

Hes·SO // VALAIS
WALLIS



Module finance

Business Transactions

Supply of goods and services



Summary

- General
- Service companies
- Commercial enterprises
- Credit losses
- Installments
- Legal requirements for invoices
- Commercial enterprises particularities

accounting



Difference between goods & services

A good is something that can be used. Goods is an item or product that satisfies the needs and wants of a consumer, provides utility, and is ready for resale to the consumer. They are tangible in nature, i.e., they are physical objects that can be touched, felt or seen. The ownership of goods can be transferred from one person to another or from seller to buyer. They can be produced according to their demand in the market. to fill a need or desire.

Good is considered a physically tangible thing.

Service is an intangible activity, which also aims at satisfying the needs and wants of a consumer. Services are intangible in nature, i.e., they are non-physical objects that cannot be seen, felt or touched, but can be experienced by the consumer. The ownership of services cannot be transferred from one person to another. They cannot be produced as they are performed as and when required by the customer.

Business transactions with customers and suppliers

types of contracts

spot transactions

delivery and payment happen at the same time

credit transactions

delivery and payment are not simultaneous

the buyer obtains a payment period (30 days)

proforma operations

delivery and payment are not simultaneous

payment is made before delivery

Business transactions with customers and suppliers

1. Cash Transaction: When a transaction is classified as a cash transaction, that means the payment was received or paid in cash at the time the transaction occurred. For example, if Mary purchases a new shirt from a store and pays at checkout, a cash transaction has happened between Mary and the store. Even though this transaction is called a “cash” transaction, even if the payment is made with a debit or credit card, it is still considered a cash transaction because the payment is made at the time the transaction occurs.

2. Credit Transaction: In a credit transaction, the payment is made after a set amount of time, also called the credit period. For example, Mary wants to purchase a couch from a furniture store. Instead of paying at the time of the transaction, the store allows 30 days for payment. Cash is not involved at the time of sale, but Mary will be required to pay for the couch after the credit period of 30 days.

Accounting by activity

- Commercial enterprise
- Service Company
- Production company
- Etc.



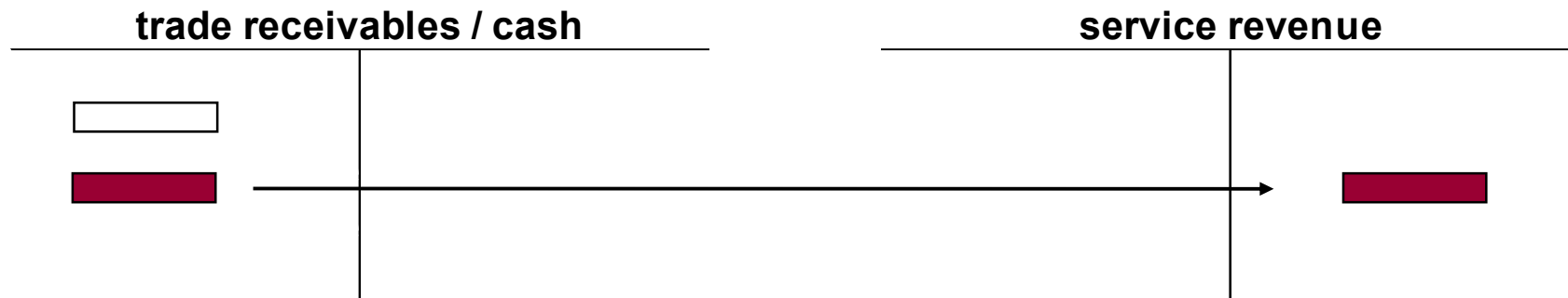
Service Company

- A service company is a business that generates income by providing services instead of selling physical products. A good example of a service company is a public accounting firm. They earn revenues by preparing income tax returns, performing audit and asset services, and even doing bookkeeping work..

E.g. Accounting firms don't sell physical products like retailers and merchandisers. Instead, they sell their services to clients and traditionally charge by the hour. This is true with almost all professional firms. Lawyers typically have set hourly rates and charge clients based on how long it takes to perform the services. In essence, these firms are really selling their time.



