Chapter 5 cheat card — screenshot this

CH. 5 CHEAT CARD — MERCHANDISING OPERATIONS (PERPETUAL)

BUYER'S BOOKS

BUY GOODS (on account)

Inventory	xx	
Accounts Payable		xx

FREIGHT-IN (FOB shipping point)

Inventory	xx	
Cash		xx

RETURN / ALLOWANCE

Accounts Payable	xx	
Inventory		xx

PAY WITHIN DISCOUNT WINDOW

Accounts Payable	xx	
Cash		xx
Inventory (discount)		xx

PAY OUTSIDE WINDOW (full amount — no discount)

Accounts Payable	xx	
Cash		xx

Inventory cost = invoice + freight-in − returns − discounts

SELLER'S BOOKS

SALE (2 entries — selling price, then OUR cost)

Cash / Accounts Receivable	xx	
Sales Revenue		xx
Cost of Goods Sold	xx	
Inventory		xx

SALES RETURN (2 entries again — if resaleable)

Sales Returns & Allowances	xx	
Accounts Receivable		xx
Inventory	xx	
Cost of Goods Sold		xx

CUSTOMER PAYS IN WINDOW

Cash	xx	
Sales Discounts	xx	
Accounts Receivable		xx

CUSTOMER PAYS OUTSIDE WINDOW (full amount)

Cash	xx	
Accounts Receivable		xx

Net sales = Revenue − Returns & Allow. − Discounts

THE COGS FORMULA

how COGS is determined — PERIODIC system

Beginning Inventory
+ Purchases
= Cost of Goods Avail. for Sale
− Ending Inventory
= Cost of Goods Sold

4 variables — plug 3, solve the 4th

SINGLE-STEP

ALL revenues − ALL expenses = NI

MULTIPLE-STEP

Net sales
Gross profit
Operating income
NET INCOME

steps DOWN to the same bottom line

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CH. 5 CHEAT CARD — THE PERIODIC INVENTORY SYSTEM (PART 2)

BUYING — the four parking spots

1 · BUY GOODS (on account)

PERIODIC **Dr Purchases · Cr Accounts Payable**
perpetual Dr Inventory · Cr Accounts Payable

2 · FREIGHT-IN (FOB shipping point)

PERIODIC **Dr Freight-In · Cr Cash**
perpetual Dr Inventory · Cr Cash

3 · RETURN / ALLOWANCE

PERIODIC **Dr Accounts Payable · Cr Purchase Returns and Allowances**
perpetual Dr Accounts Payable · Cr Inventory

4 · PAY INSIDE THE DISCOUNT WINDOW

PERIODIC **Dr Accounts Payable · Cr Purchase Discounts · Cr Cash**
perpetual Dr Accounts Payable · Cr Inventory · Cr Cash

perpetual's answer is ALWAYS Inventory — periodic always has its own spot

freight is NEVER subject to the purchase discount

SELLING — the four entries

1 · THE SALE — periodic needs ONE entry

PERIODIC **Dr Accounts Receivable · Cr Sales Revenue**
perpetual ...then Dr Cost of Goods Sold · Cr Inventory

2 · FREIGHT-OUT (we deliver) — IDENTICAL

PERIODIC **Dr Freight-Out · Cr Cash**
perpetual Dr Freight-Out · Cr Cash

3 · SALES RETURN (resaleable)

PERIODIC **Dr Sales Returns and Allowances · Cr Accounts Receivable**
perpetual ...then Dr Inventory · Cr Cost of Goods Sold

4 · CUSTOMER PAYS IN THE WINDOW — IDENTICAL

PERIODIC **Dr Cash · Dr Sales Discounts · Cr Accounts Receivable**
perpetual Dr Cash · Dr Sales Discounts · Cr Accounts Receivable

the COST side is what disappears — never the cash side

freight-IN is inventory cost · freight-OUT is an operating expense

Net sales = Revenue − Returns and Allowances − Discounts

THE MACHINE

COST OF GOODS PURCHASED

Purchases
\+ Freight-in
− Purchase returns and allowances
− Purchase discounts

= COST OF GOODS PURCHASED 9,120

↓

COST OF GOODS SOLD

Beginning inventory
\+ Cost of goods purchased
= Goods available for sale
− Ending inventory (the count)
= COST OF GOODS SOLD

THE METHOD THAT SAVES YOU ON EVERY EXAM QUESTION

1 · the moment you post a return, DRAFT the T-account
2 · read the BALANCE off it — never the original invoice
3 · apply the 2% to that balance and let CASH plug the gap

buy side: 9,000 × 2% = 180 → Cash 8,820
sell side: 8,100 × 2% = 162 → Cash 7,938
the COUNT is the only place ending inventory comes from

pause · screenshot · keep it in your camera roll for the exam **appliedanalyst.com**