**Problem 5-6:**

Himalaya Company is a whole sale dealer of a special brand of bicycles. The company estimated that the cost of bicycles they keep for sale is $80 each. The sale of bicycles to all customers is on terms 2/10, n/30, and FOB shipping point. On September10, 20XX, Himalaya Company sold 200 bicycles to Everest Company at $100 each, the appropriate party paid $1,500 for freight charges.

On September 12, 20XX, Everest Company returned 10 bicycles to Himalaya Company as they were badly damaged during transit.

On September 18, Himalaya Company collected cash from Everest Company on its accounts receivable balance.

Himalaya

**Instructions:**

1. Record journal entries on the above transactions in the books of Himalaya Company assuming that the company follows **perpetual inventory system** to record its merchandise transactions.
2. Assuming that Everest Company follows **periodic inventory system**, record the journal entries on its transactions with Himalaya Company.
3. Journal entries for **Himalaya Company** (seller) - **perpetual inventory system**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account title** | **Debit** | **Credit** |
| Sept 10 | Accounts Receivable – Everest Co | 20,000 |  |
|  | Sales Revenue (200 x 100) |  | 20,000 |
|  |  |  |  |
|  | Cost of Goods Sold ($80 x 200) | 16,000 |  |
|  | Inventory |  | 16,000 |
|  |  |  |  |
| Sept 12 | Sales Returns and Allowances (10 x $100) | 1,000 |  |
|  | Accounts Receivable-Everest |  | 1,000 |
|  |  |  |  |
|  | Inventory | 800 |  |
|  | Cost of Goods Sold (10 x $80) |  | 800 |
|  |  |  |  |
| Sept 18 | Cash | 18,620 |  |
|  | Sales Discount (19,000 x 2%) | 380 |  |
|  | Accounts Receivable-Everest |  | 19,000 |

1. Journal entries for Everest Company (buyer) - **periodic inventory system**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account title** | **Debit** | **Credit** |
| Sept 10 | Purchase (200 x $100) | 20,000 |  |
|  | Accounts Payable -Himalaya |  | 20,000 |
|  |  |  |  |
| Sept 10 | Freight – in | 1,500 |  |
|  | Cash |  | 1,500 |
|  |  |  |  |
| Sept 12 | Accounts Payable – Himalaya (10 x $100) | 1,000 |  |
|  | Purchase Returns and Allowances |  | 1,000 |
|  |  |  |  |
| Sept 18 | Accounts Payable – Himalaya | 19,000 |  |
|  | Purchase Discount (2% of 19,000) |  | 380 |
|  | Cash |  | 18,620 |