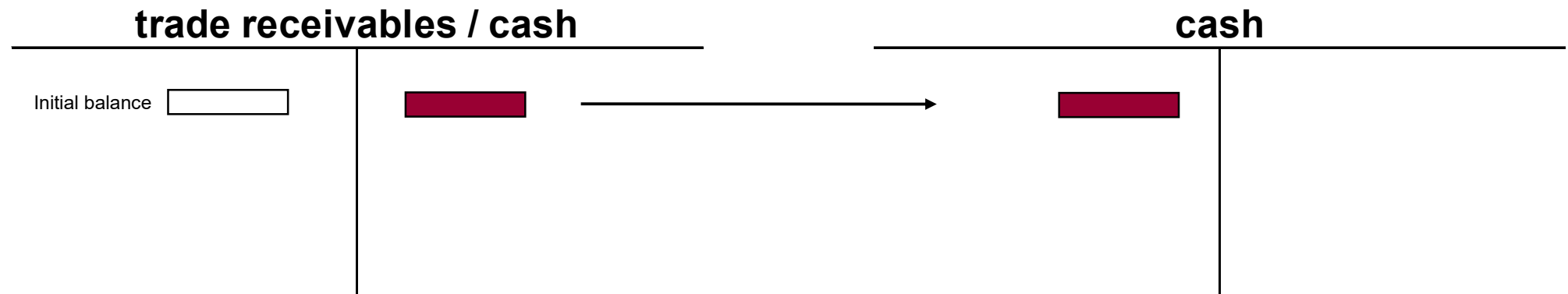
Journal entry for a service sale



asset account
according to invoice accounting method

Income statement
revenue related to the core business

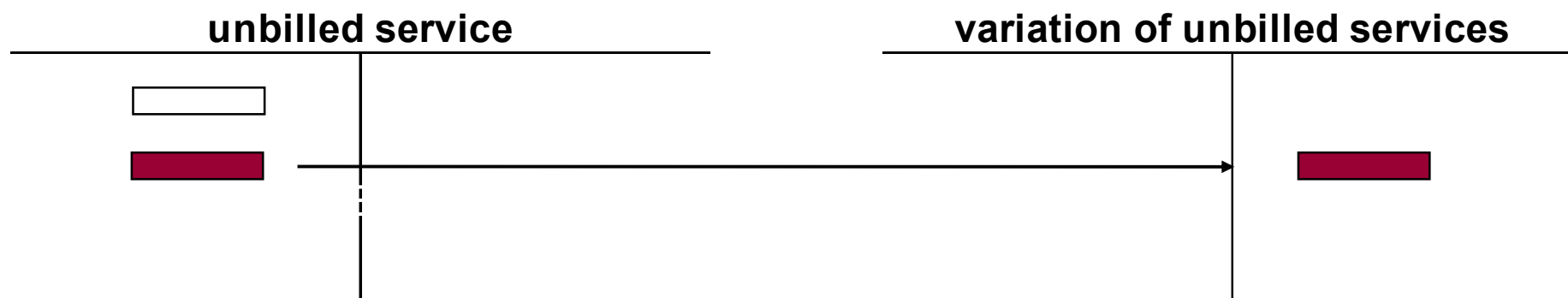
Payment of invoices already booked



Trade receivables account
decrease in value, invoices

cash account
cash inflow

Service company – unbilled service



asset account

classified with stocks
 not as accrued assets
 this account decreases when invoice
 will occur

