

Accounting -- Episode 3
Inventory and Payroll in a Retail Store

	<i>FADE IN ---RADIO SHOW THEME MUSIC</i>
Glenn	Good day everyone. Welcome to Radio Glencoe Podcasting. I'm your host Glenn Coe.
McGraw	And I'm your host, McGraw Hill. Today, on <i>Accounting Away</i> we're <i>on location</i> at a store called Shoe World in Chicago, Illinois. We're talking with Justin Thomas, the manager of this amazingly busy store – where customers line up by the dozens to browse hundreds and hundreds of shoes.
Justin	Good morning everyone. Greetings from Shoe World.
Glenn	Gosh, look at all these shoes. You've got men's, women's, children's, athletic shoes, shoe products, shoe horns, shoe everything. I can see that your company doesn't <i>loaf</i> around when it comes to selling shoes.
McGraw	Justin, we're here to talk to you about the inventory process in retail stores. How does a big store like this keep track of all its inventory? Do the salespeople literally have to count shoe boxes in the stock room every week?
Justin	No, not at all. Managing our inventory has become much easier because it's almost 100% computerized these days.
Glenn	Tell us how that works.
Justin	The process begins with the sophisticated point-of-sale terminals we have at our check-out counters.
McGraw	You mean these cash registers?
Justin	They look like cash registers, but they're much smarter. You see, they're actually tied in to our company's centralized computer system where we keep all our inventory records.
Glenn	When you say tied in, you mean over the phone lines, right?
Justin	That's right. All of our company stores are networked together. Every time a sale is made in any store, the sales clerk simply scans the bar code off the box and, bam, the inventory records are updated right there on the spot!
McGraw	That sounds awfully sophisticated for a shoe store.
Justin	But it's critical for retailers to have this type of system, you know. In our case, we have so many shoes in stock that we need up-to-the-minute information about what's selling in each store.
McGraw	And what do you do with that information?
Justin	Whenever the quantity of a particular shoe goes below a certain level, our inventory system sends an email to our buyers so they can call the manufacturer and order more stock. This helps us avoid running out of popular styles and overstocking styles that aren't selling.
Glenn	What's this type of inventory system called?
Justin	Accountants call it a <i>perpetual</i> inventory system, because it's updated continually. The system knows what's on hand at any point in time.
Glenn	Do all big retail stores use a perpetual inventory system?
Justin	I'm sure all the large chains of department and specialty stores use it, because it's the only way to handle this volume of merchandise. But small stores with a limited amount of inventory may use what's called the <i>periodic</i> inventory system.
McGraw	And how does that system work?

Justin	In a periodic system, the inventory on hand is <i>physically counted</i> once in a while to update the inventory records.
Glenn	So your company doesn't do any physical count ever?
Justin	Well, we actually <i>have</i> to do a physical count once a year. You see, even though our computer keeps track of purchases and sales of merchandise, we have shoes that disappear or can't be sold.
McGraw	How could shoes disappear? Do they walk away?
Justin	It's funny, but we really do lose some shoes in the stockroom -- and also there's a small amount of theft. But it's mostly shoes that get damaged when people try them on and we can't sell them. So at some point in the year, we have to count our inventory of <i>saleable</i> product and manually synchronize it with the computer inventory.
McGraw	Gee, counting all those boxes must be pretty time consuming, huh?
Justin	Not anymore. We use handheld scanners that read the box labels, and we can go zip, zip, zip through all the shelves in a couple of hours. Then, within minutes, our computer sends a report to our accounting department and they do an adjustment to inventory.
Glenn	It's amazing how much computers have changed the world of retailing and inventory record keeping.
Emily	Excuse me, I'm Emily. Sorry to interrupt your interview. I just wanted to give Justin his payroll check, which I'm sure he's happy about.
Justin	Thanks, Emily! Just what my bank account needed -- my paycheck!
McGraw	Emily, you must be popular today -- handing out the payroll!
Emily	I'm usually pretty popular, though once in a while we make a mistake and then the person is not very happy. Like last week, we made a mistake on Justin's check.
Justin	They sure did -- and I hope it's straightened out in this check, Emily.
Emily	It's all fixed -- and this week's check contains the missing amount.
McGraw	Would you mind if we asked what happened?
Justin	Just a small mistake. My paycheck is made up of my regular salary plus commissions I earn on the sales I make. Well, somehow, the computer forgot to add in my commissions....
Emily	And of course, that means his net pay was not what he was expecting!
McGraw	What do you mean by his <i>net</i> pay?
Emily	Net pay is the amount left after all the deductions are taken from an employee's gross earnings.
Justin	And there sure are a lot of deductions, like federal income tax, state income tax, health insurance, social security tax, and Medicare tax. All those deductions eat up a lot of your paycheck.
Emily	People forget that just because they work 20 hours at, say, \$10 per hour, it doesn't mean they will take home the entire \$200.
McGraw	Emily, let me ask; since your company has so many employees, how do you keep track of how many hours everyone works?
Emily	We use electronic badge readers. When Justin arrives in the morning, for example, he swipes his ID badge, and it logs his arrival time and employee number into the computer. When he leaves for lunch or at night, he swipes his ID badge again. Then I use those logs to prepare the payroll register and the paychecks.
Glenn	What is the payroll register?
Emily	Every two weeks when I prepare payroll, I generate a list of names, ID numbers, hours worked, hourly rate, gross earnings, deductions, and net pay. It's the record of what everyone got paid for a pay period.

McGraw	That's a lot of recordkeeping.
Emily	That's only half of it. I also have to keep records of the payroll taxes owed by the company.
McGraw	So you're keeping track of both employee <i>AND</i> employer payroll taxes?
Emily	Right. The employer has to pay social security, Medicare, and state and federal unemployment taxes. These computations are computerized too, based on percentages and certain limits set by the government for each tax.
McGraw	When does your company pay all that money to the government?
Emily	We have a very large payroll, so every two weeks I prepare Form 8109, which is the Federal Tax Deposit Coupon, and pay the income taxes and FICA taxes withheld from employee checks along with the company's portion of taxes for social security and Medicare.
McGraw	I imagine that there are lots of forms you have to file for all these taxes, right?
Emily	I'll say! Every quarter there's Form 941 to report income tax, social security, and Medicare taxes. At the end of the year, there's Form 940 for federal unemployment taxes, Form W-2 to summarize each employee's earnings, and Form W-3 which summarizes all the Forms W-2...I could go on and on, but I've got to go hand out more paychecks!
McGraw	And that's our time for today too. Thanks to both Justin and Emily for taking time to talk with us. This is McGraw Hill saying goodbye for now and happy accounting everyone.
Glenn	And this is Glenn Coe signing off. Thanks for joining us on Accounting Away! Hey Justin, let me see that pair of black loafers over there....