

Principles of accounting course jebel ali merchandising company

[Finance](#)



The paper "Principles of Accounting Course Jebel Ali Merchandising Company" is a good example of a case study on finance and accounting. United Arab Emirates (UAE) is a worldwide establishment with many companies in the field of commerce. One of their merchandising companies is Oracle merchandising that deals with innovative and comprehensive industries software solutions for retailers. In the software industries, Oracle gives the most original and integrated suite of software applications for vision-guided retailing. It deals with key components such as database, middleware, and applications. Oracle merchandising is in a position to utilize the most accurate inventory evaluation methods; the gross profit and retail methods where the physical enumeration or the count of the inventory is taken. Inventory consists of merchandise that a business has already bought or purchased but has not sold. For that reason, inventory is classified under current assets because it can be sold in the near future and be converted to cash. The inventory of Oracle company under Gross profit and retail methods is counted, the value determined and the total physical value is compared to the general ledger account wherein case any adjustment is needed, it is done appropriately. And because Oracle is a big company, there are some inventories whose physical count is impossible for such cases it relies on some particular financial statement records for the valuation of the inventory. The income statement is a summary of operating revenue earned and operating expenses incurred in a specific accounting period. They are prepared every month in order for management to get a useful financial tool for measuring and controlling the company's operational performance. There is a difference between an income statement of a

service company and a merchandising company. Unlike a merchandising company, which relies on merchandise sales for its revenue, services enterprises depend on rendering their services as a source of their revenue. The service industry, therefore, has grown to be a large company of advanced economics, especially in globalization. Due to different trade “stuff” that they offer, the income statement of a merchandising company and that of a service company differs. For a merchandising company income statement, there is included revenue, expenses, and general administrative expenses. These expenses include the cost of goods sold which relates to sales volume. Here is an example of an income statement from Jebel Ali Merchandising Company.

Jebel Ali Merchandising Company
Income statement for the year ended 31st Dec 2010

+Sales	Ksh500, 000	-Cost of Goods Sold	Ksh100, 000	= Gross Profit	Ksh400, 000					
-Operating Expenses	+Advertising	Ksh10, 000	+Salaries/Wages	Ksh5, 000	+Rent	Ksh1, 000	= Total	Ksh16, 000	Net Income	Ksh. 24, 000

On the other hand, the income statement of a service company doesn't have expense related to sales volume by virtue of the fact that it doesn't rely on selling merchandise but offer services at a charge. Therefore, its statement has service revenue minus any expense that relates to that particular service. This calculation is the one that leads to Net Income as shown in Double J's service company income statement below:

Double J company
Income statement for the year ended 31st Dec 2010

Service Fees	150, 000	-Advertising	2, 000	-Insurance	1, 000	-Salaries & Wages	1, 500	-Traveling Expenses	1, 000	-Rent	2, 000	Total Operating expenses	7, 500	Net Income	142, 500
--------------	----------	--------------	--------	------------	--------	-------------------	--------	---------------------	--------	-------	--------	--------------------------	--------	------------	----------

Another difference is brought by the fact that while the merchandising

company does not charge its service, the service company charges. Due to this difference, you find that the average time a merchandising company takes to go from cash to cash commodity is longer than that of a service company. This is referred to as the operating cycle and is longer in merchandising companies due to the purchase and sale of merchandise.

Balance Sheet Clay and Stephen (1997) define a balance sheet as a “documented report of a company’s assets and obligations as well as the residual ownership claims against its equity at any given point in time” (p. 45). This being a cumulative record, it reflects the results of all recorded and accounting transactions since the company started. A balance sheet is an important document for presenting to those people and organizations that are interested in the financial affairs of a company. It is also used by creditors to assess the company’s ability to pay its dues. All this information among others is given by a balance sheet. The balance sheet assets and equities are listed and classified according to their general characteristics. A balance sheet for a merchandising company has got the following components

Current Assets: In this listing, cash and other assets are included. These assets in merchandising companies are known as inventories and are easily converted into cash within the operating cycles. Current assets are only that merchandise that must be converted into liquid cash within the time of business dealing according to Clay and Stephen (1997). Other assets are held not for the purpose of reselling but because they provide some useful services. In a balance sheet, current assets are listed in order of their liquidity and include account receivables, temporary investments, cash, inventory, and prepaid expenses among others. Cash:

Cash is that money on hand and in the bank that can be accessed if required for business operations. This is the first entry in a balance sheet. Marketable Securities: Market investments are short time excess funds that are not required immediately for business operations. These funds are supposed to be invested in securities that are easily convertible into cash when required. Accounts Receivable: These are the amount that your debtors owe you. They can be classified as current assets if they are to be collected soon. Inventories: These are goods that are available for sale. Prepaid expenses: Prepaid expenses are those payments that are made prior to services. Unlike many other entries, it is not possible to convert prepaid expenses into current assets. Insurance premiums and rentals can fall in this category if paid in advance. Investments: These are funds and securities held for a specified purpose and for an unspecified time. They usually include mortgages, bonds, and shares for another company. Money held for pension funds are also investments. Plant Assets: They are also called fixed assets that are used in business operations for a long period of time. Fixed assets generate income through their deployment in operations. Other Assets: These assets can not be classified under current and fixed assets. They are listed as others and include a miscellaneous fund for special purposes among others. Current Liabilities: Away from assets, the other side of the balance is usually labeled equity. There are current liabilities that have to be discharged in the period of the normal business operation. A very good example is the amount you owe to your creditors. Long-Term Liabilities: These are debts that are not to be paid until a period of more than a year elapses. Owner's Equity: This section is usually subdivided on the balance

sheet. On one side the amount directly invested and any portion of retained earning converted into paid-in capital is recorded. Net earnings that are retained are preserved for the other side. A merchandising company and a service company have almost similar balance sheet apart from the fact that a balance sheet of a service company does not have inventory. Inventory is a record of unsold merchandise and Service Company does not deal with selling tangible goods.