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(a) Sold \$900 Of Merchandise On Account, Subject To 7% Sales Tax. The Cost Of The Merchandise Sold Was an essential transaction that highlights key principles in retail sales accounting, sales tax application, and inventory management. Understanding this transaction is fundamental for business owners, accountants, and financial analysts, as it encapsulates crucial concepts like sales revenue recognition, sales tax calculation, cost of goods sold (COGS), and recording journal entries. This article delves into the intricacies of such transactions, explaining how to properly record and analyze the sale, calculate sales tax, and determine the gross profit, all while ensuring compliance with relevant accounting standards and tax regulations.

Understanding the Sale Transaction

Overview of the Sale

In this scenario, a business makes a sale of merchandise valued at \$900 on account, meaning the customer will pay later rather than immediately. Since the sale is subject to a 7% sales tax, the total amount payable by the customer includes both the merchandise price and the sales tax.

Key points to note:

- Sale amount: \$900 (merchandise price)
- Sales tax rate: 7%
- Transaction type: Sale on account (credit sale)
- Tax implications: Applies to retail sales of tangible goods in many jurisdictions

Calculating the Total Sale Amount Including Sales Tax

To accurately record the transaction, the business must calculate:

1. Sales tax amount: 7% of \$900
2. Total receivable amount: merchandise price + sales tax

Calculation:

- Sales tax = $\$900 \times 0.07 = \63
- Total amount receivable = $\$900 + \$63 = \$963$

This total reflects what the customer owes the business, which includes the merchandise cost and the collected sales tax, to be remitted to tax authorities later.

Recording the Sale in Accounting Books

Proper journal entries are crucial for accurate financial reporting. They ensure that revenue, sales tax liability, and accounts receivable are correctly reflected.

Journal Entry for the Sale

The typical journal entry to record a sale on account subject to sales tax is:

1. Debit Accounts Receivable: The total amount due from the customer (\$963)
2. Credit Sales Revenue: The merchandise value (\$900)
3. Credit Sales Tax Payable: The sales tax amount (\$63)

Sample Journal Entry:

Account	Debit	Credit
Accounts Receivable	\$963	
Sales Revenue		\$900
Sales Tax Payable		\$63

This entry recognizes the revenue from the sale, records the liability for the sales tax collected, and records the receivable from the customer.

Determining the Cost of Merchandise Sold

Importance of Cost of Goods Sold (COGS)

The cost of merchandise sold (COGS) is a vital metric in assessing gross profit and overall profitability. It represents the direct costs attributable to the production or purchase of the goods sold during the period.

Key points:

- COGS reduces gross profit on the income statement
- Accurate COGS calculation is essential for financial analysis
- It influences inventory valuation and tax calculations

Factors Influencing COGS Calculation

The exact COGS depends on inventory management methods (e.g., FIFO, LIFO, weighted average) and the specific costs of inventory purchased.

Example Calculation

Suppose the merchandise sold had a cost basis of \$600. This figure would be based on inventory records and purchase costs.

- Cost of Merchandise Sold: \$600

Note: If the business uses a specific inventory method, the COGS calculation might differ, impacting gross profit calculations.

Implications of the Sale Transaction

Financial Statement Impact

This single transaction impacts multiple financial statement components:

- Income Statement:
 - Increases revenue by \$900
 - Increases sales tax liability by \$63
 - Records COGS of \$600
 - Gross profit = Revenue (\$900) - COGS (\$600) = \$300
- Balance Sheet:
 - Increases Accounts Receivable by \$963
 - Adjusts inventory for the merchandise sold (if inventory is tracked)

Tax Remittance and Compliance

Since the business collected \$63 in sales tax, it must remit this amount to the relevant tax authority periodically. Proper tracking and reporting ensure compliance and avoid penalties.

Additional Considerations and Best Practices

Key Points for Business Owners and Accountants

- Always segregate sales revenue and sales tax liability in accounting records
- Use precise inventory management systems to track COGS accurately
- Ensure timely remittance of collected sales taxes
- Maintain detailed records of sales transactions for audit purposes
- Understand regional sales tax laws and rates, which may vary

Tips for Accurate Recording

- Use software solutions that automate sales tax calculations
- Regularly reconcile accounts receivable and sales tax payable
- Review inventory costs periodically to ensure accurate COGS

Conclusion

In summary, the sale of \$900 worth of merchandise on account, subject to a 7% sales tax, involves multiple critical accounting steps. It begins with calculating the sales tax and total receivable, recording the appropriate journal entries, and determining the cost of goods sold. Proper management of these transactions ensures accurate financial reporting, compliance with tax regulations, and insightful profitability analysis. Whether you are a small business owner or an accountant, understanding these principles is essential for effective financial management and operational success.

