CHAPTER 5

Accounting for Merchandising Operations

ASSIGNMENT CLASSIFICATION TABLE

	Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1.	Identify the differences between service and merchandising companies.	2, 3, 4	1		1		
2.	Explain the recording of purchases under a perpetual inventory system.	5, 6, 7, 8	2, 4	1	2, 3, 4, 11	1A, 2A, 4A	1B, 2B, 4B
3.	Explain the recording of sales revenues under a perpetual inventory system.	9, 10, 11	2, 3	2	3, 4, 5, 11	1A, 2A, 4A	1B, 2B, 4B
4.	Explain the steps in the accounting cycle for a merchandising company.	1, 12, 13, 14	5, 6	3	6, 7, 8	3A, 4A, 5A	3B, 4B
5.	Distinguish between a multiple-step and a single-step income statement.	15, 16, 17, 18, 19, 20	7, 8, 9	4	6, 9, 10, 12, 13, 14	2A, 3A, 5A 6A, 7A	2B, 3B 5B, 6B
*6.	Prepare a worksheet for a merchandising company	21	10		15, 16	5A	
*7.	Explain the recording of purchases and sales of inventory under a periodic inventory system.	22, 23	11, 12, 13, 14, 15		17, 18, 19, 20, 21, 22	6A, 7A, 8A	5B, 6B, 7B

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendices to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize purchase and sales transactions under a perpetual inventory system.	Simple	20–30
2A	Journalize, post, and prepare a partial income statement.	Simple	30–40
3A	Prepare financial statements and adjusting and closing entries.	Moderate	40–50
4A	Journalize, post, and prepare a trial balance.	Simple	30–40
*5A	Complete accounting cycle beginning with a worksheet.	Moderate	50–60
*6A	Determine cost of goods sold and gross profit under periodic approach.	Moderate	40–50
*7A	Calculate missing amounts and assess profitability.	Moderate	20–30
*8A	Journalize, post, and prepare trial balance and partial income statement using periodic approach.	Simple	30–40
1B	Journalize purchase and sales transactions under a perpetual inventory system.	Simple	20–30
2B	Journalize, post, and prepare a partial income statement.	Simple	30–40
3B	Prepare financial statements and adjusting and closing entries.	Moderate	40–50
4B	Journalize, post, and prepare a trial balance.	Simple	30–40
*5B	Determine cost of goods sold and gross profit under periodic approach.	Moderate	40–50
*6B	Calculate missing amounts and assess profitability.	Moderate	20–30
*7B	Journalize, post, and prepare trial balance and partial income statement using periodic approach.	Simple	30–40

WEYGANDT ACCOUNTING PRINCIPLES 11E
CHAPTER 5
ACCOUNTING FOR MERCHANDISING OPERATIONS

Number	LO	BT	Difficulty	Time (min.)
BE1	1	AP	Simple	4–6
BE2	2, 3	AP	Simple	2–4
BE3	3	AP	Simple	6–8
BE4	2	AP	Simple	6–8
BE5	4	AP	Simple	1–2
BE6	4	AP	Simple	2–4
BE7	5	AP	Simple	2–4
BE8	5	C	Simple	4–6
BE9	5	AP	Simple	4–6
BE10	6	K	Simple	2–4
BE11	7	AP	Simple	4–6
BE12	7	AP	Simple	4–6
BE13	7	AP	Simple	3–5
BE14	7	AP	Simple	6–8
BE15	7	AP	Simple	4–6
DI1	2	AP	Simple	2–4
DI2	3	AP	Simple	4–6
DI3	4	AP	Simple	4–6
DI4	5	AP	Simple	10–12
EX1	1	C	Simple	3–5
EX2	2	AP	Simple	8–10
EX3	2, 3	AP	Simple	8–10
EX4	2, 3	AP	Simple	8–10
EX5	3	AP	Simple	8–10
EX6	4, 5	AP	Simple	6–8
EX7	4	AP	Simple	6–8
EX8	4	AP	Simple	8–10
EX9	5	AP	Simple	8–10
EX10	5	AP	Simple	8–10
EX11	2, 3	AN	Moderate	6–8
EX12	5	AP	Simple	8–10
EX13	5	AN	Simple	6–8

ACCOUNTING FOR MERCHANDISING OPERATIONS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX14	5	AN	Moderate	8–10
EX15	6	AP	Simple	2–4
EX16	6	AP	Simple	8–10
EX17	7	AP	Simple	6–8
EX18	7	AP	Simple	8–10
EX19	7	AN	Moderate	10–12
EX20	7	AP	Simple	8–10
EX21	7	AP	Simple	8–10
EX22	7	AP	Simple	6–8
P1A	2, 3	AP	Simple	20–30
P2A	2, 3, 5	AP	Simple	30–40
P3A	4, 5	AN	Moderate	40–50
P4A	2–4	AP	Simple	30–40
P5A	4–6	AP	Moderate	50–60
P6A	5, 7	AP	Moderate	40–50
P7A	5, 7	AN	Moderate	20–30
P8A	7	AP	Simple	30–40
P1B	2, 3	AP	Simple	20–30
P2B	2, 3, 5	AP	Simple	30–40
P3B	4, 5	AN	Moderate	40–50
P4B	2–4	AP	Simple	30–40
P5B	5, 7	AP	Moderate	40–50
P6B	5, 7	AN	Moderate	20–30
P7B	7	AP	Simple	30–40
BYP1	5	AN, E	Simple	10–15
BYP2	5	AN, E	Simple	15–20
BYP3	5	AN, E	Simple	15–20
BYP4	—	AP	Simple	10–15
BYP5	5	AN, S, E	Moderate	20–30
BYP6	3	C	Simple	10–15
BYP7	2	E	Simple	10–15
BYP8	—	E	Simple	5–10
BYP9	—	AP	Moderate	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Identify the differences between service and merchandising companies.	Q5-2	Q5-3 Q5-4 E5-1	BE5-1			
2. Explain the recording of purchases under a perpetual inventory system.	Q5-5	Q5-6 Q5-7	Q5-8 BE5-2 BE5-4 DI5-1 E5-2 E5-3 E5-4 P5-1A P5-2A P5-1B P5-2B P5-4A P5-4B	E5-11		
3. Explain the recording of sales revenues under a perpetual inventory system.	Q5-10		Q5-11 BE5-2 BE5-3 DI5-2 E5-3 E5-4 E5-5 P5-1A P5-2A P5-4A P5-1B P5-2B P5-4B	Q5-9 E5-11		
4. Explain the steps in the accounting cycle for a merchandising company.		Q5-1 Q5-12 Q5-14	Q5-13 BE5-5 BE5-6 DI5-3 E5-6 E5-7 E5-8 P5-4A P5-5A P5-4B	P5-3A P5-3B		
5. Distinguish between a multiple-step and a single-step income statement.	Q5-18	Q5-19 BE5-8 Q5-17	BE5-7 BE5-9 BE5-11 DI5-4 E5-6 E5-9 E5-10 E5-12 P5-2A P5-5A P5-6A P5-7A P5-5B P5-6B Q5-15 Q5-16 Q5-20	E5-13 E5-14 P5-3A P5-3B		
*6. Prepare a worksheet for a merchandising company.	Q5-21 BE5-10		E5-15 E5-16 P5-5A			
*7. Explain the recording of purchases and sales under a periodic inventory system.	Q5-22		Q5-23 BE5-11 BE5-12 BE5-13 BE5-14 BE5-15 E5-19 E5-20 E5-21 E5-22 P5-6A P5-8A P5-5B P5-7B	E5-18 P5-7A P5-6B		
Broadening Your Perspective		Communication	Real-World Focus FASB Codification	Financial Reporting Comparative Analysis Decision Making Across the Organization	Decision Making Across the Organization	All About You Comparative Analysis Financial Reporting Decision Making Across the Organization Ethics Case

ANSWERS TO QUESTIONS

1. (a) Disagree. The steps in the accounting cycle are the same for both a merchandising company and a service company.
(b) The measurement of income is conceptually the same. In both types of companies, net income (or loss) results from the matching of expenses with revenues.

2. The normal operating cycle for a merchandising company is likely to be longer than in a service company because inventory must first be purchased and sold, and then the receivables must be collected.

3. (a) The components of revenues and expenses differ as follows:

	Merchandising	Service
Revenues	Sales Revenue	Fees, Rents, etc.
Expenses	Cost of Goods Sold and Operating	Operating (only)

(b) The income measurement process is as follows:

Sales Revenue	Less	Cost of Goods Sold	Equals	Gross Profit	Less	Operating Expenses	Equals	Net Income

4. Income measurement for a merchandising company differs from a service company as follows: (a) sales are the primary source of revenue and (b) expenses are divided into two main categories: cost of goods sold and operating expenses.

5. In a perpetual inventory system, cost of goods sold is determined each time a sale occurs.

6. The letters FOB mean Free on Board. FOB shipping point means that goods are placed free on board the carrier by the seller. The buyer then pays the freight and debits Inventory. FOB destination means that the goods are placed free on board to the buyer's place of business. Thus, the seller pays the freight and debits Freight-out.

7. Credit terms of 2/10, n/30 mean that a 2% cash discount may be taken if payment is made within 10 days of the invoice date; otherwise, the invoice price, less any returns, is due 30 days from the invoice date.

8.

July 24	Accounts Payable ($2,000 – $200)...	1,800	
	Inventory ($1,800 X 2%)		36
	Cash ($1,800 – $36)		1,764

9. Agree. In accordance with the revenue recognition principle, sales revenues are generally considered to be recognized when the goods are transferred from the seller to the buyer; that is, when the exchange transaction occurs. The recognition of revenue is not dependent on the collection of credit sales.

10. (a) The primary source documents are: (1) cash sales—cash register tapes and (2) credit sales—sales invoice.

(b) The entries are:

		Debit	Credit
Cash sales—	Cash	XX	
	Sales Revenue		XX
	Cost of Goods Sold	XX	
	Inventory		XX
Credit sales—	Accounts Receivable	XX	
	Sales Revenue		XX
	Cost of Goods Sold	XX	
	Inventory		XX

11.

July 19	Cash ($800 – $16)	784	
	Sales Discounts ($800 X 2%)	16	
	Accounts Receivable ($900 – $100)		800

12. The perpetual inventory records for merchandise inventory may be incorrect due to a variety of causes such as recording errors, theft, or waste.

13. Two closing entries are required:

(1)	Sales Revenue	200,000	
	Income Summary		200,000
(2)	Income Summary	145,000	
	Cost of Goods Sold		145,000

14. Of the merchandising accounts, only Inventory will appear in the post-closing trial balance.

15.

Sales revenues	$105,000
Cost of goods sold	70,000
Gross profit	$ 35,000

Gross profit rate: $35,000 ÷ $105,000 = 33.3%

16.

Gross profit	$370,000
Less: Net income	240,000
Operating expenses	$130,000

17. There are three distinguishing features in the income statement of a merchandising company: (1) a sales revenues section, (2) a cost of goods sold section, and (3) gross profit.

18. (a) The operating activities part of the income statement has three sections: sales revenues, cost of goods sold, and operating expenses.

(b) The nonoperating activities part consists of two sections: other revenues and gains, and other expenses and losses.

