

Transaction		Periodic Inventory System	
July	5 Purchase of merchandise on credit.	Purchases	40,000
		Accounts Payable	40,000
July	6 Purchase returns and allowances.	Accounts Payable	2,000
		Purchase Returns and Allowances	2,000
July	8 Freight costs on purchases.	Freight in	200
		Accounts Payable	200
July	14 Payment on account.	Accounts Payable	38,000
		Cash	38,000
July	16 Sale of merchandise on credit.	Accounts Receivable	24,000
		Sales Revenue	24,000
		No entry	
July	18 Return of merchandise sold.	Sales Returns and Allowances	1,000
		Accounts Receivable	1,000
		No entry	
August 10	Cash received on account.	Cash	23,000
		Accounts Receivable	23,000

CALCULATION OF COST OF GOODS PURCHASED

Purchases	\$360,000
Less: Purchase returns and allowances	10,000
Net purchases	350,000
Add: Freight in	<u>5,000</u>
Cost of goods purchased	<u>\$355,000</u>

CALCULATION OF COST OF GOODS SOLD

Inventory, January 1	\$ 40,000
Cost of goods purchased	<u>355,000</u>
Cost of goods available for sale	395,000
Inventory, December 31	<u>50,000</u>
Cost of goods sold	<u>\$345,000</u>



COMPONENTS OF THE INCOME STATEMENT FOR A MERCHANDISING COMPANY