FAQs About Merchandise Sales and Sales Tax

1. **How do I calculate sales tax for a sale?** Multiply the sale amount by the applicable sales tax rate. For example, $\$900 \times 7\% = \63 .
2. **What is the significance of COGS in sales transactions?** COGS determines the direct costs associated with the sold merchandise, which impacts gross profit and

taxable income.

3. **How often should sales tax be remitted?** This depends on local regulations—monthly, quarterly, or annually. Always adhere to tax authority deadlines.
4. **Can I recover sales taxes paid on inventory purchases?** Yes, in many jurisdictions, businesses can claim input tax credits for sales tax paid on inventory purchases, offsetting their sales tax liabilities.
5. **What methods are used to value inventory and calculate COGS?** Common methods include FIFO, LIFO, and weighted average cost, each influencing the COGS and inventory valuation differently.

Optimized for SEO Keywords:

- Merchandise sale accounting
- Sales tax calculation and reporting
- Cost of goods sold (COGS)
- Recording sales on account
- Inventory management and COGS
- Sales tax liability and remittance
- Retail sales transaction process
- How to record sales tax in accounting
- Impact of sales tax on profitability
- Business inventory and financial statements

This comprehensive guide provides valuable insights into handling sales transactions involving merchandise sales and sales tax, ensuring clarity and compliance for business owners and accounting professionals alike.

Frequently Asked Questions

What is the total amount of sales including sales tax for a \$900 merchandise sale subject to 7% sales tax?

The total sales amount including sales tax is \$963.00, calculated as $\$900 + (7\% \text{ of } \$900) = \$900 + \63 .

How do you record the sale of merchandise worth \$900 on account with 7% sales tax?

Debit Accounts Receivable for \$963, credit Sales Revenue for \$900, and credit Sales Tax Payable for \$63.

What is the cost of merchandise sold if a \$900 sale was made, assuming a 50% gross margin?

If the gross margin is 50%, the cost of merchandise sold is \$450, which is 50% of the sales amount excluding tax.

How is the sales tax calculated on a \$900 merchandise sale with a 7% rate?

Sales tax is calculated as 7% of \$900, which equals \$63.

Why is it important to record sales tax separately when selling merchandise on account?

Recording sales tax separately ensures proper compliance with tax regulations and accurate financial reporting of liabilities.

What journal entries are made to record the sale and sales tax for a \$900 merchandise sale on account?

Debit Accounts Receivable for \$963, credit Sales Revenue for \$900, and credit Sales Tax Payable for \$63.

If the cost of merchandise sold was \$500, what is the gross profit from the sale?

Gross profit is \$900 minus \$500, which equals \$400.

How does sales tax impact the total amount paid by the customer in this transaction?

The customer pays a total of \$963, which includes the \$900 sale price plus \$63 in sales tax.

Additional Resources

Merchandise Sale with 7% Sales Tax: An In-Depth Analysis of the Transaction and Cost Implications

Understanding the Transaction: Selling \$900 of Merchandise on Account Subject to 7% Sales Tax

In the realm of retail and business accounting, transactions involving merchandise sales are fundamental. When a company sells goods on credit, especially with applicable sales taxes, understanding the nuances is vital for accurate financial reporting. This article delves into the specifics of a transaction where \$900 worth of merchandise is sold on account, subject to a 7% sales tax, and explores how to determine the cost of merchandise sold, along with the broader implications of such transactions.

Breaking Down the Sale: Price, Sales Tax, and Total Receipts

The Core Sale Amount

The core of the transaction begins with the sale of merchandise valued at \$900. This figure represents the pre-tax selling price of the goods. When recorded in the accounting books, this amount is typically reflected as a credit to the sales revenue account.

Applying the 7% Sales Tax

Sales tax is a percentage added to the sale price, collected on behalf of the government. In this scenario, the rate is 7%. To calculate the sales tax:

- Sales Tax = Sale Price $\times$ Tax Rate
- Sales Tax = $\$900 \times 0.07 = \63

This means that, in addition to the \$900 merchandise price, the customer (or the receivable in this case) is responsible for paying an additional \$63 in sales tax.

