[MUSIC PLAYING]

Hey everyone and welcome to our video today, merchandising financial statements.

So what are we going to discuss today? Well we're going to be reviewing financial statements for a merchandising company. We're going to look at the income statement, the statement of changes in owner's equity, and the balance sheet. So let's go ahead and get started.

Let's start with looking at the income statement. So what is the income statement? It's a financial statement that provides information about the revenue expenses and net profit or loss of a business for a given time period. So the income statement provides information about a business profitability, so it provides information about our businesses profitability, that's important and it generally covers one year or less of activity and it helps us understand the health and as well as the strength of our business. It has important information for shareholders, potential investors, and banks.

So let's look at expanded income statement that we would find for a merchandising company. We would start with sales, subtract out cost of goods sold to give us gross profit. From gross profit we subtract out operating expenses to provide us information about income from operations, and then the last step would be to subtract other expenses or add other revenues to give us our net income. OK so that's the expanded income statement calculation but then we can break down a couple items in here even further. We can break down our sales as well as our cost of goods sold but let's start with looking at sales let's look at an expanded sales calculation.

So if we're going to expand the sales calculation we would start with gross sales, which are our total sales earned, total cash, total credit sales. From there we would subtract sales returns and allowances which are a contra-revenue account meaning they reduce sales and they're tracked separately from sales to preserve our analysis capabilities and then we also subtract discounts which are also a contra-revenue account meaning they reduce our sales, and it's an incentive that would be offered to promote total sales. So if we subtract both those items from gross sales that gets us to our net sales. So we start with gross sales subtract sales returns and allowances, subtract discounts to get to net sales. That's the expanded sales calculation.

Now let's turn our attention to cost of goods sold. Let's look at an expanded cost of goods sold calculation. So cost of goods sold starts with beginning inventory we add cost of goods purchased to give us goods available for sale. We would then subtract our ending inventory to get to cost of goods sold. So that's the cost of goods sold calculation but we're not done there, we can also look at that cost of goods purchased line and we can actually break that down into the cost of goods purchased calculation.

We're going to start with purchases subtract discounts, subtract purchase returns, and allowances to get to net purchases. We would then add freight-in and that's going to give us the cost of goods purchased which we then can put into our cost of goods sold calculation. So that's the expanded income statement with the expanded sales calculation and the expanded cost of goods sold calculation.

Let's turn our attention to the statement of changes in owner's equity. What is the statement of changes in owner's equity? It's a financial statement that provides information about changes to the equity of a business for a given time period. So it provides information about owner's equity similar to the income statement it's going to cover one year or less of owner activity so any earnings, owner investments, owner withdrawals.

So let's take a look at the statement of changes in owners equity. What do we start with? We start with beginning capital, sort of beginning owner's equity balance we add any investments made by the owner add net income, subtract out owner drawings, which is when the owner pulls money out of the business and that gets us to our ending owner's equity. So the statement of changes in owner's equity pulls information from our income statement, that net income piece comes from the income statement, and now if it was a net loss we would have to subtract that within this formula. So the statement of changes in owner's equity gets information from the income statement but then it also provides information to the balance sheet so that ending owner's equity piece goes to the balance sheet. So that's the statement of changes in owner's equity.

Now let's turn our attention to the balance sheet. What is the balance sheet? It's a financial statement that provides information about the assets, liabilities, and equity of a business at a given time. So it provides information about our business position. Now it's at a point in time so it's the only financial statement that's prepared at a moment in time rather than over a period. Can it, details are businesses resources so it tells us the resources that we have, that we own. So the resources that are available our assets, any liabilities owed to others, and the net difference on a cumulative basis is going to be our equity.

So let's take a look at the balance sheet. So the balance sheet, what's the accounting equation or the balance sheet formula? It's a fundamental premise in accounting which states that a company's assets will be equal to the sum of its liabilities and equity. So assets is equal to liabilities plus equity so that's our balance sheet formula. OK so that's what our balance sheet is going to detail it's going to give us information about our assets, our liabilities, as well as our equity and like we talked about on the statement of changes in owner's equity we're going to get information from that statement. So that equity, the ending owner's equity balance is going to go into our balance sheet. So that's our balance sheet review and now for a merchandising company the balance sheet is also going to include information about our inventory. So LIFO, FIFO, weighted average, et cetera.

So now let's summarize what we talked about today. In a nutshell we looked at merchandising company financial statements. We looked at the expanded income statement and within that cost of goods sold and cost of goods purchased. We looked at the statement of changes in owner's equity and how it pulls information from that expanded income statement and we finished with talking about the balance sheet and how it pulls that ending equity balance into the balance sheet. I hope everybody enjoyed this video and I hope to see you next time.