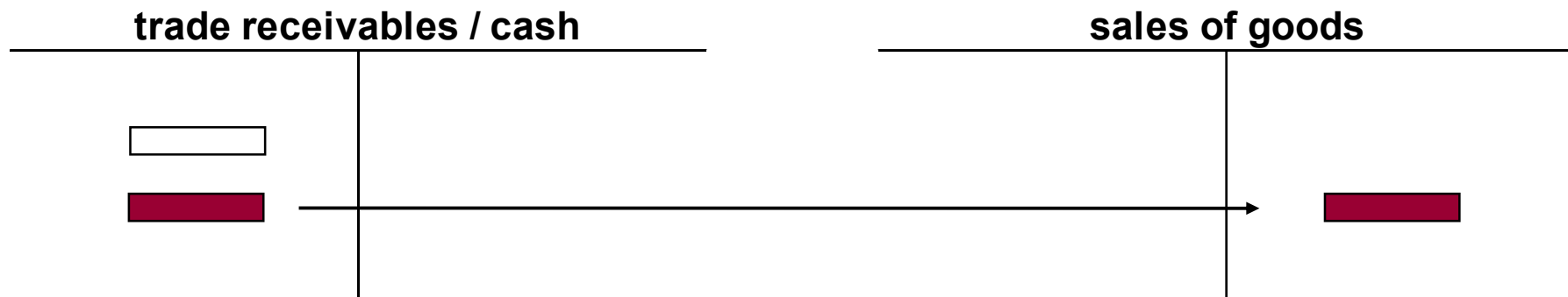
Income statement

revenue related to the activity and
 not yet invoiced
 creating the product at closing

Commercial Enterprise

- "Enterprise" is one of the broadest terms used to describe an organization. In general, an enterprise is an organized collection of people and systems working toward shared goals. Using this definition, nonprofit and small businesses are enterprises. A more specific interpretation of enterprise requires that all departments and employees within the organization have synergistic responsibilities to achieve goals.
- Commerce is the exchange of goods or services for money. So a "commercial enterprise" is an organization that has a profit motive. Commerce is also often viewed as large scale, which means it requires the exchange of substantial amounts of goods, services and money. With this interpretation, mom and pop shops do not count. Transportation and distribution, especially in a product-based business, are common parts of a commercial enterprise.

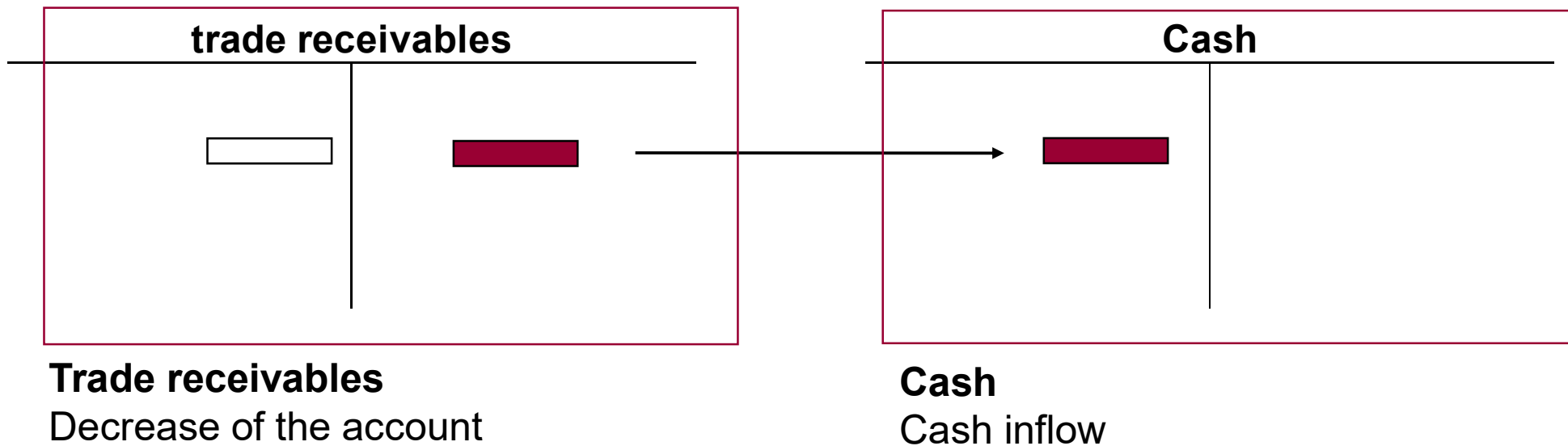
Journal entry for a sale of goods



asset account
 according to invoice accounting
 method

Income statement
 revenue related to the core business

Payment of invoices already booked



Methods of accounting for credit transactions

- Ordinary bookings
- Accounting for open positions



Credit losses / Bad debt

Definitve losses :