Calculating the Total Amount Receivable

The total amount the business expects to receive from the customer is the sum of the sale price and the sales tax:

- Total Receivable = Sale Price + Sales Tax
- Total Receivable = $\$900 + \$63 = \$963$

This total of \$963 will be recorded as accounts receivable, representing the amount due

from the customer.

Accounting for the Sale: Journal Entries

Proper journal entries are necessary to accurately reflect this transaction in the financial statements. Here's how the entries are typically structured:

1. Recording the Sale and Accounts Receivable

Account	Debit	Credit
Accounts Receivable	\$963	
Sales Revenue		\$900
Sales Tax Payable		\$63

Explanation:

- Accounts Receivable increases by \$963, representing the total amount owed by the customer.
- Sales Revenue increases by \$900, reflecting the income from the sale.
- Sales Tax Payable increases by \$63, a liability indicating the amount owed to the tax authority.

2. Recording the Cost of Goods Sold (COGS)

To determine the cost of the merchandise sold, the business needs to record COGS. This expense reflects the cost to the company of the goods sold, independent of the sale price.

Account	Debit	Credit
Cost of Goods Sold	(amount)	
Inventory		(amount)

The actual amount of COGS depends on the inventory cost basis, which varies based on inventory valuation methods (FIFO, LIFO, average cost, etc.).

Determining the Cost of Merchandise Sold

The crux of the question lies in ascertaining the cost of the merchandise that was sold for

\$900. This hinges on the inventory valuation method and the specific cost basis used by the business.

Factors Influencing COGS Calculation

- Inventory Valuation Method: FIFO, LIFO, weighted average, specific identification.
- Beginning Inventory: The starting inventory value before the sale.
- Purchases During the Period: Additional inventory acquired, affecting average costs.
- Inventory Turnover: How frequently inventory is sold and replaced.

Example Scenario

Suppose the business uses the FIFO method, and the inventory layers are as follows:

Inventory Layer	Quantity	Unit Cost	Total Cost
Beginning Inventory	50 units	\$10	\$500
Purchase 1	50 units	\$12	\$600
Purchase 2	50 units	\$15	\$750

Total inventory value before sale: \$1,850 for 150 units.

If the sale is for \$900 revenue, and assuming the gross profit margin is consistent, the cost of goods sold can be calculated based on the specific units sold.

- Under FIFO, the first units sold are from the oldest inventory:
- 50 units at \$10 = \$500
- 25 units at \$12 = \$300

Total units sold: 75 units (assuming proportional sales), with a COGS of:

- $\$500 + \$300 = \$800$

Thus, the cost of merchandise sold is \$800.

Note: Without specific inventory data, the exact COGS cannot be precisely determined. The example above demonstrates the approach based on inventory layers and valuation method.

Implications of the Cost of Merchandise Sold

Understanding the COGS is essential because it directly impacts gross profit:

- Gross Profit = Sales Revenue - COGS

In our scenario:

- Sales Revenue (excluding tax): \$900

- COGS: \$800 (from the example)

- Gross Profit = \$900 - \$800 = \$100

This gross profit figure is critical for assessing the profitability of the sale and for making informed business decisions.

Additionally, COGS influences taxable income and tax liabilities, and accurate calculation ensures compliance with accounting standards and tax regulations.

Summary of Key Takeaways

- Sale Price and Tax Calculation: Selling \$900 worth of merchandise with a 7% sales tax results in a total receivable of \$963.

- Accounting Entries: Proper journal entries record the sale, sales tax payable, and COGS.

- Determining COGS: Requires knowledge of inventory layers and valuation methods; in practice, businesses use their specific inventory data for accuracy.

- Profitability Assessment: The gross profit hinges on the COGS; understanding this helps evaluate business performance.

- Regulatory Compliance: Accurate recording of sales and taxes ensures compliance with tax authorities and financial reporting standards.

Conclusion

The sale of merchandise on account, especially when subject to sales tax, is a nuanced transaction that involves multiple accounting considerations. From calculating the total receivable to determining the cost of merchandise sold, each step plays a critical role in maintaining accurate financial records. By understanding the components of such transactions, businesses can better manage their financial health, ensure compliance, and make strategic decisions that foster growth and stability.

Whether you're an accountant, a business owner, or a financial analyst, grasping the intricacies of sales transactions like this is essential. The key lies in meticulous record-keeping, understanding inventory valuation methods, and staying abreast of regulatory requirements—elements that together underpin sound financial management.

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