Merchandising: Purchases, Sales, Discounts, Returns and Allowance

by Sophia

WHAT'S COVERED

This tutorial will cover the specific accounts associated with merchandising.

Our discussion breaks down as follows:

1. Merchandising: A Review

In review, merchandising is defined as buying products for resale to customers, rather than selling services. Merchandisers purchase inventory, which refers to the products that a company owns for resale to customers. Merchandisers then purchase inventory and sell that inventory to customers.

> EXAMPLE An example of merchandisers who sell goods would be department stores or grocery stores. This means that they are purchasing goods to resell them to the consumers. On the other hand, service providers would be tax preparers or repairmen, for instance. This involves paying someone to provide a service, rather than providing goods.

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2. Discounts

Let's discuss some of the additional accounts that merchandisers use, starting with discounts.

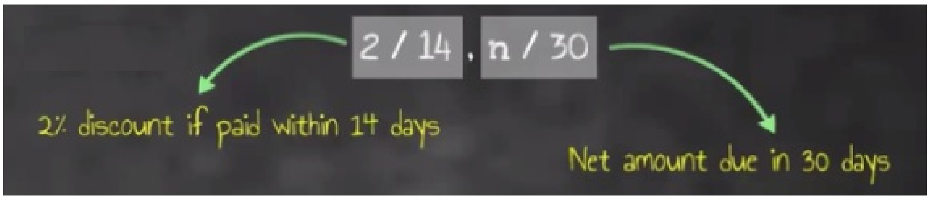
2a. Purchase Discount

The first type of discount to cover is the purchase discount. To receive a purchase discount, the merchandiser pays for inventory in full within a specific period of time.

The purchase is always recorded at the pre-discount price. Then, if the purchase is paid in full within the specified period of time, the merchandiser will receive a discount.

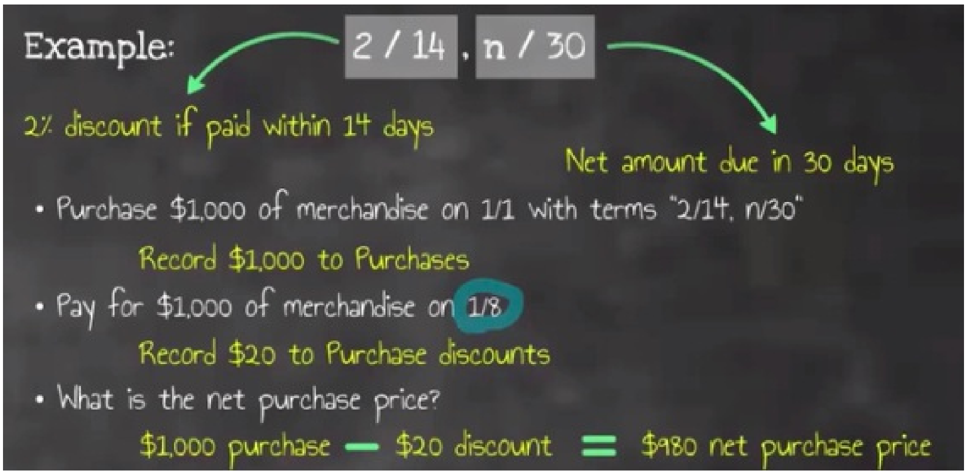
That discount is recorded to the purchase discount account, separately from the recording of the purchases.

In calculating purchase discount, you will see discounts annotated like the following example:



This means that the merchandiser will receive a 2% discount if the purchase is paid within 14 days. If the merchandiser does not pay within those 14 days, then the net amount is due in 30 days.

> ↱ EXAMPLE Suppose we're going to purchase $1,000 of merchandise on January 1st with the terms listed above (2/14, n/30). We're going to record that $1,000 purchase to our purchases account at the pre-discount price.
>
> Now, assume we're going to pay for that merchandise on January 8th. We are within that 14-day window, so that means we will receive a discount. Therefore, we're going to record the 2% discount of $20--which is $1,000 multiplied by 2%--to our purchase discounts account.
>
> So, what is our net purchase price? Well, we take the $1,000 purchase and subtract the $20 discount. Therefore, in this case, our net purchase price is $980.



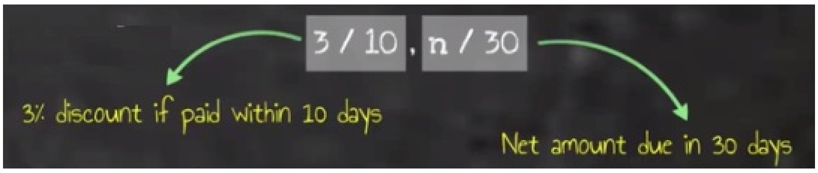
2b. Sales Discount

The second type of discount is a sales discount. In this case, the customer pays in full within a specific period of time. The merchandiser is reselling the purchased inventory to its customer, and if that customer pays in full within a specific period of time, they will receive a sales discount.