19. The single-step income statement differs from the multiple-step income statement in that: (1) all data are classified into two categories: revenues and expenses, and (2) only one step, subtracting total expenses from total revenues, is required in determining net income (or net loss).

20. Apple's gross profit rate for 2011 was 40.5% [($108,249 – $64,431) ÷ $108,249]. Its gross profit rate in 2010 was 39.4% [($65,225 – $39,541) ÷ $65,225] so the rate increased from 2010 to 2011.

***21.** The columns are:
(a) Inventory—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Balance Sheet (Dr.).
(b) Cost of Goods Sold—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Income Statement (Dr.).

***22.**

Accounts	Added/Deducted
Purchase Returns and Allowances	Deducted
Purchase Discounts	Deducted
Freight-in	Added

***23.**

July 24	Accounts Payable ($3,000 – $200)	2,800	
	Purchase Discounts ($2,800 X 2%)		56
	Cash ($2,800 – $56)		2,744

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 5-1

(a) Cost of goods sold = $45,000 ($75,000 – $30,000).
Operating expenses = $19,200 ($30,000 – $10,800).

(b) Gross profit = $38,000 ($108,000 – $70,000).
Operating expenses = $8,500 ($38,000 – $29,500).

(c) Sales Revenue = $163,500 ($83,900 + $79,600).
Net income = $40,100 ($79,600 – $39,500).

BRIEF EXERCISE 5-2

Radomir Company

Inventory	780	
Accounts Payable		780

Lemke Company

Accounts Receivable	780	
Sales Revenue		780
Cost of Goods Sold	470	
Inventory		470

BRIEF EXERCISE 5-3

(a)	Accounts Receivable	900,000	
	Sales Revenue		900,000
	Cost of Goods Sold	620,000	
	Inventory		620,000
(b)	Sales Returns and Allowances	90,000	
	Accounts Receivable		90,000
	Inventory	62,000	
	Cost of Goods Sold		62,000

BRIEF EXERCISE 5-3 (Continued)

(c)	Cash ($810,000 – $16,200)	793,800	
	Sales Discounts ($810,000 X 2%)	16,200	
	Accounts Receivable ($900,000 – $90,000)		810,000

BRIEF EXERCISE 5-4

(a)	Inventory	900,000	
	Accounts Payable		900,000
(b)	Accounts Payable	90,000	
	Inventory		90,000
(c)	Accounts Payable ($900,000 – $90,000)	810,000	
	Inventory ($810,000 X 2%)		16,200
	Cash ($810,000 – $16,200)		793,800

BRIEF EXERCISE 5-5

Cost of Goods Sold	2,300	
Inventory		2,300

BRIEF EXERCISE 5-6

Sales Revenue	195,000	
Income Summary		195,000
Income Summary	119,000	
Cost of Goods Sold		117,000
Sales Discounts		2,000

BRIEF EXERCISE 5-7

ARNDT COMPANY
Income Statement (Partial)
For the Month Ended October 31, 2014

Sales revenues		
Sales revenue ($280,000 + $100,000)		$380,000
Less: Sales returns and allowances	$11,000	
Sales discounts	5,000	16,000
Net sales		$364,000

BRIEF EXERCISE 5-8

As the name suggests, numerous steps are required in determining net income in a multiple-step income statement. In contrast, only one step is required to compute net income in a single-step income statement. A multiple-step statement has five sections whereas a single-step statement has only two sections. The multiple-step statement provides more detail than a single-step statement, but net income is the same under both statements.

Some of the differences in presentation can be seen from the comparative information presented below.

(1) Multiple-Step Income Statement

	Item	Section
a.	Gain on sale of equipment	Other revenues and gains
b.	Interest expense	Other expenses and losses
c.	Casualty loss from vandalism	Other expenses and losses
d.	Cost of goods sold	Cost of goods sold

(2) Single-Step Income Statement

	Item	Section
a.	Gain on sale of equipment	Revenues
b.	Interest expense	Expenses
c.	Casualty loss from vandalism	Expenses
d.	Cost of goods sold	Expenses

BRIEF EXERCISE 5-9

(a) Net sales = $510,000 – $15,000 = $495,000.

(b) Gross profit = $495,000 – $330,000 = $165,000.

(c) Income from operations = $165,000 – $110,000 = $55,000.

(d) Gross profit rate = $165,000 ÷ $495,000 = 33.3%.

***BRIEF EXERCISE 5-10**

(a) Cash: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.

(b) Inventory: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.

(c) Sales revenue: Trial balance credit column; Adjusted trial balance credit column, Income statement credit column.

(d) Cost of goods sold: Trial balance debit column, Adjusted trial balance debit column, Income statement debit column.

***BRIEF EXERCISE 5-11**

Purchases		$450,000
Less: Purchase returns and allowances	$13,000	
Purchase discounts	8,000	21,000
Net purchases		$429,000

Net purchases	$429,000
Add: Freight-in	16,000
Cost of goods purchased	$445,000

***BRIEF EXERCISE 5-12**

Net sales		$730,000
Beginning inventory	$ 60,000	
Add: Cost of goods purchased*	445,000	
Cost of goods available for sale	505,000	
Ending inventory	90,000	
Cost of goods sold		415,000
Gross profit		$315,000

*Information taken from Brief Exercise 5-11.

***BRIEF EXERCISE 5-13**

(a)	Purchases	900,000	
	Accounts Payable		900,000
(b)	Accounts Payable	130,000	
	Purchase Returns and Allowances		130,000
(c)	Accounts Payable ($900,000 – $130,000)	770,000	
	Purchase Discounts ($770,000 X 2%)		15,400
	Cash ($770,000 – $15,400)		754,600

***BRIEF EXERCISE 5-14**

Inventory (ending)	30,000	
Sales Revenue	180,000	
Purchase Returns and Allowances	30,000	
Income Summary		240,000
Income Summary	162,000	
Purchases		120,000
Sales Discounts		2,000
Inventory (beginning)		40,000

*BRIEF EXERCISE 5-15

(a) **Cash: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.**

(b) **Beginning inventory: Trial balance debit column; Adjusted trial balance debit column; Income statement debit column.**

(c) **Accounts payable: Trial balance credit column; Adjusted trial balance credit column; Balance sheet credit column.**

(d) **Ending inventory: Income statement credit column; Balance sheet debit column.**

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 5-1

Oct. 5	Inventory	5,000	
	Accounts Payable		5,000
	(To record goods purchased on account)		
Oct. 8	Accounts Payable	650	
	Inventory		650
	(To record return of defective goods)		

DO IT! 5-2

Oct. 5	Accounts Receivable	5,000	
	Sales Revenue		5,000
	(To record credit sales)		
	Cost of Goods Sold	3,100	
	Inventory		3,100
	(To record cost of goods sold on account)		
Oct. 8	Sales Returns and Allowances	650	
	Accounts Receivable		650
	(To record credit granted for receipt of returned goods)		
	Inventory	100	
	Cost of Goods Sold		100
	(To record fair value of goods returned)		

DO IT! 5-3

Dec. 31	Sales Revenue	156,000	
	Interest Revenue	5,000	
	Income Summary		161,000
	(To close accounts with credit balances)		
	Income Summary	127,800	
	Cost of Goods Sold		92,400
	Sales Returns and Allowances		4,000
	Sales Discounts		3,000
	Freight-Out		1,500
	Utilities Expense		7,400
	Salaries and Wages Expense		19,500
	(To close accounts with debit balances)		

DO IT! 5-4

Account	Financial Statement	Classification
Accounts Payable	Balance sheet	Current liabilities
Accounts Receivable	Balance sheet	Current assets
Accumulated Depreciation—Buildings	Balance sheet	Property, plant, and equipment
Cash	Balance sheet	Current assets
Casualty Loss from Vandalism	Income statement	Other expenses and losses
Cost of Goods Sold	Income statement	Cost of goods sold
Depreciation Expense	Income statement	Operating expenses
Equipment	Balance sheet	Property, plant, and equipment
Freight-Out	Income statement	Operating expenses
Insurance Expense	Income statement	Operating expenses
Interest Payable	Balance sheet	Current liabilities
Inventory	Balance sheet	Current assets
Land	Balance sheet	Property, plant, and equipment
Notes Payable (due in 5 years)	Balance sheet	Long-term liabilities
Owner's Capital	Owner's equity statement	Beginning balance
Owner's Drawings	Owner's equity statement	Deduction section
Property Taxes Payable	Balance sheet	Current liabilities
Salaries and Wages Expense	Income statement	Operating expenses
Salaries and Wages Payable	Balance sheet	Current liabilities
Sales Returns and Allowances	Income statement	Sales revenues
Sales Revenue	Income statement	Sales revenues
Unearned Rent Revenue	Balance sheet	Current liability
Utilities Expense	Income statement	Operating expenses

SOLUTIONS TO EXERCISES

EXERCISE 5-1

1. True.
2. False. For a merchandiser, sales less *cost of goods sold* is called gross profit.
3. True.
4. True.
5. False. The operating cycle of a merchandiser *differs* from that of a service company. The operating cycle of a merchandiser is ordinarily longer.
6. False. In a *periodic* inventory system, no detailed inventory records of goods on hand are maintained.
7. True.
8. False. A perpetual inventory system provides better control over inventories than a periodic system.

EXERCISE 5-2

(a)	(1)	April 5	Inventory	23,000	
			Accounts Payable		23,000
	(2)	April 6	Inventory	900	
			Cash		900
	(3)	April 7	Equipment	26,000	
			Accounts Payable		26,000
	(4)	April 8	Accounts Payable	3,000	
			Inventory		3,000
	(5)	April 15	Accounts Payable ($23,000 – $3,000)	20,000	
			Inventory [($23,000 – $3,000) X 2%]		400
			Cash ($20,000 – $400)		19,600
(b)		May 4	Accounts Payable	20,000	
			Cash		20,000

EXERCISE 5-3

Sept. 6	Inventory (80 X $20)	1,600	
	Cash		1,600
9	Inventory	80	
	Cash		80
10	Accounts Payable	63	
	Inventory		63
12	Accounts Receivable (26 X $31)	806	
	Sales Revenue		806
	Cost of Goods Sold (26 X $21)	546	
	Inventory		546
14	Sales Returns and Allowances	31	
	Accounts Receivable		31
	Inventory	21	
	Cost of Goods Sold		21
20	Accounts Receivable (30 X $32)	960	
	Sales Revenue		960
	Cost of Goods Sold (30 X $21)	630	
	Inventory		630

EXERCISE 5-4

(a) June 10	Inventory	8,000	
	Accounts Payable		8,000
11	Inventory	400	
	Cash		400
12	Accounts Payable	300	
	Inventory		300
19	Accounts Payable ($8,000 – $300)	7,700	
	Inventory ($7,700 X 2%)		154
	Cash ($7,700 – $154)		7,546

EXERCISE 5-4 (Continued)

(b)	June 10	Accounts Receivable............................	8,000	
		Sales Revenue...............................		8,000
		Cost of Goods Sold	4,800	
		Inventory..		4,800
	12	Sales Returns and Allowances............	300	
		Accounts Receivable		300
		Inventory...	70	
		Cost of Goods Sold.......................		70
	19	Cash ($7,700 – $154)............................	7,546	
		Sales Discounts ($7,700 X 2%)	154	
		Accounts Receivable ($8,000 – $300)...........................		7,700

EXERCISE 5-5

(a)	1.	Dec. 3	Accounts Receivable	570,000	
			Sales Revenue		570,000
			Cost of Goods Sold.........................	350,000	
			Inventory		350,000
	2.	Dec. 8	Sales Returns and Allowances	20,000	
			Accounts Receivable		20,000
	3.	Dec. 13	Cash ($550,000 – $11,000)	539,000	
			Sales Discounts [($570,000 – $20,000) X 2%]........	11,000	
			Accounts Receivable ($570,000 – $20,000)		550,000
(b)	Cash			550,000	
	Accounts Receivable ($570,000 – $20,000)				550,000

EXERCISE 5-6

(a)

TSIA COMPANY
Income Statement (Partial)
For the Year Ended October 31, 2014

Sales revenues		
Sales revenue		$820,000
Less: Sales returns and allowances	$25,000	
Sales discounts	13,000	38,000
Net sales		$782,000

Note: Freight-out is a selling expense.