- Write off a receivable
- Creating a loss/expense in our income statement

*Done during the
accounting year*

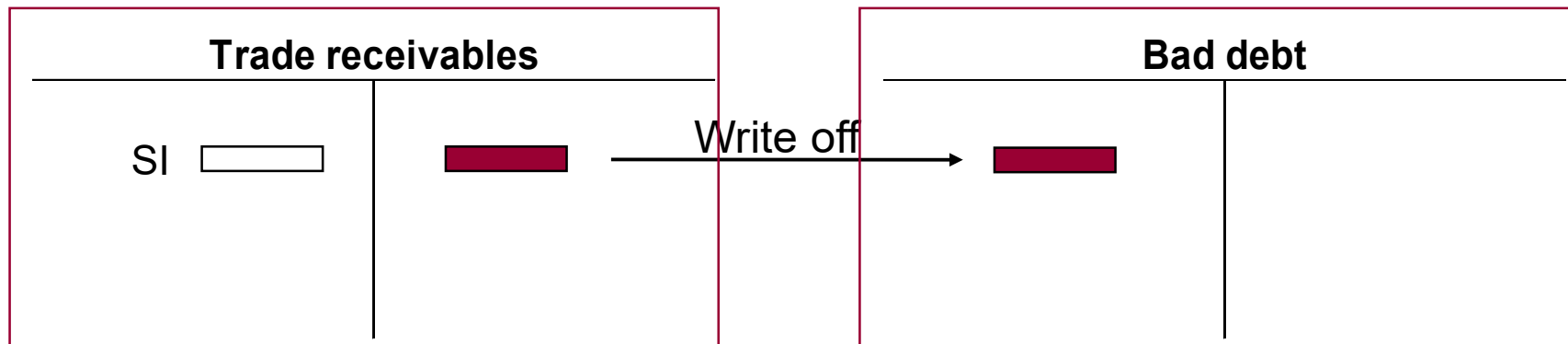
Potential credit losses:

- No direct write off
- Evaluation needed at closing
- Need to manage the allowance for doubtful debt provision account (Balance sheet)

*only done for year end
closing*

Booking of write off / bad debt

No provision booked



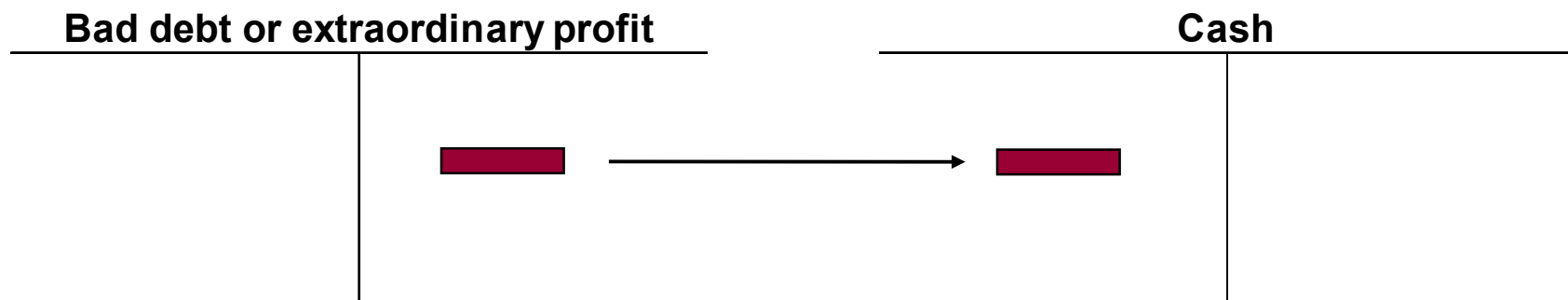
Asset account

Cancellation of the receivable due to insolvent customer

Income statement

We book the loss

Bad debt recovery



- **Bad debt** if the same accounting year
- **Extraordinary profit** if debt was written off in a previous financial year

