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Correspondence: Retail Method of Inventory; Assignment of Accounts Receivable

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CORRESPONDENCE

Retail Method of Inventory

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Your correspondent, Mr. M. A. Odermatt, states that "it is advisable that the cash discounts deducted when invoices are paid be carried in a deferred earnings account." If, as is assumed by Mr. Odermatt, purchases are charged with the gross amount, the discount entry would be:

Unearned discount . . .	\$10,000.00
To earned discount	\$10,000.00
Discount on \$200,000 purchases charged to stock.	

When the bills are paid in part, say \$180,000, the discount entry would be:

Accounts payable . . .	\$ 9,000.00
To unearned discount	\$ 9,000.00
Discount on \$180,000 of bills paid.	

The balance of \$1,000 represents the discount on the \$20,000 of unpaid bills.

Now, if as is stated, the cash discounts of \$9,000 are to be carried in a deferred earnings account, how can the amount be credited against \$10,000 set up in the first entry?

To deduct discount from the inventory would mean a charge to discount earned (or similar account) and a credit to inventory, but this should be done by a separate entry which should not conflict with the above entries.

As to whether discount should be deducted from an inventory reduced to cost by an average percentage method to further reduce it to cash cost or for the reason that some of the purchases producing the discounts have

not been sold, is another matter. Opinions may differ as to the necessity of either reason and it would be interesting to me to learn which of these reasons is favored.

There is another aspect of this question not mentioned by Mr. Odermatt and that is as to whether or not discount should be deducted from accounts payable at the end of the year in this example, \$1,000 deducted from \$20,000 leaving a cash liability of \$19,000. It is a very complicated question and made so in my opinion by a too pedantic regard for abstract theories.

Yours truly,

CHARLES L. RICHARDSON

Los Angeles, Calif.

Assignment of Accounts Receivable

Editor, THE JOURNAL OF ACCOUNTANCY:

Dear Sir: I have read with much interest the editorial on "Assignment of Accounts Receivable" which appeared in the May issue of THE JOURNAL OF ACCOUNTANCY.

I hope that the editorial, which covers the ground very thoroughly, will serve to stimulate further interest in, and a discussion of this subject among the members of the Institute. I am confident that the accountants can play a very important and constructive part in clearing up some of the problems which exist in connection with transactions in receivables.

Our subcommittee which is handling this matter has just prepared a report which will be submitted to the Association's convention next month. When copies of the report are available I will be glad to send you one.

Yours truly,

C. F. BALDWIN

New York, N.Y.