The merchandiser records the sale at the pre-discount price, just like they would with purchases.

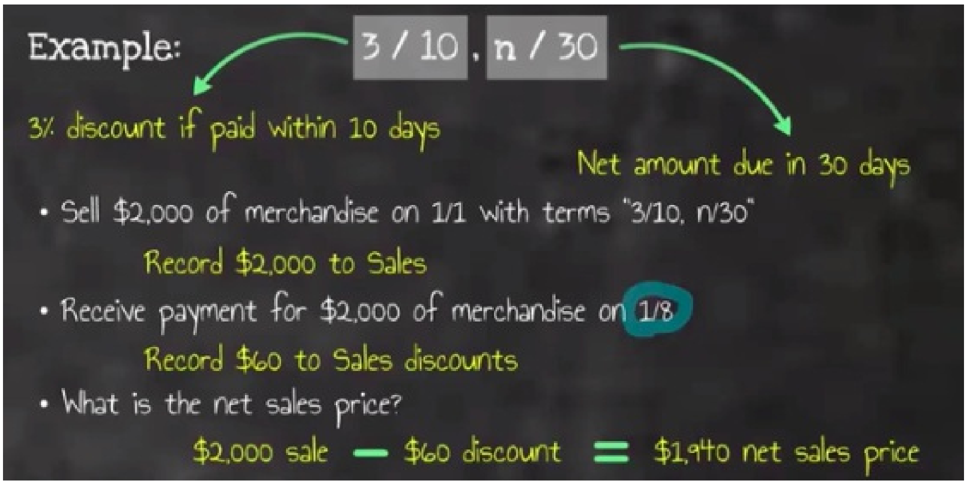
Then, any discount received for a payment is recorded to the sales discount account; any sales discounts are tracked separately from the sales.

In calculating sales discount, you will see discounts annotated like the following example, which looks very similar to a purchase discount:



In this case, though, the customer is going to receive a 3% discount if they pay off their purchase within 10 days. If they don't, then the net amount is due in 30 days.

> ↱ EXAMPLE Suppose we sell $2,000 of merchandise on January 1st with the terms above (3/10, n/30). We're going to record that $2,000 to the sales account, at the pre-discount price.
>
> Now suppose we receive payment in full for the $2,000 of merchandise on January 8th from the customer, so they are within their discount window. This means that we need to record a 3% discount, per our terms, so we record $60 to our sales discounts account, which is $2,000 multiplied by 3%.
>
> So, what is the net sales price? We take the $2,000 sale and subtract the $60 discount which gives us a $1,940 net sales price.



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3. Returns and Allowances

Another account associated with merchandising is a **return**, which is a credit--if a credit sale--or cash refund--if it is a cash sale--that is given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses not to keep it. This means that if you, as a customer, choose not to keep the merchandise that you purchase, you will receive a refund, either a credit or cash refund, depending on the type of sale.

On the other hand, an **allowance** is a deduction given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to keep the merchandise.

> HINT
>
> In an allowance, a merchandiser gives a deduction to a customer or business for flawed or inferior goods when they are *keeping* the merchandise, whereas in a return, a merchandiser gives a credit or cash refund to a customer or business, because they are *not keeping* the merchandise.

In a purchase return, the merchandiser is the one making the purchase, so they will receive a credit or refund if merchandise is returned to the supplier. In a purchase allowance, again, because the merchandiser is the purchaser, they will receive a deduction if they keep the merchandise.

Now, in a sales return, it is the customer who receives a credit or refund if they return the merchandise to the merchandiser. In a sales allowance, again, it is the customer who receives a deduction if the merchandise is kept.

Purchase	
Purchase Return	Merchandiser receives a credit or refund if merchandise returned
Purchase Allowance	Merchandiser receives a deduction if the merchandise is kept
Sales	
Sales Return	Customer receives a credit or refund if merchandise returned
Sales Allowance	Customer receives a deduction if the merchandise is kept

TERMS TO KNOW

Return
Credit, if credit sale, or cash refund, if cash sale, given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses not to keep the merchandise.

Allowance
A deduction given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to keep the merchandise.

SUMMARY

Today we covered a brief **review of merchandising**. We also learned about some additional merchandising accounts in the context of purchases and sales, including **discounts**, **returns**, and **allowances**.

Source: Adapted from Sophia instructor Evan McLaughlin.

TERMS TO KNOW

Allowance
A deduction given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to keep the merchandise.

Return
Credit, if credit sale, or cash refund, if cash sale, given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses not to keep the merchandise.