Your First Sale is a Success!

vs 1.7

The weather was a hot sunny day which is perfect for the sale of summer lemonade! You completed your due diligence and timed it just right. Moreover, your dad's driveway was in the middle of the block and up on a hill. That makes customers very thirsty! Smart thinking out of the box on your part.

You have a very successful sale and sell 50 glasses of tasty lemonade at .30 cents per glass for a total Gross Revenues (total sales) of $15.00.

So how do you post that on your balance sheet? And what is your Gross Profit? And let us go a step further.. What was your gross margin?

It begins by us adding the $15.00 gross revenues to our cash in assets which only had $1.00 in that Account. (We had $7.00 then you purchased raw inventory goods from the grocery store for $6.00 (converting some cash to raw inventory) leaving us with just $1.00 in cash). Then you mixed it to create Inventory Finished (ready for sale) After our 1st sale, you post your gross revenues ($15.00) into cash into that journal entry in assets. The result, you have$16.00 posted in cash.

You are out of balance at this point because your asset side has $22.00 in it (16.00 in cash and $6.00 in finished inventory) You must subtract our COGS our cost of goods sold from the finished inventory.

How much was your COGS, your cost of goods sold after selling 50 glasses?

In all my years of teaching this the vast majority of students get this question wrong! And that is because almost everyone answers six bucks which is incorrect! The right answer is on the next page as you scroll.

This is the reason for understanding journal entries and posting records. Basic Accounting skills are essential to keep track of your money and assets as you grow!

The correct answer is that the ***COGS were $5.00*** because ***we sold 50 glasses of lemonade at a unit cost of .10 cents each*** and we still have 10 glasses in inventory. We had created 60 glasses but sold 50 glasses. That leaves ($1.00 at (10 cents each) remaining in inventory finished on our balance sheet. That finished inventory has not been sold (and is subject to spoilage).

Now you must remove $5.00 out of inventory finished in the asset column as this has been sold, (the COGS) leaving you with $17.00 in total assets all located on the left side of the balance sheet. ($16.00 in cash and $1.00 in inventory finished)

You ARE STILL OUT OF BALANCE. What you must do now, is add a journal entry in Equity for
REVENUES TO DATE. Then you must calculate your ***revenues after subtracting the COGS.*** That is $15.00 in gross revenue minus the $5.00 for the COGS equals $10.00 in revenues earned.

Now add that $10.00 to the EQUITY section on your balance sheet called REVENUES TO DATE. So now you have $17.00 on the right side as follows: $5.00 in short term liability (money due to mom) $2.00 in original investment (our original start up money from your allowance and chores invested in our lemonade stand. Therefore, you have $10.00 in Revenues to Date. ($15.00 in gross revenues minus $5.00 in COGS equals $10.00 in revenue.

Thus the left side (ASSETS) has $17.00

And the right side the Liabilities and Equity has $17.00

and You are IN BALANCE!
(Congratulations because you completed the next lesson of double entry accounting)

On the Next page, let's learn about Gross Profit and Gross Profit Margin. Two very important ratios to master!

Your Balance sheet should look like this