(b)	(1)	Oct. 31	Sales Revenue	820,000	
			Income Summary		820,000
	(2)	31	Income Summary	38,000	
			Sales Returns and Allowances		25,000
			Sales Discounts		13,000

EXERCISE 5-7

(a)	Cost of Goods Sold	1,100	
	Inventory		1,100
(b)	Sales Revenue	115,000	
	Income Summary		115,000
	Income Summary	93,000	
	Cost of Goods Sold ($60,000 + $1,100)		61,100
	Operating Expenses		29,000
	Sales Returns and Allowances		1,700
	Sales Discounts		1,200
	Income Summary ($115,000 – $93,000)	22,000	
	Owner’s Capital		22,000

EXERCISE 5-8

(a)	Cost of Goods Sold	600	
	Inventory		600
(b)	Sales Revenue	380,000	
	Income Summary		380,000
	Income Summary	335,600	
	Cost of Goods Sold ($218,000 + $600)		218,600
	Freight-Out		7,000
	Insurance Expense		12,000
	Rent Expense		20,000
	Salaries and Wages Expense		55,000
	Sales Discounts		10,000
	Sales Returns and Allowances		13,000
	Income Summary ($380,000 – $335,600)	44,400	
	Owner's Capital		44,400

EXERCISE 5-9

(a)

FURLOW COMPANY
Income Statement
For the Month Ended March 31, 2014

Sales revenues		
Sales revenue		$380,000
Less: Sales returns and allowances	$13,000	
Sales discounts	8,000	21,000
Net sales		359,000
Cost of goods sold		212,000
Gross profit		147,000
Operating expenses		
Salaries and wages expense	58,000	
Rent expense	32,000	
Freight-out	7,000	
Insurance expense	6,000	
Total operating expenses		103,000
Net income		$ 44,000

(b) Gross profit rate = $147,000 ÷ $359,000 = 40.95%.

EXERCISE 5-10

(a)

LEMERE COMPANY
Income Statement
For the Year Ended December 31, 2014

Net sales			$2,200,000
Cost of goods sold			1,289,000
Gross profit			911,000
Operating expenses			725,000
Income from operations			186,000
Other revenues and gains			
Interest revenue		$28,000	
Other expenses and losses			
Interest expense	$70,000		
Loss on disposal of plant assets	17,000	87,000	59,000
Net income			$ 127,000

(b)

LEMERE COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Net sales		$2,200,000
Interest revenue		28,000
Total revenues		2,228,000
Expenses		
Cost of goods sold	$1,289,000	
Operating expenses	725,000	
Interest expense	70,000	
Loss on disposal of plant assets	17,000	
Total expenses		2,101,000
Net income		$ 127,000

EXERCISE 5-11

1.	Sales Returns and Allowances	195	
	Sales Revenue		195
2.	Supplies	180	
	Cash	180	
	Accounts Payable		180
	Inventory		180
3.	Sales Discounts	215	
	Sales Revenue		215
4.	Inventory	20	
	Cash	180	
	Freight-out		200

EXERCISE 5-12

(a) $900,000 – $522,000 = $378,000.

(b) $378,000/$900,000 = 42%. The gross profit rate is generally considered to be more useful than the gross profit amount. The rate expresses a more meaningful (qualitative) relationship between net sales and gross profit. The gross profit rate tells how many cents of each sales dollar go to gross profit. The trend of the gross profit rate is closely watched by financial statement users, and is compared with rates of competitors and with industry averages. Such comparisons provide information about the effectiveness of a company's purchasing function and the soundness of its pricing policies.

(c) Income from operations is $153,000 ($378,000 – $225,000), and net income is $142,000 ($153,000 – $11,000).

(d) The amount shown for net income is the same in a multiple-step income statement and a single-step income statement. Both income statements report the same revenues and expenses, but in different order. Therefore, net income in Cruz's single-step income statement is also $142,000.

(e) Inventory is reported as a current asset immediately below accounts receivable.

EXERCISE 5-13

(a) (*missing amount)

a.	Sales revenue	$ 90,000
	*Sales returns	(3,000)
	Net sales	$ 87,000
b.	Net sales	$ 87,000
	Cost of goods sold	(56,000)
	*Gross profit	$ 31,000
c.	Gross profit	$ 31,000
	Operating expenses	(15,000)
	*Net income	$ 16,000
d.	*Sales revenue	$107,000
	Sales returns	(5,000)
	Net sales	$102,000
e.	Net sales	$102,000
	*Cost of goods sold	60,500
	Gross profit	$ 41,500
f.	Gross profit	$ 41,500
	*Operating expenses	26,500
	Net income	$ 15,000

(b) May Company

Gross profit ÷ Net sales = $31,000 ÷ $87,000 = 35.6%

Reed Company

Gross profit ÷ Net sales = $41,500 ÷ $102,000 = 40.7%

EXERCISE 5-14

(*Missing amount)

(a)	**Sales revenue**	**$ 90,000**
	Sales returns and allowances	**4,000***
	Net sales	**$ 86,000**
(b)	**Net sales**	**$ 86,000**
	Cost of goods sold	**56,000**
	Gross profit	**$ 30,000***
(c) and (d)		
	Gross profit	**$ 30,000**
	Operating expenses	**15,000**
	Income from operations (c)	**$ 15,000***
	Other expenses and losses	**4,000**
	Net income (d)	**$ 11,000***
(e)	**Sales revenue**	**$100,000***
	Sales returns and allowances	**5,000**
	Net sales	**$ 95,000**
(f)	**Net sales**	**$ 95,000**
	Cost of goods sold	**57,000***
	Gross profit	**$ 38,000**
(g) and (h)		
	Gross profit	**$ 38,000**
	Operating expenses (g)	**20,000***
	Income from operations (h)	**$ 18,000***
	Other expenses and losses	**7,000**
	Net income	**$ 11,000**
(i)	**Sales revenue**	**$122,000**
	Sales returns and allowances	**12,000**
	Net sales	**$110,000***
(j)	**Net sales**	**$110,000**
	Cost of goods sold	**86,000***
	Gross profit	**$ 24,000**

EXERCISE 5-14 (Continued)

(k) and (l)

Gross profit	$24,000
Operating expenses	18,000
Income from operations (k)	$ 6,000*
Other expenses and losses (l)	1,000*
Net income	$ 5,000

*EXERCISE 5-15

Accounts	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	11,000				11,000	
Inventory	76,000				76,000	
Sales Revenue		480,000		480,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	9,000		9,000			
Cost of Goods Sold	300,000		300,000			

*EXERCISE 5-16

MARQUEZ COMPANY
Worksheet
For the Month Ended June 30, 2014

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	1,920				1,920				1,920	
Accounts Receivable	2,440				2,440				2,440	
Inventory	11,640				11,640				11,640	
Accounts Payable		1,120		1,500		2,620				2,620
Owner's Capital		3,500				3,500				3,500
Sales Revenue		42,500				42,500		42,500		
Cost of Goods Sold	20,560				20,560		20,560			
Operating Expenses	10,560		1,500		12,060		12,060			
Totals	47,120	47,120	1,500	1,500	48,620	48,620	32,620	42,500	16,000	6,120
Net Income							9,880			9,880
Totals							42,500	42,500	16,000	16,000

*EXERCISE 5-17

Inventory, September 1, 2013		$17,200
Purchases..	$149,000	
Less: Purchase returns and allowances	2,000	
Net Purchases..	147,000	
Add: Freight-in	5,000	
Cost of goods purchased..		152,000
Cost of goods available for sale.................................		169,200
Inventory, August 31, 2014		23,000
Cost of goods sold		$146,200

*EXERCISE 5-18

(a)	Sales revenue......................................			$840,000
	Less: Sales returns and allowances		$ 10,000	
	Sales discounts		5,000	15,000
	Net sales			825,000
	Cost of goods sold			
	Inventory, January 1		50,000	
	Purchases......................................	$509,000		
	Less: Purch. rets. and alls.	2,000		
	Purch. discounts	6,000		
	Net purchases		501,000	
	Add: Freight-in		4,000	
	Cost of goods available for sale....		555,000	
	Inventory, December 31		60,000	
	Cost of goods sold			495,000
	Gross profit			$330,000

(b) Gross profit $330,000 – Operating expenses = Net income $130,000.
Operating expenses = $200,000.

*EXERCISE 5-19

(a)	$1,580	($1,620 – $40)	(g)	$6,500	($290 + $6,210)
(b)	$1,690	($1,580 + $110)	(h)	$1,730	($7,940 – $6,210)
(c)	$1,530	($1,840 – $310)	(i)	$8,940	($1,000 + $7,940)
(d)	$30	($1,060 – $1,030)	(j)	$6,200	($49,530 – $43,330 from (l))
(e)	$250	($1,280 – $1,030)	(k)	$2,500	($43,590 – $41,090)
(f)	$120	($1,350 – $1,230)	(l)	$43,330	($41,090 + $2,240)

*EXERCISE 5-20

				Debit	Credit
(a)	1.	April 5	Purchases	25,000	
			Accounts Payable		25,000
	2.	April 6	Freight-in	900	
			Cash		900
	3.	April 7	Equipment	30,000	
			Accounts Payable		30,000
	4.	April 8	Accounts Payable	2,800	
			Purchase Returns and Allowances		2,800
	5.	April 15	Accounts Payable ($25,000 – $2,800)	22,200	
			Purchase Discounts [($25,000 – $2,800) X 2%)]		444
			Cash ($22,200 – $444)		21,756
(b)		May 4	Accounts Payable ($25,000 – $2,800)	22,200	
			Cash		22,200

*EXERCISE 5-21

(a)	1.	April 5	Purchases	19,000	
			Accounts Payable		19,000
	2.	April 6	Freight-in	800	
			Cash		800
	3.	April 7	Equipment	23,000	
			Accounts Payable		23,000
	4.	April 8	Accounts Payable	4,000	
			Purchase Returns and Allowances		4,000
	5.	April 15	Accounts Payable ($19,000 – $4,000)	15,000	
			Purchase Discounts [($19,000 – $4,000) X 2%)]		300
			Cash ($15,000 – $300)		14,700
(b)		May 4	Accounts Payable ($19,000 – $4,000)	15,000	
			Cash		15,000

