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	1		
2.	Explain the recording of purchases under a perpetual inventory system.	6, 7, 8	2, 4	2	2, 3, 4, 11	1A, 2A, 4A	1B, 2B, 4B
3.	Explain the recording of sales revenues under a perpetual inventory system.	5, 9, 10, 11	2, 3	3	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	4	6, 7, 8	3A, 4A, 5A	3B, 4B
5.	Prepare an income statement for a merchandiser.	15, 16, 17, 18	7, 8, 9	5	6, 9, 10, 12, 13, 14	2A, 3A, 5A	2B, 3B
*6.	Prepare a worksheet for a merchandising company.	19	10		15, 16	5A	
*7.	Explain the recording of purchases and sales of inventory under a periodic inventory system.	20, 21	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

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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	AP	Simple	4–6
BE11	7	AP	Simple	4–6
BE12	7	AP	Simple	3–5
BE13	7	K	Simple	2–4
BE14	7	AP	Simple	6–8
BE15	7	AP	Simple	4–6
DI1	1	K	Simple	2–4
DI2	2	AP	Simple	2–4
DI3	3	AP	Simple	4–6
DI4	4	AP	Simple	4–6
DI5	5	C	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	6–8
EX16	6	AP	Simple	8–10
EX17	7	AN	Moderate	10–12
EX18	7	AP	Simple	8–10
EX19	7	AP	Simple	8–10
EX20	7	AP	Simple	2–4
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	40–50
P6A	7	AN	Moderate	20–30
P7A	7	AP	Simple	30–40
P8A	7	AP	Moderate	50–60
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	7	AP	Moderate	40–50
P6B	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, S, E	Moderate	20–30
BYP4	3	C	Simple	10–15
BYP5	2	E	Simple	10–15

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 DI5-1	Q5-3 Q5-4 E5-1	BE5-1			
2. Explain the recording of purchases under a perpetual inventory system.		Q5-6 Q5-7	Q5-8 E5-3 P5-2B BE5-2 E5-4 P5-4A BE5-4 P5-1A P5-4B DI5-2 P5-2A E5-2 P5-1B	E5-11		
3. Explain the recording of sales revenues under a perpetual inventory system.	Q5-5 Q5-10		Q5-11 E5-4 P5-1B BE5-2 E5-5 P5-2B BE5-3 P5-1A P5-4B DI5-3 P5-2A E5-3 P5-4A	Q5-9 E5-11		
4. Explain the steps in the accounting cycle for a merchandising company.		Q5-1 Q5-12 Q5-14	Q5-13 E5-6 P5-5A BE5-5 E5-7 P5-4B BE5-6 E5-8 DI5-4 P5-4A	P5-3A P5-3B		
5. Prepare an income statement for a merchandiser.	Q5-18	Q5-17 BE5-8 DI5-5	Q5-15 E5-10 P5-2B Q5-16 E5-12 P5-5A BE5-7 E5-13 BE5-9 P5-2A E5-6 E5-9	E5-14 P5-3A P5-3B		
***6. Prepare a worksheet for a merchandising company.**	Q5-19 BE5-13		E5-15 P5-5A	E5-16		
***7. Explain the recording of purchases and sales under a periodic inventory system.**	Q5-20		Q5-21 E5-17 P5-6A BE5-11 E5-18 P5-5B BE5-12 E5-19 P5-8A BE5-13 E5-20 P5-7B BE5-14 E5-21 BE5-15 E5-22	P5-7A P5-6B		
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis Decision–Making Across the Organization	Decision–Making Across the Organization	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	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 (£2,500 – £200)	2,300	
	Inventory (£2,300 X 2%)..		46
	Cash (£2,300 – £46)...		2,254

9. Agree. In accordance with the revenue recognition principle, companies record sales revenue when the performance obligation is satisfied. The performance obligation is satisfied when the goods transfer from the seller to the buyer; that is, when the exchange transaction occurs. The earning 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

July 19	Cash (€600 – €12)	588	
	Sales Discounts (€600 X 2%)	12	
	Accounts Receivable (€700 – €100)		600

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	180,000	
	Income Summary		180,000
(2)	Income Summary	125,000	
	Cost of Goods Sold		125,000

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

15.

Sales revenue	HK$1,090,000
Cost of goods sold	700,000
Gross profit	HK$ 390,000

Gross profit rate: HK$390,000 ÷ HK$1,090,000 = 35.8%

16.

Gross profit	¥570,000
Less: Net income	240,000
Operating expenses	¥330,000

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 income and expense, and interest expense.

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

***20.**

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

***21.**

July 24	Accounts Payable (NT$60,000 – NT$6,000)	54,000	
	Purchase Discounts (NT$54,000 X 2%)		1,080
	Cash (NT$54,000 – NT$1,080)		52,920

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 5-1

(a) Cost of goods sold = £48,000 (£78,000 – £30,000).
Operating expenses = £19,200 (£30,000 – £10,800).

