LESSON TEN.

In your Single Entry a record of dealings with persons and cash was kept. No record of your purchases or sales of merchandise or of your expenses was kept.

While your Single Entry method suits the needs of small businesses, the proprietor of a large establishment requires more information from his books than this method gives. He wants to know the amount of his profit or loss on the goods dealt in. He wants to know what his expenses of all kinds have amounted to, together with other information which only a Double Entry system furnishes.

All this information can be obtained by keeping an account with each source of profit and loss, and all resources and liabilities, according to the Double Entry method.

We now proceed to the study of DOUBLE ENTRY.

MERCHANDISE ACCOUNT.

The first Loss and Gain account to which you are to be introduced is called MERCHANDISE. In this account you will keep a record of all goods bought and sold, so that you will be able to ascertain the profit or loss resulting from your dealings in Merchandise.

This is a general account with all kinds of goods dealt in. It is debited for purchases and credited for sales. It is debited for returned goods that were credited when sold, and it is credited for returned purchases. Shortages, damages, and overcharges will be debited or credited according as they are allowed on sales or purchases. Freight paid is charged to Merchandise account, unless a special Freight account is kept.

If all of the goods be sold, the difference between the two sides of the account will show a gain or loss. If the credit side is the larger the difference between the sides will show a gain, because the goods have sold for more than they cost. If the debit side is the larger, the result is a loss, because the goods have cost more than they produced.

If the goods are not all sold at the time of closing the account, the value of the stock on hand at purchase price, called the MERCHANDISE INVENTORY, is added to the credit side in red ink, the difference then showing the gain or loss. The same result could be obtained by subtracting the value of goods on hand from the purchases before finding the difference between the two sides of the account. Subtracting the inventory from the total purchases gives the cost of the goods that have been sold for the amount shown on the credit side. As we do not subtract in an account, we get the same result by adding the inventory to the credit side. Prove it.

Note how the transactions given herewith have been entered in the Merchandise Account.

Jan. 2, Bought goods costing $678.50; Jan. 3, Sold goods amounting to $450; Jan. 6, Sale $265.30. Jan. 8, Sale $183.40. Jan. 10, Some of the goods purchased on the 2nd have turned out to be inferior, and the merchant from whom you purchased has agreed to allow you a rebate of $12.42. Jan. 15, Sale, $310.18. Jan. 18, Purchase $306.25. Jan. 20, Sale, $162.60. Jan. 21, $42.80 worth of goods sold yesterday have been returned. Jan. 24, Sale $250.70. Jan. 29, Sale, $120.20. Jan. 30, Purchase $782.47. After entering this purchase it is decided to return $27.80 worth as not being satisfactory. Jan. 31, A reduction of $8.54 is allowed on the sale of the 29th. Jan. 31, Purchase $406.50. Value of goods on hand, $1183.93.