*EXERCISE 5-22

Accounts	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	9,000				9,000	
Inventory	80,000		80,000	75,000	75,000	
Purchases	240,000		240,000			
Purchase Returns and Allowances		30,000		30,000		
Sales Revenue		450,000		450,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	5,000		5,000			
Rent Expense	42,000		42,000			

PROBLEM 5-1A

(a)	June	1	Inventory	1,600	
			Accounts Payable		1,600
		3	Accounts Receivable	2,500	
			Sales Revenue		2,500
			Cost of Goods Sold	1,440	
			Inventory		1,440
		6	Accounts Payable	100	
			Inventory		100
		9	Accounts Payable ($1,600 – $100)	1,500	
			Inventory ($1,500 X .02)		30
			Cash		1,470
		15	Cash	2,500	
			Accounts Receivable		2,500
		17	Accounts Receivable	1,800	
			Sales Revenue		1,800
			Cost of Goods Sold	1,080	
			Inventory		1,080
		20	Inventory	1,500	
			Accounts Payable		1,500
		24	Cash	1,764	
			Sales Discounts ($1,800 X .02)	36	
			Accounts Receivable		1,800
		26	Accounts Payable	1,500	
			Inventory ($1,500 X .02)		30
			Cash		1,470

PROBLEM 5-1A (Continued)

June 28	Accounts Receivable	1,400	
	Sales Revenue		1,400
	Cost of Goods Sold	850	
	Inventory		850
30	Sales Returns and Allowances	120	
	Accounts Receivable		120
	Inventory	72	
	Cost of Goods Sold		72

PROBLEM 5-2A

(a)

General Journal J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
May	1	Inventory	120	4,200	
		Accounts Payable	201		4,200
	2	Accounts Receivable	112	2,100	
		Sales Revenue	401		2,100
		Cost of Goods Sold	505	1,300	
		Inventory	120		1,300
	5	Accounts Payable	201	300	
		Inventory	120		300
	9	Cash ($2,100 – $21)	101	2,079	
		Sales Discounts ($2,100 X 1%)	414	21	
		Accounts Receivable	112		2,100
	10	Accounts Payable ($4,200 – $300)	201	3,900	
		Inventory ($3,900 X 2%)	120		78
		Cash	101		3,822
	11	Supplies	126	400	
		Cash	101		400
	12	Inventory	120	1,400	
		Cash	101		1,400
	15	Cash	101	150	
		Inventory	120		150
	17	Inventory	120	1,300	
		Accounts Payable	201		1,300
	19	Inventory	120	130	
		Cash	101		130

PROBLEM 5-2A (Continued)

General Journal **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 24	Cash	101	3,200	
	Sales Revenue	401		3,200
	Cost of Goods Sold	505	2,000	
	Inventory	120		2,000
25	Inventory	120	620	
	Accounts Payable	201		620
27	Accounts Payable	201	1,300	
	Inventory ($1,300 X 2%)	120		26
	Cash	101		1,274
29	Sales Returns and Allowances	412	70	
	Cash	101		70
	Inventory	120	30	
	Cost of Goods Sold	505		30
31	Accounts Receivable	112	1,000	
	Sales Revenue	401		1,000
	Cost of Goods Sold	505	560	
	Inventory	120		560

PROBLEM 5-2A (Continued)

(b)

Cash — **No. 101**

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			5,000
	9		J1	2,079		7,079
	10		J1		3,822	3,257
	11		J1		400	2,857
	12		J1		1,400	1,457
	15		J1	150		1,607
	19		J1		130	1,477
	24		J1	3,200		4,677
	27		J1		1,274	3,403
	29		J1		70	3,333

Accounts Receivable — **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1	2,100		2,100
	9		J1		2,100	0
	31		J1	1,000		1,000

Inventory — **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
May	1		J1	4,200		4,200
	2		J1		1,300	2,900
	5		J1		300	2,600
	10		J1		78	2,522
	12		J1	1,400		3,922
	15		J1		150	3,772
	17		J1	1,300		5,072
	19		J1	130		5,202
	24		J1		2,000	3,202
	25		J1	620		3,822
	27		J1		26	3,796
	29		J1	30		3,826
	31		J1		560	3,266

PROBLEM 5-2A (Continued)

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
May	11		J1	400		400

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
May	1		J1		4,200	4,200
	5		J1	300		3,900
	10		J1	3,900		0
	17		J1		1,300	1,300
	25		J1		620	1,920
	27		J1	1,300		620

Owner's Capital **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			5,000

Sales Revenue **No. 401**

Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1		2,100	2,100
	24		J1		3,200	5,300
	31		J1		1,000	6,300

Sales Returns and Allowances **No. 412**

Date		Explanation	Ref.	Debit	Credit	Balance
May	29		J1	70		70

Sales Discounts **No. 414**

Date		Explanation	Ref.	Debit	Credit	Balance
May	9		J1	21		21

PROBLEM 5-2A (Continued)

Cost of Goods Sold **No. 505**

Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1	1,300		1,300
	24		J1	2,000		3,300
	29		J1		30	3,270
	31		J1	560		3,830

(c)

LATONA HARDWARE STORE
Income Statement (Partial)
For the Month Ended May 31, 2014

Sales revenues		
Sales revenue		$6,300
Less: Sales returns and allowances	$70	
Sales discounts	21	91
Net sales		6,209
Cost of goods sold		3,830
Gross profit		$2,379

PROBLEM 5-3A

(a)

THE DELUXE STORE
Income Statement
For the Year Ended November 30, 2014

Sales revenues		
Sales revenue		$700,000
Less: Sales returns & allowances		8,000
Net sales		692,000
Cost of goods sold		507,000
Gross profit		185,000
Operating expenses		
Salaries and wages expense	$96,000	
Rent expense	15,000	
Sales commissions expense	11,000	
Depreciation expense	11,000	
Utilities expense	8,500	
Insurance expense	7,000	
Freight-out	6,500	
Property tax expense	2,500	
Total oper. expenses		157,500
Income from operations		27,500
Other revenues and gains		
Interest revenue	8,000	
Other expenses and losses		
Interest expense	6,400	1,600
Net income		$ 29,100

PROBLEM 5-3A (Continued)

THE DELUXE STORE
Owner's Equity Statement
For the Year Ended November 30, 2014

Owner's Capital, December 1, 2013	$101,700
Add: Net income	29,100
	130,800
Less: Drawings	10,000
Owner's Capital, November 30, 2014	$120,800

THE DELUXE STORE
Balance Sheet
November 30, 2014

Assets

Current assets		
Cash	$ 26,000	
Accounts receivable	30,500	
Inventory	29,000	
Prepaid insurance	3,500	
Total current assets		$ 89,000
Property, plant, and equipment		
Equipment	$146,000	
Less: Accumulated depreciation—equipment	45,000	
		101,000
Total assets		$190,000

THE DELUXE STORE
Balance Sheet (Continued)
November 30, 2014

Liabilities and Owner's Equity		
Current liabilities		
Accounts payable	$25,200	
Sales commissions payable	4,500	
Property taxes payable	2,500	
Total current liabilities		$ 32,200
Long-term liabilities		
Notes payable		37,000
Total liabilities		69,200
Owner's equity		
Owner's capital		120,800
Total liabilities and owner's equity		$190,000

(b)	Nov. 30	Depreciation Expense	11,000	
		Accumulated Depreciation—Equipment		11,000
		Insurance Expense	7,000	
		Prepaid Insurance		7,000
		Property Tax Expense	2,500	
		Property Taxes Payable		2,500
		Sales Commissions Expense	4,500	
		Sales Commissions Payable		4,500

PROBLEM 5-3A (Continued)

(c)	Nov. 30	Sales Revenue	700,000	
		Interest Revenue	8,000	
		Income Summary		708,000
	30	Income Summary	678,900	
		Sales Returns and Allowances		8,000
		Cost of Goods Sold		507,000
		Salaries and Wages Expense		96,000
		Depreciation Expense		11,000
		Freight-Out		6,500
		Sales Commissions Expense		11,000
		Insurance Expense		7,000
		Rent Expense		15,000
		Property Tax Expense		2,500
		Utilities Expense		8,500
		Interest Expense		6,400
	30	Income Summary	29,100	
		Owner's Capital		29,100
	30	Owner's Capital	10,000	
		Owner's Drawings		10,000

PROBLEM 5-4A

(a)

General Journal **J1**

Date		Account Titles and Explanation	Ref.	Debit	Credit
Apr.	5	Inventory	120	1,200	
		Accounts Payable	201		1,200
	7	Inventory	120	50	
		Cash	101		50
	9	Accounts Payable	201	100	
		Inventory	120		100
	10	Accounts Receivable	112	900	
		Sales Revenue	401		900
		Cost of Goods Sold	505	540	
		Inventory	120		540
	12	Inventory	120	670	
		Accounts Payable	201		670
	14	Accounts Payable ($1,200 – $100)	201	1,100	
		Inventory ($1,100 X 2%)	120		22
		Cash	101		1,078
	17	Accounts Payable	201	70	
		Inventory	120		70
	20	Accounts Receivable	112	610	
		Sales Revenue	401		610
		Cost of Goods Sold	505	370	
		Inventory	120		370
	21	Accounts Payable ($670 – $70)	201	600	
		Inventory ($600 X 1%)	120		6
		Cash	101		594

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 27	Sales Returns and Allowances......	412	20	
	Accounts Receivable.............	112		20
30	Cash..	101	900	
	Accounts Receivable.............	112		900

(b)

Cash — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,800
	7		J1		50	1,750
	14		J1		1,078	672
	21		J1		594	78
	30		J1	900		978

Accounts Receivable — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	10		J1	900		900
	20		J1	610		1,510
	27		J1		20	1,490
	30		J1		900	590

Inventory — No. 120

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			2,500
	5		J1	1,200		3,700
	7		J1	50		3,750
	9		J1		100	3,650
	10		J1		540	3,110
	12		J1	670		3,780
	14		J1		22	3,758
	17		J1		70	3,688
	20		J1		370	3,318
	21		J1		6	3,312

PROBLEM 5-4A (Continued)

Accounts Payable — No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	5		J1		1,200	1,200
	9		J1	100		1,100
	12		J1		670	1,770
	14		J1	1,100		670
	17		J1	70		600
	21		J1	600		0

Owner's Capital — No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			4,300

Sales Revenue — No. 401

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	10		J1		900	900
	20		J1		610	1,510

Sales Returns and Allowances — No. 412

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	27		J1	20		20

Cost of Goods Sold — No. 505

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	10		J1	540		540
	20		J1	370		910

PROBLEM 5-4A (Continued)

(c)

ADAM'S DISCORAMA
Trial Balance
April 30, 2014

	Debit	Credit
Cash	$ 978	
Accounts Receivable	590	
Inventory	3,312	
Owner's Capital		$4,300
Sales Revenue		1,510
Sales Returns and Allowances	20	
Cost of Goods Sold	910	
	$5,810	$5,810

*PROBLEM 5-5A

(a)