(b) Gross profit = £53,000 (£108,000 – £55,000).
Operating expenses = £23,500 (£53,000 – £29,500).

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

BRIEF EXERCISE 5-2

<u>Giovanni Company</u>

Inventory	780	
Accounts Payable		780

<u>Gordon Company</u>

Accounts Receivable	780	
Sales Revenue		780
Cost of Goods Sold	560	
Inventory		560

BRIEF EXERCISE 5-3

(a)	Accounts Receivable	800,000	
	Sales Revenue		800,000
	Cost of Goods Sold	620,000	
	Inventory		620,000
(b)	Sales Returns and Allowances	120,000	
	Accounts Receivable		120,000
	Inventory	90,000	
	Cost of Goods Sold		90,000

BRIEF EXERCISE 5-3 (Continued)

		Debit	Credit
(c)	Cash (£680,000 – £13,600)	666,400	
	Sales Discounts (£680,000 X 2%)	13,600	
	Accounts Receivable (£800,000 – £120,000)		680,000

BRIEF EXERCISE 5-4

		Debit	Credit
(a)	Inventory	800,000	
	Accounts Payable		800,000
(b)	Accounts Payable	120,000	
	Inventory		120,000
(c)	Accounts Payable (£800,000 – £120,000)	680,000	
	Inventory (£680,000 X 2%)		13,600
	Cash (£680,000 – £13,600)		666,400

BRIEF EXERCISE 5-5

	Debit	Credit
Cost of Goods Sold	1,900	
Inventory		1,900

BRIEF EXERCISE 5-6

	Debit	Credit
Sales Revenue	192,000	
Income Summary		192,000
Income Summary	107,000	
Cost of Goods Sold		105,000
Sales Discounts		2,000

BRIEF EXERCISE 5-7

YANGTZE COMPANY, LTD.
Income Statement (Partial)
For the Month Ended October 31, 2017

Sales revenues		
Sales revenue (¥280,000 + ¥100,000).................		¥380,000
Less: Sales returns and allowances	¥22,000	
Sales discounts	5,000	27,000
Net sales..		¥353,000

BRIEF EXERCISE 5-8

The format of an income statement for a merchandising company is designed to differentiate between various sources of income and expense.

	Item	Section
(a)	Gain on sale of equipment	Other income and expense
(b)	Interest expense	After other income and expenses
(c)	Casualty loss from vandalism	Other income and expense
(d)	Cost of goods sold	Cost of goods sold
(e)	Depreciation expense	Operating expenses

BRIEF EXERCISE 5-9

(a) Net sales = €506,000 – €13,000 = €493,000.

(b) Gross profit = €493,000 – €342,000 = €151,000.

(c) Income from operations = €151,000 – €110,000 = €41,000.

(d) Gross profit rate = €151,000 ÷ €493,000 = 30.6%.

***BRIEF EXERCISE 5-10**

(a) Cash: Trial balance debit column; Adjusted trial balance debit column; Statement of financial position debit column.

(b) Inventory: Trial balance debit column; Adjusted trial balance debit column; Statement of financial position 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		₩430,000
Less: Purchase returns and allowances	₩13,000	
Purchase discounts	8,000	21,000
Net purchases		₩409,000
Net purchases		₩409,000
Add: Freight-in		16,000
Cost of goods purchased		₩425,000

*BRIEF EXERCISE 5-12

Net sales		₩680,000
Beginning inventory	₩ 60,000	
Add: Cost of goods purchased*	425,000	
Cost of goods available for sale	485,000	
Less: Ending inventory	86,000	
Cost of goods sold		399,000
Gross profit		₩281,000

*Information taken from Brief Exercise 5-11.

*BRIEF EXERCISE 5-13

(a)	Purchases	900,000	
	Accounts Payable		900,000
(b)	Accounts Payable	184,000	
	Purchase Returns and Allowances		184,000
(c)	Accounts Payable (£900,000 – £184,000)	716,000	
	Purchase Discounts (£716,000 X 2%)		14,320
	Cash (£716,000 – £14,320)		701,680

*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; Statement of financial position 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; Statement of financial position credit column.**

(d) **Ending inventory: Income statement credit column; Statement of financial position debit column.**

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 5-1

1. **True.**
2. **False. Under a perpetual inventory system, a company determines the cost of goods sold at each time a sale occurs.**
3. **False. Both service and merchandising companies are likely to use accounts receivable.**
4. **True.**

DO IT! 5-2

Oct. 5	**Inventory ....**	**4,700**	
	Accounts Payable		**4,700**
	(To record goods purchased on account)		
Oct. 8	**Accounts Payable..**	**650**	
	Inventory		**650**
	(To record return of defective goods)		

