on Financial |
| 2. Sales transactions affect accounts on both the balance sheet and income statement. | Reporting” feature addresses customer theft. |
| III. Evaluate the Results |  |
| ***LO 6-5 Prepare and analyze a merchandiser’s multistep income statement.*** | |
| A. Gross Profit Analysis |  |
| 1. **Multistep income statement**––Presents important subtotals, such as gross profit, to help distinguish core operating results from other, less significant items that affect net income. | Illustrated in Exhibit 6.9 |
| a. Expenses are subtracted from sales to arrive at net income. |  |
| b. This format separates revenues and expenses that related to *core* operations from all other (peripheral) items that affect net income. |  |
| c. For merchandisers, a key measure is the amount of profit earned over the cost of goods sold. |  |
| 2. **Gross profit** (gross margin or simply margin)––Net sales minus cost of goods sold; it is a subtotal, not an account. |  |
| 3. Category called *Selling, General, and Administrative Expenses* includes a variety of operating expenses, such as wages, utilities, advertising, rent, and the costs of delivering merchandise to customers. |  |
| 4. Selling, General, and Administrative Expenses are subtracted from gross profit to yield Income from Operations, which is a measure of the company’s income from regular operating activities before considering the effects of interest, income taxes, and any nonrecurring items. |  |

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| Chapter Outline | Teaching Notes |
| B. Gross Profit Percentage |  |
| 1. **Gross profit percentage**––A ratio indicating the percentage of profit earned on each dollar of sales, after considering the cost of products sold. |  |
| a. Gross profit percentage = ((Net Sales – COGS) ÷ Net Sales) × 100. |  |
| b. Measures the percentage of profit earned on each dollar of sales, after considering the cost of products sold. |  |
| c. A higher gross profit ratio means that greater profit is available to cover operating and other expenses. |  |
| 2. Comparing Gross Profit Percentages |  |
| b. Gross profit percentages can vary greatly between companies |  |
| a. Gross profit percentages can vary across industries. |  |
| ***LO 6-S1 Record inventory transactions in a periodic system.*** | |
| IV. Recording Inventory Transactions in a Periodic System |  |
| A. Inventory Purchases—Purchases of merchandise inventory are recorded in the Purchases account (with a debit). |  |
| B. Record Sales – No Cost of Goods Sold entry. |  |
| C. Record End-of-Period Adjustments |  |
| a. Count the number of units on hand, compute the dollar valuation of the ending inventory, and compute and record the cost of goods sold. |  |
| b. Transfer beginning inventory and net purchases to cost of goods sold. |  |
| c. Adjust the cost of goods sold by subtracting the amount of ending inventory still on hand (recognize that not all goods were sold). |  |

# Supplemental Enrichment Activities

Note: These activities would be suitable for individual or group activities.

1. Handout 6–1

Use Handout 6–1 for an in-class activity designed to review the preparation of journal entries for purchase transactions under a perpetual inventory system. The solution follows the handout master.

1. Handout 6–2

Use Handout 6–2 for an in-class activity designed to review the preparation of journal entries for sales transactions under a perpetual inventory system. The solution follows the handout master.

# HANDOUT 6–1

# PURCHASE TRANSACTIONS UNDER A PERPETUAL INVENTORY SYSTEM

Hamm Manufacturing Corp. uses a perpetual inventory system. The following activities occurred during February 2016. Prepare a journal entry for ensure that the basic accounting equation balances for each transaction.

On February 2, Hamm purchased $40,000 worth of inventory, on credit terms 3/10 n/30.

Prepare the required journal entries.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | |  |  |  |  |  |  |  |  | |

On February 10, Hamm paid for the inventory, taking advantage of all available discounts.

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| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | |  |  |  |  |  |  |  |  | |

# HANDOUT 6–1 SOLUTION

# PURCHASE TRANSACTIONS UNDER A PERPETUAL INVENTORY SYSTEM

Hamm Manufacturing Corp. uses a perpetual inventory system. The following activities occurred during February 2016. Prepare a journal entry for ensure that the basic accounting equation balances for each transaction.

On February 2, Hamm purchased $40,000 worth of inventory, on credit terms 3/10 n/30.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | | Feb. 2 | Inventory | 40,000 |  | |  | Accounts Payable |  | 40,000 | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | | Inventory | +40,000 |  | Accounts Payable | +40,000 |  |  |  | |

On February 10, Hamm paid for the inventory, taking advantage of all available discounts.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | | Feb. 10 | Accounts Payable | 40,000 |  | |  | Cash |  | 38,800 | |  | Inventory |  | 1,200 | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | | Cash | –38,800 |  | Accounts | –40,000 |  |  |  | | Inventory | –1,200 |  | Payable |  |  |  |  | |

# HANDOUT 6–2

# SALES TRANSACTIONS UNDER A PERPETUAL INVENTORY SYSTEM

Gooddeal Inc. uses a perpetual inventory system. The following activities occurred during February 2016. Prepare a journal entry for ensure that the basic accounting equation balances for each transaction.

On March 3, Gooddeal sold inventory costing $2,000 for $2,500, terms 2/10, n/30.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | |  |  |  |  |  |  |  |  | |

Gooddeal’s customer paid for the merchandise on March 6, taking advantage of the permitted discount.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | |  |  |  |  |  |  |  |  | |

# HANDOUT 6–2 SOLUTION

# SALES TRANSACTIONS UNDER A PERPETUAL INVENTORY SYSTEM

Gooddeal Inc. uses a perpetual inventory system. The following activities occurred during February 2016. Prepare a journal entry for ensure that the basic accounting equation balances for each transaction.

On March 3, Gooddeal sold inventory costing $2,000 for $2,500, terms 2/10, n/30.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | | Mar. 3 | Accounts Receivable | 2,500 |  | |  | Sales |  | 2,500 | |  | Cost of Goods Sold | 2,000 |  | |  | Inventory |  | 2,000 | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | | Accounts | +2,500 |  |  |  |  | Sales | +2,500 | | Receivable Inventory | –2,000 |  |  |  |  | Cost of Goods Sold | –2,000 | |

Gooddeal’s customer paid for the merchandise on March 6, taking advantage of the permitted discount.

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| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | | Mar. 6 | Cash [2,500 × 98%] | 2,450 |  | |  | Sales Discounts [2,500 × 2%] | 50 |  | |  | Accounts Receivable |  | 2,500 | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | **Assets** | | **=** | **Liabilities** | | **+** | **Stockholders’ Equity** | | | Cash | +2,450 |  |  |  |  | Sales | –50 | | Accounts Receivable | –2,500 |  |  |  |  | Discounts |  | |