VALDEZ FASHION CENTER
Worksheet
For the Year Ended November 30, 2014

Account Titles	Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
Cash	8,700				8,700				8,700	
Accounts Receivable	30,700				30,700				30,700	
Inventory	44,700			(d) 300	44,400				44,400	
Supplies	6,200			(a) 4,200	2,000				2,000	
Equipment	133,000				133,000				133,000	
Accum. Depreciation— Equipment		28,000		(b) 11,500		39,500				39,500
Notes Payable		51,000				51,000				51,000
Accounts Payable		48,500				48,500				48,500
Owner's Capital		90,000				90,000				90,000
Owner's Drawings	12,000				12,000				12,000	
Sales Revenue		755,200				755,200		755,200		
Sales Returns and Allowances	8,800				8,800		8,800			
Cost of Goods Sold	497,400		(d) 300		497,700		497,700			
Salaries and Wages Expense	140,000				140,000		140,000			
Advertising Expense	24,400				24,400		24,400			
Utilities Expense	14,000				14,000		14,000			
Maintenance and Repairs Expense	12,100				12,100		12,100			
Freight-Out	16,700				16,700		16,700			
Rent Expense	24,000				24,000		24,000			
Totals	972,700	972,700								
Supplies Expense			(a) 4,200		4,200		4,200			
Depreciation Expense			(b) 11,500		11,500		11,500			
Interest Expense			(c) 4,000		4,000		4,000			
Interest Payable				(c) 4,000		4,000				4,000
Totals			20,000	20,000	988,200	988,200	757,400	755,200	230,800	233,000
Net Loss								2,200	2,200	
Totals							757,400	757,400	233,000	233,000

Key: (a) Store supplies used, (b) Depreciation expense—equipment, (c) Accrued interest payable, (d) Adjustment of inventory.

*PROBLEM 5-5A (Continued)

(b)

VALDEZ FASHION CENTER
Income Statement
For the Year Ended November 30, 2014

Sales revenues		
Sales revenue		$755,200
Less: Sales returns and allowances		8,800
Net sales		746,400
Cost of goods sold		497,700
Gross profit		248,700
Operating expenses		
Salaries and wages expense	$140,000	
Advertising expense	24,400	
Rent expense	24,000	
Freight-out	16,700	
Utilities expense	14,000	
Maintenance and repairs expense	12,100	
Depreciation expense	11,500	
Supplies expense	4,200	
Total operating expenses		246,900
Income from operations		1,800
Other expenses and losses		
Interest expense		4,000
Net loss		$ (2,200)

VALDEZ FASHION CENTER
Owner's Equity Statement
For the Year Ended November 30, 2014

Owner's Capital, December 1, 2013		$90,000
Less: Net loss	$ 2,200	
Drawings	12,000	14,200
Owner's Capital, November 30, 2014		$ 75,800

VALDEZ FASHION CENTER
Balance Sheet
November 30, 2014

Assets

Current assets		
Cash	$ 8,700	
Accounts receivable	30,700	
Inventory	44,400	
Supplies	2,000	
Total current assets		$ 85,800
Property, plant, and equipment		
Equipment	$133,000	
Accumulated depreciation—equipment	39,500	93,500
Total assets		$179,300

VALDEZ FASHION CENTER
Balance Sheet (Continued)
November 30, 2014

Liabilities and Owner's Equity		
Current liabilities		
Notes payable (due next year)	$20,000	
Accounts payable	48,500	
Interest payable	4,000	
Total current liabilities		$ 72,500
Long-term liabilities		
Notes payable		31,000
Total liabilities		103,500
Owner's equity		
Owner's capital		75,800
Total liabilities and owner's equity		$179,300

(c)	Nov. 30	Supplies Expense	4,200	
		Supplies		4,200
	30	Depreciation Expense	11,500	
		Accumulated Depreciation—Equipment		11,500
	30	Interest Expense	4,000	
		Interest Payable		4,000
	30	Cost of Goods Sold	300	
		Inventory		300

***PROBLEM 5-5A (Continued)**

(d)	Nov. 30	Sales Revenue	755,200	
		Income Summary		755,200
	30	Income Summary	757,400	
		Sales Returns and Allowances		8,800
		Cost of Goods Sold		497,700
		Salaries and Wages Expense		140,000
		Advertising Expense		24,400
		Utilities Expense		14,000
		Maintenance and Repairs Expense		12,100
		Freight-Out		16,700
		Rent Expense		24,000
		Supplies Expense		4,200
		Depreciation Expense		11,500
		Interest Expense		4,000
	30	Owner's Capital	2,200	
		Income Summary		2,200
	30	Owner's Capital	12,000	
		Owner's Drawings		12,000

*PROBLEM 5-5A (Continued)

(e)

VALDEZ FASHION CENTER
Post-Closing Trial Balance
November 30, 2014

	Debit	Credit
Cash	$ 8,700	
Accounts Receivable	30,700	
Inventory	44,400	
Supplies	2,000	
Equipment	133,000	
Accumulated Depreciation—Equipment		$ 39,500
Notes Payable		51,000
Accounts Payable		48,500
Interest Payable		4,000
Owner's Capital		75,800
	$218,800	$218,800

*PROBLEM 5-6A

DAYTON DEPARTMENT STORE
Income Statement (Partial)
For the Year Ended November 30, 2014

Sales revenues				
Sales revenue				$1,000,000
Less: Sales returns and allowances				20,000
Net sales				980,000
Cost of goods sold				
Inventory, Dec. 1, 2013			$ 40,000	
Purchases		$585,000		
Less: Purchase returns and allowances	$2,700			
Purchase discounts	6,300	9,000		
Net purchases		576,000		
Add: Freight-in		7,500		
Cost of goods purchased			583,500	
Cost of goods available for sale			623,500	
Inventory, Nov. 30, 2014			52,600	
Cost of goods sold				570,900
Gross profit				$ 409,100

*PROBLEM 5-7A

(1) (a) Cost of goods sold = Sales revenue – Gross profit
= $55,000 – $38,300 = $16,700

(b) Net income = Gross profit – Operating expenses
= $38,300 – $34,900 = $3,400

(c) Inventory = 2011 Inventory + Purchases – CGS
= $7,200 + $14,200 – $16,700 = $4,700

(d) Cash payments to suppliers = 2011 Accounts payable +
Purchases – 2012 Accounts payable
= $3,200 + $14,200 – $3,600 = $13,800

(e) Sales revenue = Cost of goods sold + Gross profit
= $13,800 + $35,200 = $49,000

(f) Operating expenses = Gross profit – Net income
= $35,200 – $2,500 = $32,700

(g) 2012 Inventory + Purchases – 2013 Inventory = CGS
Purchases = CGS – 2012 Inventory + 2013 Inventory
= $13,800 – $4,700 [from (c)] + $8,100
= $17,200

(h) Cash payments to suppliers = 2012 Accounts payable +
Purchases – 2013 Accounts Payable
= $3,600 + $17,200 [from (g)] – $2,500
= $18,300

(i) Gross profit = Sales revenue – CGS
= $47,000 – $14,300 = $32,700

(j) Net income = Gross profit – Operating expenses
= $32,700 [from (i)] – $28,600 = $4,100

(k) 2013 Inventory + Purchases – 2014 Inventory = CGS
Inventory = 2013 Inventory + Purchases – CGS
= $8,100 + $13,200 – $14,300 = $7,000

(l) Accounts payable = 2013 Accounts payable +
Purchases – Cash payments
= $2,500 + $13,200 – $13,600 = $2,100

***PROBLEM 5-7A (Continued)**

(2) **A decline in sales does not necessarily mean that profitability declined. Profitability is affected by sales revenue, cost of goods sold, and operating expenses. If cost of goods sold or operating expenses decline more than sales revenue, profitability can increase even when sales decline. In this particular case, the sales revenue decline was offset by cost savings to improve profitability. Therefore, profitability increased for Alana, Inc. from 2012 to 2014.**

	2012	2013	2014
Gross profit rate	\$38,300 ÷ \$55,000 = 69.6%	\$35,200 ÷ \$49,000 = 71.8%	\$32,700 ÷ \$47,000 = 69.6%
Profit margin	\$3,400 ÷ \$55,000 = 6.2%	\$2,500 ÷ \$49,000 = 5.1%	\$4,100 ÷ \$47,000 = 8.7%

*PROBLEM 5-8A

(a)

General Journal

Date		Account Titles and Explanation	Debit	Credit
Apr.	5	Purchases	1,200	
		Accounts Payable		1,200
	7	Freight-In	50	
		Cash		50
	9	Accounts Payable	100	
		Purchase Returns and Allowances		100
	10	Accounts Receivable	600	
		Sales Revenue		600
	12	Purchases	450	
		Accounts Payable		450
	14	Accounts Payable ($1,200 – $100)	1,100	
		Purchase Discounts ($1,100 X 2%)		22
		Cash ($1,100 – $22)		1,078
	17	Accounts Payable	50	
		Purchase Returns and Allowances		50
	20	Accounts Receivable	600	
		Sales Revenue		600
	21	Accounts Payable ($450 – $50)	400	
		Purchase Discounts ($400 X 1%)		4
		Cash ($400 – $4)		396
	27	Sales Returns and Allowances	35	
		Accounts Receivable		35
	30	Cash	600	
		Accounts Receivable		600

***PROBLEM 5-8A (Continued)**

(b)

Cash

4/1 Bal.	3,000	4/7	50
4/30	600	4/14	1,078
		4/21	396
4/30 Bal.	2,076		

Accounts Receivable

4/10	600	4/27	35
4/20	600	4/30	600
4/30 Bal.	565		

Inventory

4/1 Bal.	4,000		
4/30 Bal.	4,000		

Accounts Payable

4/9	100	4/5	1,200
4/14	1,100	4/12	450
4/17	50		
4/21	400		
		4/30 Bal.	0

Purchase Returns and Allowances

		4/9	100
		4/17	50
		4/30 Bal.	150

Purchase Discounts

		4/14	22
		4/21	4
		4/30 Bal.	26

Owner's Capital

		4/1 Bal.	7,000
		4/30 Bal.	7,000

Sales Revenue

		4/10	600
		4/20	600
		4/30 Bal.	1,200

Sales Returns and Allowances

4/27	35		
4/30 Bal.	35		

Purchases

4/5	1,200		
4/12	450		
4/30 Bal.	1,650		

Freight-In

4/7	50		
4/30 Bal.	50		

*PROBLEM 5-8A (Continued)

(c)

KOKOTT PRO SHOP
Trial Balance
April 30, 2014

	Debit	Credit
Cash	$2,076	
Accounts Receivable	565	
Inventory	4,000	
Owner's Capital		$7,000
Sales Revenue		1,200
Sales Returns and Allowances	35	
Purchases	1,650	
Purchase Returns and Allowances		150
Purchase Discounts		26
Freight-In	50	
	$8,376	$8,376

(d)

KOKOTT PRO SHOP
Income Statement (Partial)
For the Month Ended April 30, 2014

Sales revenues				
Sales revenue				$1,200
Less: Sales returns and allowances				35
Net sales				1,165
Cost of goods sold				
Inventory, April 1			$4,000	
Purchases		$1,650		
Less: Purchase returns and allowances	$150			
Purchase discounts	26	176		
Net purchases		1,474		
Add: Freight-in		50		
Cost of goods purchased			1,524	
Cost of goods available for sale			5,524	
Inventory, April 30			4,824	
Cost of goods sold				700
Gross profit				$ 465