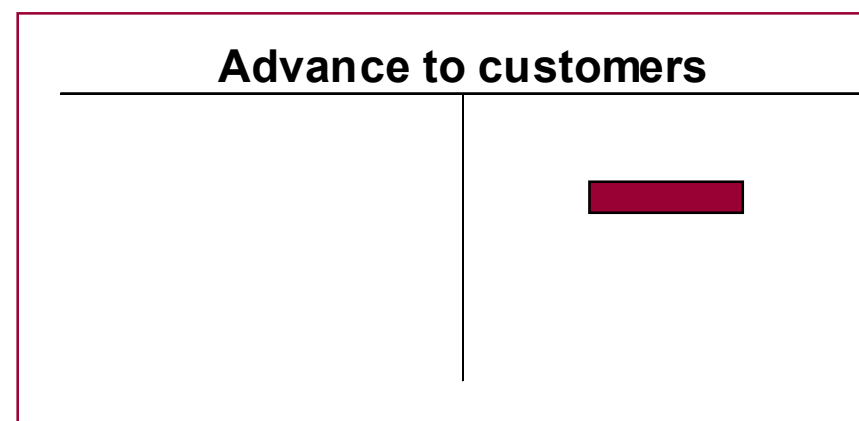
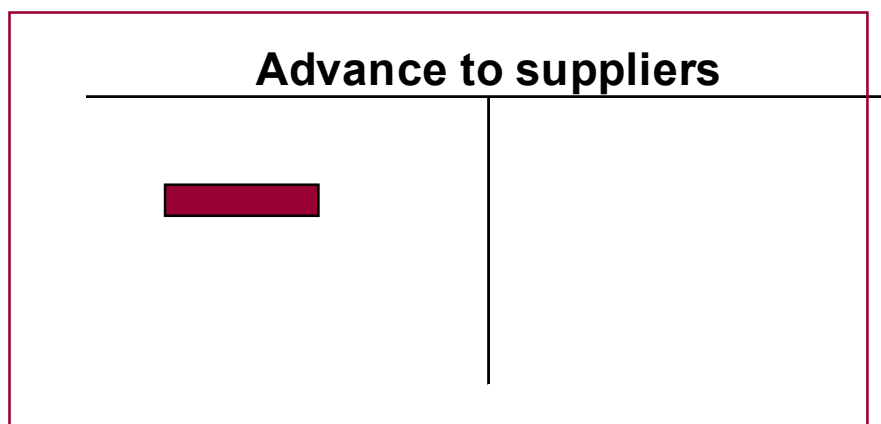
Prepayments / Advance from customers

- In the case of orders with longer delivery times
- Source of partial financing and protection against the risk of order cancellation
- Security reasons vis-à-vis customers with poor creditworthiness



Advance Payments

Two types of account:



asset account

receivable

Other leg is booked in cash account

liability account

short-term debts

Other leg is booked in cash account

Advance payments are subject to VAT

Legal requirements for invoices

Mandatory

- Date
- Company Name
- VAT number
- Customer Name
- Customer address
- Delivery and billing dates
- Description of the product or service
- Prices and VAT rates


Recommended

- Payment terms
- Bank details
- Contact Information
- Invoice number
- Logo
- Sales order number
- QR bill!

QR – invoice

- June 30, 2020
- Replacement of current payment slips

Empfangsschein / Récépissé / Ricevuta	Einzahlung Giro	Versement Virement	Versamento Girata				
Einzahlung für / Versement pour / Versamento per							
<p>Récépissé</p> <p>Compte / Payable à CH44 3199 9123 0008 8901 2 Robert Schneider AG Rue du Lac 1268 2501 Bienne</p> <p>Référence 21 00000 00003 13947 14300 09017</p> <p>Payable par Pia-Maria Rutschmann-Schnyder Grosse Marktgasse 28 9400 Rorschach</p> <table border="0"> <tr> <td>Monnaie</td> <td>Montant</td> </tr> <tr> <td>CHF</td> <td>1 949.75</td> </tr> </table> <p>Point de dépôt</p>	Monnaie	Montant	CHF	1 949.75	<p>Section paiement</p> 	<p>Compte / Payable à CH44 3199 9123 0008 8901 2 Robert Schneider AG Rue du Lac 1268 2501 Bienne</p> <p>Référence 21 00000 00003 13947 14300 09017</p> <p>Informations supplémentaires Ordre du 15 juin 2020 //S1/10/10201409/11/200701/20/140.000-53/30/102673831/31/200615/32/7.7/33/7.7.139.40/40/0:30</p> <p>Payable par Pia-Maria Rutschmann-Schnyder Grosse Marktgasse 28 9400 Rorschach</p>	
Monnaie	Montant						
CHF	1 949.75						
Nom AV1: UV.UltraPay005.12345 Nom AV2: XY.XYService.54321							

