

Service, Merchandising, Manufacturing, or Something Else Company?

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Service, Merchandising, Manufacturing, or Something Else Company?

- Textbook accounting likes a simple world and it is not.
- So we will look at reality as related to the type of company its – Service, Merchandising, Manufacturing, or Something Else such as a Conglomerate.

Service, Merchandising, Manufacturing, or Something Else Company?

- Service Companies –
 - We see service companies all the time and we know them well.
 - Carpet cleaners, window washers, auto repair garages, towing services, accounting firms, advertising firms, law offices.
 - Their main source of revenue is from doing something for you.

Service, Merchandising, Manufacturing, or Something Else Company?

- A service company may carry inventory for several reasons and how it handles it is up to the company.
- A pool service company may carry pool and cleaning chemicals to service the client's pool.

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- If the chemicals used at a particular pool are minimal, maybe no charge.
- If the chemicals used are due to an unusual situation or above a minimal amount, they may charge for the chemicals above and beyond a normal service call.

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- The service company now has some other options.
- If they “resell” the chemicals for cost, they may not need a resale certificate and most likely will not have to collect sales taxes on the chemicals.

(In the State of California services are not usually taxed.)

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- If the service company marks up the cost, as many do, particularly service companies such as auto repair and appliance repair, they need a resale certificate and need to collect sales taxes.
- A service company would often use “Supplies Inventory” or “Repair Parts Inventory” as accounts.

Service, Merchandising, Manufacturing, or Something Else Company?

- We all know and see merchandising companies all the time.
- Every big box store and just about every store with shelves is a merchandising company.
- Merchandising companies buy the product for one price, usually do not make a significant change in the product, and sell it for a higher price to cover costs.

Service, Merchandising, Manufacturing, or Something Else Company?

- Merchandising companies are in several forms.
 - A wholesaler usually resells in large quantities to other merchandising companies that sell in smaller quantities.
 - Since these sales are not to a final consumer sales taxes are usually not applied.
 - Wholesalers may also have retail customers.

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- Many of us use merchandising retailers with brick and mortar or online sites frequently.
- A merchandising company may use “Merchandise Inventory,” “Inventory,” or “Goods Available for Sale” as inventory accounts.

Service, Merchandising, Manufacturing, or Something Else Company?

- A manufacturer is a company that buys or acquires materials in one state and invests time and money (factory / manufacturing overhead) into that material to make something else.
- While many think a manufacturer must add something to the material, it may be that they take something away – drill a hole in a steel bar to make a bracket.

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- Manufacturers are major purchasers and often purchase “subassemblies” for their product.
- An auto manufacturer generally does not make tires or auto glass, they purchase these items to their specifications from other manufacturers or from wholesalers.

Service, Merchandising, Manufacturing, or Something Else Company?

- Manufacturers have an expanded inventory concept.
- Raw Materials is what they buy to use in production. (RM)
- Work in Process is what is on the workbenches and in the the assembly line between two inventoriable states. (WIP – “Whip”)

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- Finished Goods is what the company has when they are done with their manufacturing process. (FG)
- Textbook accounting does not address “Semi-Finished Goods Inventory.” (SFGI)
- SFGI is those parts that are manufactured and put into the warehouse to be used to make something else.

Service, Merchandising, Manufacturing, or Something Else Company?

- So what is a “Something Else Company?”
 - Many large companies are diversified to provide stability.
 - General Electric owns the NBC broadcasting company, provides electrical power generating equipment, does consulting, and makes turbine engines as well as providing management services.

Service, Merchandising, Manufacturing, or Something Else Company?

- Some companies manufacture their product and distribute directly to the final consumer – manufacturing, wholesaling, and retailing all in one operation.

Service, Merchandising, Manufacturing, or Something Else Company?

- When you look at a restaurant, what is it?
 - Is it a service company because you sit down and get waited on?
 - Is it a retailer because it provides a product and charges sales taxes?
 - Is it a manufacturing company because they take a raw product and prepare it for human consumption?

Service, Merchandising, Manufacturing, or Something Else Company?

- Or is the restaurant, like many companies, a hybrid built for success?
- I vote for a service company. I am more likely supportive of good service and good food over bad service and great food or great service and bad food.

Service, Merchandising, Manufacturing, or Something Else Company?

- A new car dealership is a retailer, wholesaler, and service company.

Service, Merchandising, Manufacturing, or Something Else Company?

- When textbook accounting says XYQ Inc. is a manufacturer, they are doing so to keep the problem simple.
- Real life is not simple.

Service, Merchandising, Manufacturing, or Something Else Company?

The end.