SOLUTIONS TO PROBLEMS

PROBLEM 5-1B

				Debit	Credit
(a)	July	1	Inventory	1,800	
			Accounts Payable		1,800
		3	Accounts Receivable	2,000	
			Sales Revenue		2,000
			Cost of Goods Sold	1,200	
			Inventory		1,200
		9	Accounts Payable	1,800	
			Inventory ($1,800 X .02)		36
			Cash		1,764
		12	Cash	1,980	
			Sales Discounts	20	
			Accounts Receivable		2,000
		17	Accounts Receivable	1,800	
			Sales Revenue		1,800
			Cost of Goods Sold	1,080	
			Inventory		1,080
		18	Inventory	1,900	
			Accounts Payable		1,900
			Inventory	125	
			Cash		125
		20	Accounts Payable	300	
			Inventory		300
		21	Cash	1,782	
			Sales Discounts	18	
			Accounts Receivable		1,800

PROBLEM 5-1B (Continued)

July 22	Accounts Receivable	2,250	
	Sales Revenue		2,250
	Cost of Goods Sold.......................................	1,350	
	Inventory		1,350
30	Accounts Payable	1,600	
	Cash...		1,600
31	Sales Returns and Allowances......................	200	
	Accounts Receivable............................		200
	Inventory	120	
	Cost of Goods Sold		120

PROBLEM 5-2B

(a)

General Journal **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 2	Inventory	120	6,900	
	Accounts Payable	201		6,900
4	Accounts Receivable	112	6,500	
	Sales Revenue	401		6,500
	Cost of Goods Sold	505	3,900	
	Inventory	120		3,900
5	Freight-Out	644	240	
	Cash	101		240
6	Accounts Payable	201	500	
	Inventory	120		500
11	Accounts Payable ($6,900 – $500)	201	6,400	
	Inventory ($6,400 X 1%)	120		64
	Cash	101		6,336
13	Cash	101	6,435	
	Sales Discounts ($6,500 X 1%)	414	65	
	Accounts Receivable	112		6,500
14	Inventory	120	3,800	
	Cash	101		3,800
16	Cash	101	500	
	Inventory	120		500
18	Inventory	120	4,500	
	Accounts Payable	201		4,500
20	Inventory	120	100	
	Cash	101		100

PROBLEM 5-2B (Continued)

General Journal **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 23	Cash	101	7,400	
	Sales Revenue	401		7,400
	Cost of Goods Sold	505	4,120	
	Inventory	120		4,120
26	Inventory	120	2,300	
	Cash	101		2,300
27	Accounts Payable	201	4,500	
	Inventory ($4,500 X 2%)	120		90
	Cash	101		4,410
29	Sales Returns and Allowances	412	90	
	Cash	101		90
	Inventory	120	30	
	Cost of Goods Sold	505		30
30	Accounts Receivable	112	3,700	
	Sales Revenue	401		3,700
	Cost of Goods Sold	505	2,800	
	Inventory	120		2,800

PROBLEM 5-2B (Continued)

(b)

Cash **No. 101**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			9,000
	5		J1		240	8,760
	11		J1		6,336	2,424
	13		J1	6,435		8,859
	14		J1		3,800	5,059
	16		J1	500		5,559
	20		J1		100	5,459
	23		J1	7,400		12,859
	26		J1		2,300	10,559
	27		J1		4,410	6,149
	29		J1		90	6,059

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1	6,500		6,500
	13		J1		6,500	0
	30		J1	3,700		3,700

Inventory **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	2		J1	6,900		6,900
	4		J1		3,900	3,000
	6		J1		500	2,500
	11		J1		64	2,436
	14		J1	3,800		6,236
	16		J1		500	5,736
	18		J1	4,500		10,236
	20		J1	100		10,336
	23		J1		4,120	6,216
	26		J1	2,300		8,516
	27		J1		90	8,426
	29		J1	30		8,456
	30		J1		2,800	5,656

PROBLEM 5-2B (Continued)

Accounts Payable — No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	2		J1		6,900	6,900
	6		J1	500		6,400
	11		J1	6,400		0
	18		J1		4,500	4,500
	27		J1	4,500		0

Owner's Capital — No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			9,000

Sales Revenue — No. 401

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1		6,500	6,500
	23		J1		7,400	13,900
	30		J1		3,700	17,600

Sales Returns and Allowances — No. 412

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	29		J1	90		90

Sales Discounts — No. 414

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	13		J1	65		65

Cost of Goods Sold — No. 505

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1	3,900		3,900
	23		J1	4,120		8,020
	29		J1		30	7,990
	30		J1	2,800		10,790

PROBLEM 5-2B (Continued)

Freight-Out **No. 644**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	5		J1	240		240

(c)

ROSE DISTRIBUTING COMPANY
Income Statement (Partial)
For the Month Ended April 30, 2014

Sales revenues		
Sales revenue		$17,600
Less: Sales returns and allowances	$90	
Sales discounts	65	155
Net sales		17,445
Cost of goods sold		10,790
Gross profit		$ 6,655

PROBLEM 5-3B

(a)

MACKEY DEPARTMENT STORE
Income Statement
For the Year Ended December 31, 2014

Sales revenues		
Sales revenue		$728,000
Less: Sales returns and allowances..............................		8,000
Net sales..		720,000
Cost of goods sold..................................		412,700
Gross profit..		307,300
Operating expenses		
Salaries and wages expense.....	$108,000	
Depreciation expense	23,700	
Sales commissions expense......	14,500	
Utilities expense	12,000	
Insurance expense	7,200	
Property tax expense	4,800	
Total operating expenses		170,200
Income from operations..........................		137,100
Other revenues and gains		
Interest revenue.................................	4,000	
Other expenses and losses		
Interest expense	12,000	8,000
Net income		$ 129,100

PROBLEM 5-3B (Continued)

MACKEY DEPARTMENT STORE
Owner's Equity Statement
For the Year Ended December 31, 2014

Owner's Capital, January 1	$176,600
Add: Net income	129,100
	305,700
Less: Drawings	28,000
Owner's Capital, December 31	$277,700

MACKEY DEPARTMENT STORE
Balance Sheet
December 31, 2014

Assets			
Current assets			
Cash		$ 23,800	
Accounts receivable		50,300	
Inventory		75,000	
Prepaid insurance		2,400	
Total current assets			$151,500
Property, plant, and equipment			
Buildings	$290,000		
Less: Accumulated depreciation—buildings	52,500	237,500	
Equipment	110,000		
Less: Accumulated depreciation—equipment	42,900	67,100	304,600
Total assets			$456,100

PROBLEM 5-3B (Continued)

MACKEY DEPARTMENT STORE
Balance Sheet (Continued)
December 31, 2014

Liabilities and Owner's Equity		
Current liabilities		
Accounts payable	$ 80,300	
Mortgage payable (due next year)	25,000	
Interest payable	9,000	
Property taxes payable	4,800	
Sales commissions payable	4,300	
Total current liabilities		$123,400
Long-term liabilities		
Mortgage payable		55,000
Total liabilities		178,400
Owner's equity		
Owner's capital		277,700
Total liabilities and owner's equity		$456,100

(b)	Dec. 31	Depreciation Expense	23,700	
		Accumulated Depreciation—Buildings		10,400
		Accumulated Depreciation—Equipment		13,300
	31	Insurance Expense	7,200	
		Prepaid Insurance		7,200
	31	Interest Expense	9,000	
		Interest Payable		9,000
	31	Property Tax Expense	4,800	
		Property Taxes Payable		4,800

PROBLEM 5-3B (Continued)

	31	Sales Commissions Expense...............	4,300	
		Sales Commissions Payable.........		4,300
	31	Utilities Expense....................................	1,000	
		Accounts Payable..........................		1,000
(c)	Dec. 31	Sales Revenue	728,000	
		Interest Revenue....................................	4,000	
		Income Summary...........................		732,000
	31	Income Summary...................................	602,900	
		Sales Returns and Allowances		8,000
		Cost of Goods Sold........................		412,700
		Salaries and Wages Expense........		108,000
		Sales Commissions Expense		14,500
		Property Tax Expense		4,800
		Utilities Expense		12,000
		Depreciation Expense....................		23,700
		Insurance Expense		7,200
		Interest Expense		12,000
	31	Income Summary...................................	129,100	
		Owner's Capital..............................		129,100
	31	Owner's, Capital....................................	28,000	
		Owner's Drawings..........................		28,000

PROBLEM 5-4B

(a)

General Journal J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 4	Inventory	120	840	
	Accounts Payable	201		840
6	Inventory	120	40	
	Cash	101		40
8	Accounts Receivable	112	1,150	
	Sales Revenue	401		1,150
	Cost of Goods Sold	505	790	
	Inventory	120		790
10	Accounts Payable	201	40	
	Inventory	120		40
11	Inventory	120	420	
	Cash	101		420
13	Accounts Payable ($840 – $40)	201	800	
	Inventory ($800 X 2%)	120		16
	Cash	101		784
14	Inventory	120	900	
	Accounts Payable	201		900
15	Cash	101	50	
	Inventory	120		50
17	Inventory	120	30	
	Cash	101		30
18	Accounts Receivable	112	900	
	Sales Revenue	401		900
	Cost of Goods Sold	505	540	
	Inventory	120		540

PROBLEM 5-4B (Continued)

General Journal **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 20	Cash	101	600	
	Accounts Receivable	112		600
21	Accounts Payable	201	900	
	Inventory ($900 X 3%)	120		27
	Cash	101		873
27	Sales Returns and Allowances	412	40	
	Accounts Receivable	112		40
30	Cash	101	710	
	Accounts Receivable	112		710

(b)

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,500
6		J1		40	2,460
11		J1		420	2,040
13		J1		784	1,256
15		J1	50		1,306
17		J1		30	1,276
20		J1	600		1,876
21		J1		873	1,003
30		J1	710		1,713

Accounts Receivable **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 8		J1	1,150		1,150
18		J1	900		2,050
20		J1		600	1,450
27		J1		40	1,410
30		J1		710	700

PROBLEM 5-4B (Continued)

Inventory **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,700
	4		J1	840		2,540
	6		J1	40		2,580
	8		J1		790	1,790
	10		J1		40	1,750
	11		J1	420		2,170
	13		J1		16	2,154
	14		J1	900		3,054
	15		J1		50	3,004
	17		J1	30		3,034
	18		J1		540	2,494
	21		J1		27	2,467

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1		840	840
	10		J1	40		800
	13		J1	800		0
	14		J1		900	900
	21		J1	900		0

Owner's Capital **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			4,200

Sales Revenue **No. 401**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	8		J1		1,150	1,150
	18		J1		900	2,050

PROBLEM 5-4B (Continued)

Sales Returns and Allowances **No. 412**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 27		J1	40		40

Cost of Goods Sold **No. 505**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 8		J1	790		790
18		J1	540		1,330

(c)