Empfangsschein / Récépissé / Ricevuta	Einzahlung Giro	Versement Virement	Versamento Girata				
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<p>Récépissé</p> <p>Compte / Payable à CH58 0079 1123 0008 8901 2 Robert Schneider AG Rue du Lac 1268 2501 Bienne</p> <p>Payable par Pia-Maria Rutschmann-Schnyder Grosse Marktgasse 28 9400 Rorschach</p> <table border="0"> <tr> <td>Monnaie</td> <td>Montant</td> </tr> <tr> <td>CHF</td> <td>1 949.75</td> </tr> </table> <p>Point de dépôt</p>	Monnaie	Montant	CHF	1 949.75	<p>Section paiement</p> 	<p>Compte / Payable à CH58 0079 1123 0008 8901 2 Robert Schneider AG Rue du Lac 1268 2501 Bienne</p> <p>Informations supplémentaires Ordre du 15 juin 2020 //S1/10/10201409/11/200701/20/140.000-53/30/102673831/31/200615/32/7.7/33/7.7.139.40/40/0:30</p> <p>Payable par Pia-Maria Rutschmann-Schnyder Grosse Marktgasse 28 9400 Rorschach</p>	
Monnaie	Montant						
CHF	1 949.75						
Nom AV1: UV.UltraPay005.12345 Nom AV2: XY.XYService.54321							

- Denominated in CHF or foreign currencies
- Simplified payment reconciliation and reduction of manual transactions
- Printing with personal on white paper possible

Commercial Enterprise

- A commercial enterprise is classified in the tertiary sector.
- Its main mission is the sale of goods
- Trade in goods can be traditional or online



Inventory management

Different management systems

- FIFO – First-in-first-out
- LIFO – Last-in-first-out
- Average cost method
- Etc.



Prices

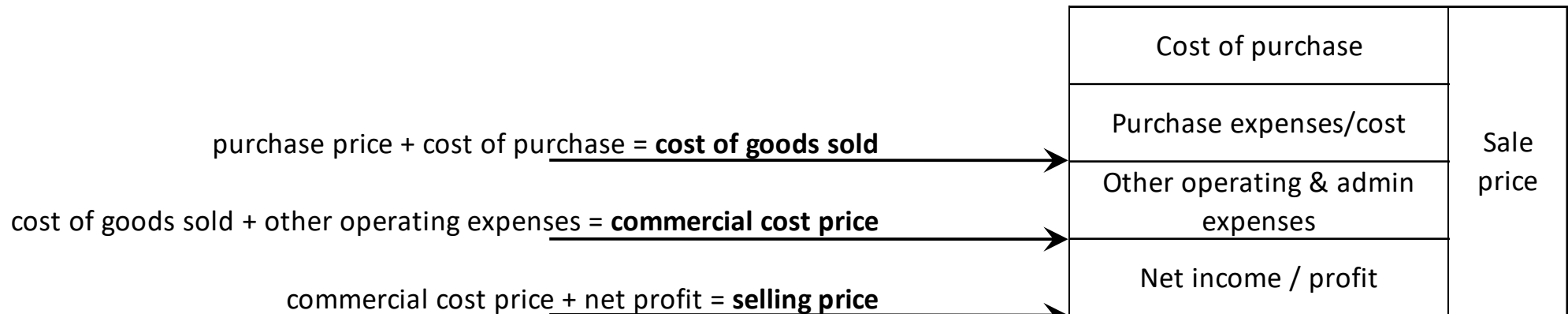
$$\begin{aligned}
 & \text{gross purchase price} \\
 & - \text{price reduction / discounts} \\
 \hline
 & = \text{net purchase price} \\
 & + \text{cost of purchase (shipping, customer, etc)} \\
 \hline
 & = \text{Cost of purchase} \\
 \hline
 \end{aligned}$$

$$\begin{aligned}
 & \text{gross sale price} \\
 & - \text{discount / reduciton} \\
 \hline
 & = \text{net sale price} \\
 \hline
 \end{aligned}$$

