Accounting: revenue and merchandising company flashcard

Please respond to all of the following prompts in the class discussion section of your online course: This week you learned about the unearned revenue account. Provide three examples of unearned revenue. Answer: Three examples of unearned revenue would be 1. Prepaid Expense – A year long insurance contract a company paid $12, 000 for at the beginning of the year. Since the insurance company owes the company service, the expense prepayment is recorded as an asset Journal Entries: debit Prepaid Insurance and credit Cash).

2. Unearned Revenue – A year long subscription of $12, 000 is received in advance by a magazine company. Because the company owes something, the unearned revenue is recorded as a liability. 3. Non-cash: These adjusting entries record non-cash items such as depreciation expense, allowance for doubtful debts etc. What do you think the biggest differences are between accounting for a service-based business and a merchandise-based business?

Answer: Various costs are incurred by both merchandising and service businesses. Both may hire employees as well as need accountants, both may need equipment in order to be in business, both types of business structures have customers who pay for goods or services. The main difference between a merchandising company and a service industry company however, is that the merchandising company must stock inventory. Also, There are different ways in how the two income statements are prepared.

How would these differences impact your approach to completing a work sheet and making necessary adjustments? Answer: For example: the income statement (also known as P&L) of a merchandising company consists of

Revenue, Expenses (related to the sales volume through the Cost of Goods Sold (COGS) and General & Administrative Expense (G&SA), which all result in Net Income. The income statement of a Service company consists of Service Revenue minus any Expenses related to that service, which results in Net Income.