DIAZ TENNIS SHOP
Trial Balance
April 30, 2014

	Debit	Credit
Cash	$1,713	
Accounts Receivable	700	
Inventory	2,467	
Owner's Capital		$4,200
Sales Revenue		2,050
Sales Returns and Allowances	40	
Cost of Goods Sold	1,330	
	$6,250	$6,250

*PROBLEM 5-5B

ROSHEK DEPARTMENT STORE
Income Statement (Partial)
For the Year Ended December 31, 2014

Sales revenues				
Sales revenue				$725,000
Less: Sales returns and allowances....................				11,000
Net sales...................................				714,000
Cost of goods sold				
Inventory, January 1................			$ 40,500	
Purchases		$447,000		
Less: Purchase returns and allowances	$ 6,400			
Purchase discounts.....	12,000	18,400		
Net purchases..........................		428,600		
Add: Freight-in........................		5,600		
Cost of goods purchased			434,200	
Cost of goods available for sale..............................			474,700	
Inventory, December 31			65,000	
Cost of goods sold				409,700
Gross profit....................................				$304,300

*PROBLEM 5-6B

(a)

	2012	2013	2014
Cost of goods sold:			
Beginning inventory	$ 13,000	$ 11,300	$ 14,700
Plus: Purchases	146,000	145,000	129,000
Cost of goods available	159,000	156,300	143,700
Less: Ending inventory	(11,300)	(14,700)	(12,200)
Cost of goods sold	$147,700	$141,600	$131,500

(b)

	2012	2013	2014
Sales revenue	$239,000	$237,000	$235,000
Less: CGS	147,700	141,600	131,500
Gross profit	$ 91,300	$ 95,400	$103,500

(c)

	2012	2013	2014
Beginning accounts payable	$ 20,000	$ 31,000	$ 15,000
Plus: Purchases	146,000	145,000	129,000
Less: Payments to suppliers	135,000	161,000	127,000
Ending accounts payable	$ 31,000	$ 15,000	$ 17,000

(d) Gross profit rate	[1]38.2%	[2]40.3%	[3]44.0%
	[1]$91,300 ÷ $239,000	[2]$95,400 ÷ $237,000	[3]$103,500 ÷ $235,000

No. Even though sales declined in 2014 from each of the two prior years, the gross profit rate increased. This means that cost of goods sold declined more than sales did, reflecting better purchasing power or control of costs. Therefore, in spite of declining sales, profitability, as measured by the gross profit rate, actually improved.

*PROBLEM 5-7B

(a)

General Journal

Date	Account Titles and Explanation	Debit	Credit
Apr. 4	Purchases	740	
	Accounts Payable		740
6	Freight-in	60	
	Cash		60
8	Accounts Receivable	900	
	Sales Revenue		900
10	Accounts Payable	40	
	Purchase Returns and Allowances		40
11	Purchases	300	
	Cash		300
13	Accounts Payable ($740 – $40)	700	
	Purchase Discounts ($700 X 3%)		21
	Cash		679
14	Purchases	700	
	Accounts Payable		700
15	Cash	50	
	Purchase Returns and Allowances		50
17	Freight-In	30	
	Cash		30
18	Accounts Receivable	1,000	
	Sales Revenue		1,000
20	Cash	500	
	Accounts Receivable		500
21	Accounts Payable	700	
	Purchase Discounts ($700 X 2%)		14
	Cash		686

*PROBLEM 5-7B (Continued)

Date		Account Titles and Explanation	Debit	Credit
Apr.	27	Sales Returns and Allowances	25	
		Accounts Receivable		25
	30	Cash	550	
		Accounts Receivable		550

(b)

Cash

4/1 Bal.	2,500	4/6	60
4/15	50	4/11	300
4/20	500	4/13	679
4/30	550	4/17	30
		4/21	686
4/30 Bal.	1,845		

Accounts Payable

4/10	40	4/4	740
4/13	700	4/14	700
4/21	700		
		4/30 Bal.	0

Owner's Capital

		4/1 Bal.	4,200
		4/30 Bal.	4,200

Accounts Receivable

4/8	900	4/20	500
4/18	1,000	4/27	25
		4/30	550
4/30 Bal.	825		

Sales Revenue

		4/8	900
		4/18	1,000
		4/30 Bal.	1,900

Inventory

4/1 Bal.	1,700		
4/30 Bal.	1,700		

Purchase Discounts

		4/13	21
		4/21	14
		4/30 Bal.	35

Sales Returns and Allowances

4/27	25		
4/30 Bal.	25		

Freight-In

4/6	60		
4/17	30		
4/30 Bal.	90		

Purchases

4/4	740		
4/11	300		
4/14	700		
4/30 Bal.	1,740		

Purchase Returns and Allowances

		4/10	40
		4/15	50
		4/30 Bal.	90

*PROBLEM 5-7B (Continued)

(c)

EVERETT TENNIS SHOP
Trial Balance
April 30, 2014

	Debit	Credit
Cash	$1,845	
Accounts Receivable	825	
Inventory	1,700	
Owner's Capital		$4,200
Sales Revenue		1,900
Sales Returns and Allowances	25	
Purchases	1,740	
Purchase Returns and Allowances		90
Purchase Discounts		35
Freight-In	90	
	$6,225	$6,225

EVERETT TENNIS SHOP
Income Statement (Partial)
For the Month Ended April 30, 2014

Sales revenues				
Sales revenue				$1,900
Less: Sales returns and allowances				25
Net sales				1,875
Cost of goods sold				
Inventory, April 1			$1,700	
Purchases		$1,740		
Less: Purchase returns and allowances	$90			
Purchase discounts	35	125		
Net purchases		1,615		
Add: Freight-in		90		
Cost of goods purchased			1,705	
Cost of goods available for sale			3,405	
Inventory, April 30			2,296	
Cost of goods sold				1,109
Gross profit				$ 766

COMPREHENSIVE PROBLEM SOLUTION

(a) Dec.	6	Salaries and Wages Payable	1,000	
		Salaries and Wages Expense	600	
		Cash		1,600
	8	Cash	1,900	
		Accounts Receivable		1,900
	10	Cash	6,300	
		Sales Revenue		6,300
		Cost of Goods Sold	4,100	
		Inventory		4,100
	13	Inventory	9,000	
		Accounts Payable		9,000
	15	Supplies	2,000	
		Cash		2,000
	18	Accounts Receivable	12,000	
		Sales Revenue		12,000
		Cost of Goods Sold	8,000	
		Inventory		8,000
	20	Salaries and Wages Expense	1,800	
		Cash		1,800
	23	Accounts Payable	9,000	
		Cash		8,820
		Inventory ($9,000 X .02)		180
	27	Cash	11,640	
		Sales Discounts ($12,000 X .03)	360	
		Accounts Receivable		12,000

(c)	Dec. 31	Salaries and Wages Expense	800	
		Salaries and Wages Payable		800
		Depreciation Expense	200	
		Accumulated Depreciation—Equipment		200
		Supplies Expense	1,700	
		Supplies ($3,200 – $1,500)		1,700

(b) & (c) General Ledger

Cash

12/1 Bal.	7,200	12/6	1,600
12/8	1,900	12/15	2,000
12/10	6,300	12/20	1,800
12/27	11,640	12/23	8,820
12/31 Bal.	12,820		

Accounts Receivable

12/1 Bal.	4,600	12/8	1,900
12/18	12,000	12/27	12,000
12/31 Bal.	2,700		

Inventory

12/1 Bal.	12,000	12/10	4,100
12/13	9,000	12/18	8,000
		12/23	180
12/31 Bal.	8,720		

Supplies

12/1 Bal.	1,200	12/31	1,700
12/15	2,000		
12/31 Bal.	1,500		

Equipment

12/1 Bal.	22,000		
12/31 Bal.	22,000		

Accumulated Depr.—Equipment

		12/1 Bal.	2,200
		12/31	200
		12/31 Bal.	2,400

Accounts Payable

12/23	9,000	12/1 Bal.	4,500
		12/13	9,000
		12/31 Bal.	4,500

Salaries and Wages Payable

12/6	1,000	12/1 Bal.	1,000
		12/31	800
		12/31 Bal.	800

COMPREHENSIVE PROBLEM SOLUTION (Continued)

Owner's Capital

		12/1 Bal.	39,300
		12/31 Bal.	39,300

Sales Revenue

		12/10	6,300
		12/18	12,000
		12/31 Bal.	18,300

Sales Discounts

12/27	360		
12/31 Bal.	360		

Cost of Goods Sold

12/10	4,100		
12/18	8,000		
12/31 Bal.	12,100		

Depreciation Expense

12/31	200		
12/31 Bal.	200		

Salaries and Wages Expense

12/6	600		
12/20	1,800		
12/31	800		
12/31 Bal.	3,200		

Supplies Expense

12/31	1,700		
12/31 Bal.	1,700		

COMPREHENSIVE PROBLEM SOLUTION (Continued)

(d)

PROSEN DISTRIBUTING COMPANY
Adjusted Trial Balance
December 31, 2014

	DR.	CR.
Cash	$12,820	
Accounts Receivable	2,700	
Inventory	8,720	
Supplies	1,500	
Equipment	22,000	
Accumulated Depreciation—Equipment		$ 2,400
Accounts Payable		4,500
Salaries and Wages Payable		800
Owner's Capital		39,300
Sales Revenue		18,300
Sales Discounts	360	
Cost of Goods Sold	12,100	
Depreciation Expense	200	
Salaries and Wages Expense	3,200	
Supplies Expense	1,700	
	$65,300	$65,300

(e)

PROSEN DISTRIBUTING COMPANY
Income Statement
For the Month Ending December 31, 2014

Sales revenue		$18,300
Less: Sales discounts		360
Net sales		17,940
Cost of goods sold		12,100
Gross profit		5,840
Operating expenses		
Salaries and wages expense	$3,200	
Supplies expense	1,700	
Depreciation expense	200	5,100
Net income		$ 740

COMPREHENSIVE PROBLEM SOLUTION (Continued)

PROSEN DISTRIBUTING COMPANY
Owner's Equity Statement
For the Month Ended December 31, 2014

Owner's Capital, Dec. 1	$39,300
Add: Net income	740
Owner's Capital, Dec. 31	$40,040

PROSEN DISTRIBUTING COMPANY
Balance Sheet
December 31, 2014

Assets		
Current assets		
Cash	$12,820	
Accounts receivable	2,700	
Inventory	8,720	
Supplies	1,500	
Total current assets		$25,740
Property, plant, and equipment		
Equipment	22,000	
Less: Accumulated depreciation	2,400	19,600
Total assets		$45,340
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable	$4,500	
Salaries and wages payable	800	
Total current liabilities		$ 5,300
Owner's equity		
Owner's capital		40,040
Total liabilities and owner's equity		$45,340

BYP 5-1 FINANCIAL REPORTING PROBLEM

			2010	2011
(a)	(1)	Percentage change in sales:		
		($65,225 – $42,905) ÷ $42,905	52.0% increase	
		($108,249 – $65,225) ÷ $65,225		66.0% increase
	(2)	Percentage change in net income:		
		($14,013 – $8,235) ÷ $8,235	70.2% increase	
		($25,922 – $14,013) ÷ $14,013		85.0% increase

(b)	Gross profit rate:	
	2009 ($42,905 – $25,683) ÷ $42,905	40.1%
	2010 ($65,225 – $39,541) ÷ $65,225	39.4%
	2011 ($108,249 – $64,431) ÷ $108,249	40.5%
(c)	Percentage of net income to sales:	
	2009 ($8,235 ÷ $42,905)	19.2%
	2010 ($14,013 ÷ $65,225)	21.5%
	2011 ($25,922 ÷ $108,249)	23.9%

Comment

The percentage of net income to sales increased 12% from 2009 to 2010 (19.2% to 21.5%) and increased 11.2% from 2010 to 2011 (21.5% to 23.9%). The gross profit rate has remained relatively steady during this time.