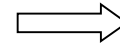
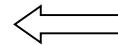
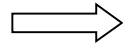
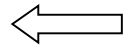
gross = published price

net = cashed or paid

Selling price



Important differentiation

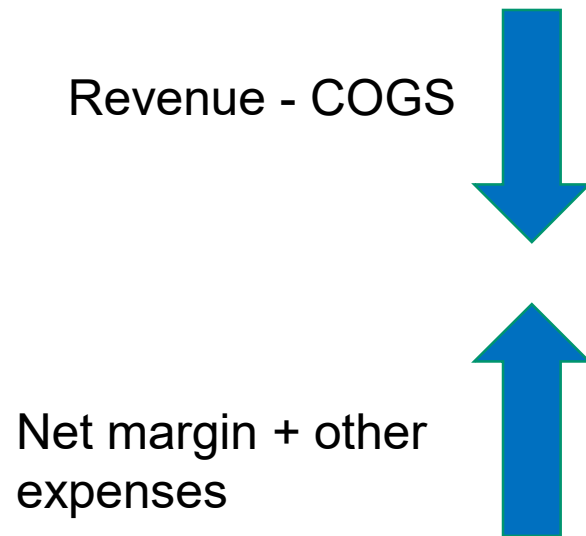


Purchase cost
COGS (cost of goods sold)

1 product
all products

Net selling price
Net revenue

Gross margin or gross profit



Income statement / Profit & Loss (P&L)	
COGS	Net revenue
Gross margin	
<i>Gross margin</i>	
Other expenses	
Net margin	

Gross margin as a percentage

Net revenue	100%
Gross margin	30%
Purchase cost or COGS	70%

Net revenue	210%
Gross margin	110%
Purchase cost or COGS	100%

According to the selling price

Share of gross margin compared to the selling price realized to cover other expenses

According to the purchase price

Share of gross margin added to the purchase price to cover other expenses

Basic accounts

Stock	
Initial inventory	
Increase of stock	decrease of stock
	Final inventory

balance sheet account

Cost of goods	
Purchases	returns to suppliers
purchase costs	discounts on purchases
decrease of stock	increase of stock
	Cost of goods sold or variation

Sales	
returns from customers	sales
discounts on sales	selling expensed charged to customers
Revenue / turnover	

