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# The Eye-Popping World of Accounting (Part 2)

1997 Cerebellum Corporation • 800-VCR-REVU

## **I. Accounting For A Merchandising Concern**

### **A. Income Statement For A Merchandising Concern**

1. Terms
2. Sales Revenue Section
  - a) Calculating Net Sales

### **B. Inventory & Cost of Goods Sold**

1. Periodic Inventory System
2. Perpetual Inventory System
3. Calculating The Cost of Goods Sold

### **C. Inventory Errors**

### **D. Measuring Inventory Quantity**

1. Specific Invoice Method
2. Weighted Average Method
3. LIFO
4. FIFO

### **E. Advantages & Disadvantages of Each Method**

## **II. Accounting For Current Assets**

### **A. Cash**

### **1. Internal Control**

- a) Voucher System
- b) Bank Reconciliation
- c) Petty Cash Fund

### **B. Accounts Receivable**

1. Uncollectible Accounts
2. Estimation of Doubtful Accounts

- a) Fixed Percentage
- b) Aging Accounts Receivable

- c) Direct Write-Off Method

### **C. Notes Receivable**

1. Simple Interest
2. Discounting A Note Receivable

## **III. Accounting For Current Liabilities**

### **A. What Is A Current Liability?**

1. Accounts Payable
2. Notes Payable
3. Definite Liability
4. Estimated Liability
5. Contingent Liability

## Formulas:

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### Income Statement For A Merchandise Company:

**Gross Margin from Sales (Gross Profit)** = Revenue From Sales - Cost of Goods Sold

**Net Income/Loss** = Gross Margin from Sales - Operating Expenses

**Net Sales** = Gross Sales - (Sales Discounts + Sales Returns and Allowances)

**Cost of Goods Sold** = Beginning Inventory + Net Purchases - Ending Inventory

**Net Purchases** = Gross Purchases of Period - (Purchase Returns and Allowances + Purchase Discounts) + Freight Charges

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### Bank Reconciliation:

*Bank's Adjusted Balance should equal Customer's Adjusted Balance*

Bank's Adjusted Balance = Bank Balance - Outstanding Checks + Deposits in Transit

**Customer's Adjusted Balance** = Customer Balance + Note Receivables - (Service Charge + Collection Fee)

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### To Calculate Simple Interest:

Principle x Rate x Time

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### Discounting A Note:

**Amount Seller Receives** = Maturity Value of Note - Discount (Bank's Charge)

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