BYP 5-2 COMPARATIVE ANALYSIS PROBLEM

			PepsiCo	Coca-Cola
(a)	(1)	2011 Gross profit	$34,911[1]	$28,326[2]
	(2)	2011 Gross profit rate	52.5%[3]	60.9%[4]
	(3)	2011 Operating income	$9,633	$10,154
	(4)	Percent change in operating income, 2010 to 2011	15.6%[5] increase	20.2%[6] increase

[1]$66,504 – $31,593 [2]($46,542 – $18,216) [3]$34,911 ÷ $66,504

[4]$28,326 ÷ $46,542 [5]($9,633 – $8,332) ÷ $8,332

[6]($10,154 – $8,449) ÷ $8,449

(b) PepsiCo has a higher gross profit but a lower gross profit rate than Coca-Cola. This can be explained by PepsiCo's higher sales.

Coca-Cola had a larger operating income because its selling, general, and administrative expenses were much smaller than PepsiCo's.

BYP 5-3 COMPARATIVE ANALYSIS PROBLEM

			Amazon	Wal-Mart
(a)	(1)	2011 Gross profit	\$4,712[1]	\$108,727[2]
	(2)	2011 Gross profit rate	11.2%[3]	24.5%[4]
	(3)	2011 Operating income	\$862	\$26,558
	(4)	Percent change in operating income, 2010 to 2011	38.7%[5] decrease	4.0%[6] increase

[1]\$42,000 – \$37,288 [2](\$443,854 – \$335,127) [3]\$4,712 ÷ \$42,000

[4]\$108,727 ÷ \$443,854 [5](\$862 – \$1,406) ÷ \$1,406

[6](\$26,558 – \$25,542) ÷ \$25,542

(b) Wal-Mart has a much higher gross profit and gross profit rate than Amazon. This can be explained by Wal-Mart's higher markup.

Wal-Mart's operating income increased 4.0% while Amazon's decreased by almost 39%. Amazon's operating expenses increased 44% during 2011 causing its operating income to decline significantly.

BYP 5-4 REAL-WORLD FOCUS

The answers to this assignment will be dependent upon the articles selected from the Internet by the student.

BYP 5-5 DECISION MAKING ACROSS THE ORGANIZATION

(a) (1)

FAMILY DEPARTMENT STORE
Income Statement
For the Year Ended December 31, 2014

Net sales [$700,000 + ($700,000 X 6%)]		$742,000
Cost of goods sold ($742,000 X 76%)*		563,920
Gross profit ($742,000 X 24%)		178,080
Operating expenses		
Selling expenses	$100,000	
Administrative expenses	20,000	
Total operating expenses		120,000
Net income		$ 58,080

*Alternatively: Net sales, $742,000 – gross profit, $178,080.

(2)

FAMILY DEPARTMENT STORE
Income Statement
For the Year Ended December 31, 2014

Net sales		$700,000
Cost of goods sold		553,000
Gross profit		147,000
Operating expenses		
Selling expenses	$72,000*	
Administrative expenses	20,000	92,000
Net income		$ 55,000

*$100,000 – $30,000 + ($700,000 X 2%) – ($30,000 X 40%) = $72,000.

(b) Dana's proposed changes will increase net income by $31,080. Eric's proposed changes will reduce operating expenses by $28,000 and result in a corresponding increase in net income. Thus, if the choice is between Dana's plan and Eric's plan, Dana's plan should be adopted. While Eric's plan will increase net income, it may also have an adverse effect on sales personnel. Under Eric's plan, sales personnel will be taking a cut of $16,000 in compensation [$60,000 – ($30,000 + $14,000)].

BYP 5-5 (Continued)

(c) **FAMILY DEPARTMENT STORE**
Income Statement
For the Year Ended December 31, 2014

Net sales		$742,000
Cost of goods sold		563,920
Gross profit		178,080
Operating expenses		
Selling expenses	$72,840*	
Administrative expenses	20,000	
Total operating expenses		92,840
Net income		$ 85,240

*$72,000 + [2% X ($742,000 – $700,000)] = $72,840.

If both plans are implemented, net income will be $58,240 ($85,240 – $27,000) higher than the 2013 results. This is an increase of over 200%. Given the size of the increase, Eric's plan to compensate sales personnel might be modified so that they would not have to take a pay cut. For example, if sales commissions were 3%, the compensation cut would be reduced to $8,580 [$16,000 (from (b)) – $742,000 X (3% – 2%)].

BYP 5-6 COMMUNICATION ACTIVITY

(a), (b)

President
Surfing USA Co.

Dear Sir:

As you know, the financial statements for Surfing USA Co. are prepared in accordance with generally accepted accounting principles. One of these principles is the revenue recognition principle, which provides that revenues should be recognized when they are earned.

Typically, sales revenues are earned when the goods are transferred to the buyer from the seller. At this point, the sales transaction is completed and the sales price is established. Thus, in the typical situation, revenue on the surfboard ordered by Connor is earned at event No. 8, when Connor picks up the surfboard.

The circumstances pertaining to this sale may seem to you to be atypical because Connor has ordered a specific kind of surfboard. From an accounting standpoint, this would be true only if you could not reasonably expect to sell this surfboard to another customer. In such case, it would be proper under generally accepted accounting principles to recognize sales revenue when you have completed the surfboard for Connor.

Whether Connor makes a down payment with the purchase order is irrelevant in recognizing sales revenue because at this time, you have not done anything to earn the revenue. A down payment may be an indication of Connor's "good faith." However, its effect on your financial statements is limited entirely to recognizing the down payment as unearned revenue.

If you have further questions about the accounting for this sale, please let me know.

Sincerely,

BYP 5-7 ETHICS CASE

(a) **Jacquie Boynton, as a new employee, is placed in a position of responsibility and is pressured by her supervisor to continue an unethical practice previously performed by him. The unethical practice is taking undeserved cash discounts. Her dilemma is either follow her boss's unethical instructions or offend her boss and maybe lose the job she just assumed.**

(b) **The stakeholders (affected parties) are:**

- **Jacquie Boynton, the assistant treasurer.**
- **Phelan Carter, the treasurer.**
- **Key West, the company.**
- **Creditors of Key West Stores (suppliers).**
- **Mail room employees (those assigned the blame).**

(c) **Jacquie's alternatives:**

1. **Tell the treasurer (her boss) that she will attempt to take every allowable cash discount by preparing and mailing checks within the discount period—the ethical thing to do. This will offend her boss and may jeopardize her continued employment.**

2. **Join the team and continue the unethical practice of taking undeserved cash discounts.**

3. **Go over her boss's head and take the chance of receiving just and reasonable treatment from an officer superior to Phelan. The company may not condone this practice. Jacquie definitely has a choice, but probably not without consequence. To continue the practice is definitely unethical. If Jacquie submits to this request, she may be asked to perform other unethical tasks. If Jacquie stands her ground and refuses to participate in this unethical practice, she probably won't be asked to do other unethical things—if she isn't fired. Maybe nobody has ever challenged Phelan's unethical behavior and his reaction may be one of respect rather than anger and retribution. Being ethically compromised is no way to start a new job.**

BYP 5-8 ALL ABOUT YOU

In order for revenue to be recognized the performance obligation must be satisfied. In this case Impact has an obligation to provide goods with a value equal to the gift card. That obligation is not fulfilled until one of two things happens: Either the customer redeems the card for goods, or the card expires. Until either of those events occurs Impact cannot record revenue.

BYP 5-9 FASB CODIFICATION ACTIVITY

(a) (1) Inventory is the aggregate of those items of tangible personal property that have any of the following characteristics:

a. Held for sale in the ordinary course of business

b. In process of production for such sale

c. To be currently consumed in the production of goods or services to be available for sale.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes long-term assets subject to depreciation accounting, or goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item should be classified as part of the inventory. Raw materials and supplies purchased for production may be used or consumed for the construction of long-term assets or other purposes not related to production, but the fact that inventory items representing a small portion of the total may not be absorbed ultimately in the production process does not require separate classification. By trade practice, operating materials and supplies of certain types of entities such as oil producers are usually treated as inventory.

(2) A customer is a reseller or a consumer, either an individual or a business that purchases a vendor's products or services for end use rather than for resale. This definition is consistent with paragraph 280-10-50-42, which states that a group of entities known to a reporting entity to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer. Customer includes any purchaser of the vendor's products at any point along the distribution chain, regardless of whether the purchaser acquires the vendor's products directly or indirectly (for example, from a distributor) from the vendor. For example, a vendor may sell its products to a distributor who in turn resells the products to a retailer. The retailer in that example is a customer of the vendor.

BYP 5-9 (Continued)

(b) 330-10-35-15 Only in exceptional cases may inventories properly be stated above cost. For example, precious metals having a fixed monetary value with no substantial cost of marketing may be stated at such monetary value; any other exceptions must be justifiable by inability to determine appropriate approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability.

IFRS EXERCISES

IFRS5-1

Expenses may be classified by "nature" or by "function". The "nature-of-expense" classification organizes expenses by type of expense, such as salaries, depreciation, rent, or supplies. The "function-of-expense" classification presents expenses by type of business activity. Examples would include cost of goods sold, selling, administrative, operating, and non-operating.

IFRS5-2

By function	Cost of goods sold
By nature	Depreciation expense
By nature	Salaries and wages expense
By function	Selling expenses
By nature	Utilities expense
By nature	Delivery expense
By function	General and administrative expenses

IFRS5-3

MATILDA COMPANY
Comprehensive Income Statement
For the Year Ended 2014

(in thousands of euros)		
Net income		€150
Unrealized gain related to revaluation of buildings.............	€ 10	
Unrealized loss related to investment securities..................	(35)	
Items not recognized on the income statement....................		(25)
Total comprehensive income		€125

INTERNATIONAL FINANCIAL REPORTING PROBLEM

IFRS5-4

(a) **Zetar uses a multiple step format. The income statement isolates gross profit, operating profit, and profit from continuing operations before taxation rather than simply showing total revenues less total expenses to arrive at net income.**

(b) **Zetar uses Finance Costs rather than Interest Expense on its income statement.**

(c) **Zetar's income statement shows Adjusted results, Adjusting items, and Total amounts for revenue and expense items. Note 13 indicates that Zetar considers the adjusted results and adjusted EPS to provide additional useful information on its performance. It goes on to list a number of unusual items that it has adjusted for on its income statement.**

One-off items are listed as part of the adjustments group. One-off items are non-recurring material costs or revenues of an unusual nature that have been excluded from the Adjusted results on the income statement in order to provide a more consistent measure of underlying performance.