Income statement accounts

Additional accounts

Inventory variation	
Initial inventory	
Decrease of of stock	Increase of stock

Cost of purchase	
shipping cost	
customs cost	
Transport	

Cost of sales	
Selling expenses	

Sales deduction	
All type of discounts given to customers	

Purchase deduction	
	Discounts give by suppliers

**Income statement
account**

There are more accounts depending on methodoly used

At closing

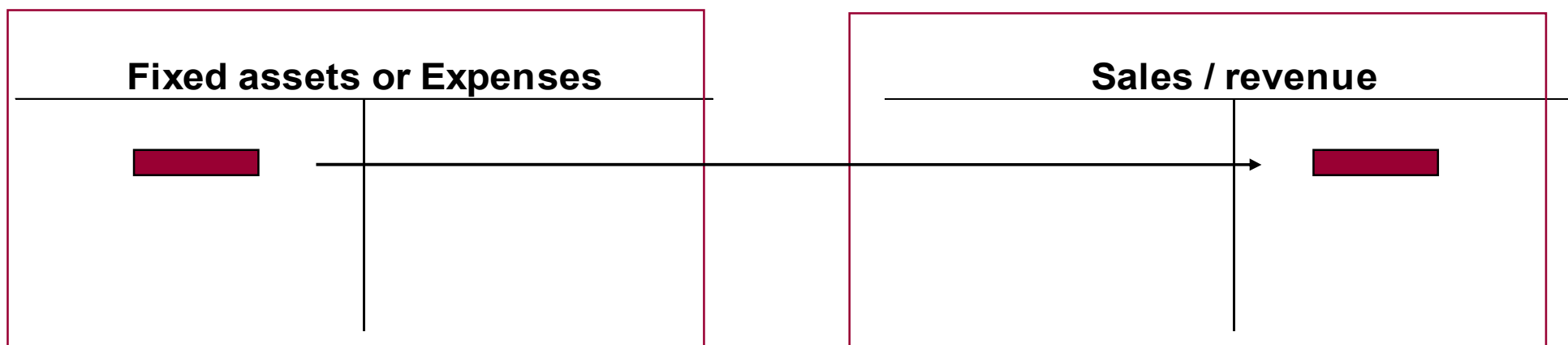
Income statement

Cost of goods sold	Sales / revenue
Cost of purchases	Discounts on purchases
Discount on sales	Inventory variation (increase)
Inventory variation (decrease)	
Selling expenses	
Gross benefit / Gross margin	

Inventory management accounting systems

- Periodic inventory:
 - The periodic inventory system refers to conducting a physical inventory count of goods/products on a scheduled basis. Maintaining physical inventories can be costly because the process eats up time and manpower. Thus, many companies only conduct physical inventory counts periodically. A periodic inventory system is a commonly used alternative to a perpetual inventory system.
- Perpetual inventory:
 - The perpetual inventory system involves tracking and updating inventory records after every transaction of goods received or sold through the use of technology. In perpetual inventory systems, a sale of a stock item increases cost of goods sold (COGS) and also is updated in accounting records to ensure that the number of goods in a store or in storage is accurately reflected in the inventory account.

Special sales – sale by compensation

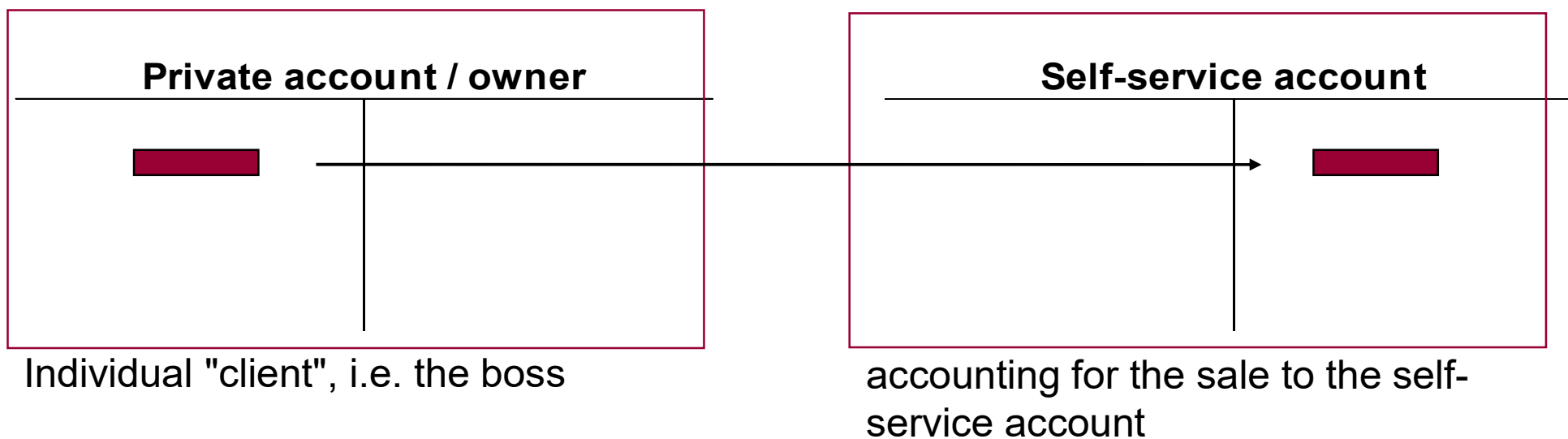


Either in an asset account if it is an investment, or in an expense account if it is a fee

accounting for the sale in the traditional way

transactions subject to VAT

Special sales – sale to the owner (sole proprietorship)



transactions subject to VAT