DO IT! 5-3

Oct. 5	Accounts Receivable	4,700	
	Sales Revenue		4,700
	(To record credit sales)		
	Cost of Goods Sold	3,100	
	Inventory		3,100
	(To record cost of goods sold)		
Oct. 8	Sales Returns and Allowances	650	
	Accounts Receivable		650
	(To record credit granted for receipt of returned goods)		
	Inventory	160	
	Cost of Goods Sold		160
	(To record fair value of goods returned)		

DO IT! 5-4

Dec. 31	Sales Revenue	156,000	
	Interest Revenue	3,000	
	Income Summary...		159,000
	(To close accounts with credit balances)		
	Income Summary...	128,600	
	Cost of Goods Sold		92,400
	Sales Returns and Allowances.......................		4,100
	Sales Discounts...		3,000
	Freight-Out		2,200
	Utilities Expense...		7,400
	Salaries and Wages Expense		19,500
	(To close accounts with debit balances)		

DO IT! 5-5

Account	Financial Statement	Classification
Accounts Payable	Statement of Financial Position	Current liabilities
Accounts Receivable	Statement of Financial Position	Current assets
Accumulated Depreciation—Buildings	Statement of Financial Position	Property, plant, and equipment
Cash	Statement of Financial Position	Current assets
Casualty Loss from Vandalism	Income statement	Other income and expense
Cost of Goods Sold	Income statement	Cost of goods sold
Depreciation Expense	Income statement	Operating expenses
Dividends	Retained earnings statement	Deduction section
Equipment	Statement of Financial Position	Property, plant, and equipment
Freight-Out	Income statement	Operating expenses
Insurance Expense	Income statement	Operating expenses
Interest Payable	Statement of Financial Position	Current liabilities
Inventory	Statement of Financial Position	Current assets
Land	Statement of Financial Position	Property, plant, and equipment
Notes Payable (due in 5 years)	Statement of Financial Position	Non-current liabilities
Property Taxes Payable	Statement of Financial Position	Current liabilities
Salaries and Wages Expense	Income statement	Operating expenses
Salaries and Wages Payable	Statement of Financial Position	Current liabilities
Sales Returns and Allowances	Income statement	Sales revenues
Sales Revenue	Income statement	Sales revenues
Share Capital—Ordinary	Statement of Financial Position	Equity
Unearned Rent Revenue	Statement of Financial Position	Current liabilities
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

				Debit	Credit
(a)	(1)	April 5	Inventory	25,000	
			Accounts Payable		25,000
	(2)	April 6	Inventory	900	
			Cash		900
	(3)	April 7	Equipment	26,000	
			Accounts Payable		26,000
	(4)	April 8	Accounts Payable	2,600	
			Inventory		2,600
	(5)	April 15	Accounts Payable (£25,000 – £2,600)	22,400	
			Inventory [(£25,000 – £2,600) X 2%]		448
			Cash (£22,400 – £448)		21,952
(b)		May 4	Accounts Payable	22,400	
			Cash		22,400

EXERCISE 5-3

Sept. 6	Inventory (90 X €20)	1,800	
	Accounts Payable		1,800
9	Inventory	180	
	Cash		180
10	Accounts Payable	66	
	Inventory		66
12	Accounts Receivable (28 X €33)	924	
	Sales Revenue		924
	Cost of Goods Sold (28 X €22)	616	
	Inventory		616
14	Sales Returns and Allowances	33	
	Accounts Receivable		33
	Inventory	22	
	Cost of Goods Sold		22
20	Accounts Receivable (40 X €35)	1,400	
	Sales Revenue		1,400
	Cost of Goods Sold (40 X €22)	880	
	Inventory		880

EXERCISE 5-4

(a)	June 10	Inventory	7,600	
		Accounts Payable		7,600
	11	Inventory	400	
		Cash		400
	12	Accounts Payable	300	
		Inventory		300
	19	Accounts Payable (£7,600 – £300)	7,300	
		Inventory (£7,300 X 2%)		146
		Cash (£7,300 – £146)		7,154

EXERCISE 5-4 (Continued)

(b)	June 10	Accounts Receivable	7,600	
		Sales Revenue		7,600
		Cost of Goods Sold	4,300	
		Inventory..		4,300
	12	Sales Returns and Allowances.............	300	
		Accounts Receivable.....................		300
		Inventory	70	
		Cost of Goods Sold		70
	19	Cash (£7,300 – £146)	7,154	
		Sales Discounts (£7,300 X 2%)	146	
		Accounts Receivable (£7,600 – £300)...........................		7,300

EXERCISE 5-5

(a)	1.	Dec. 3	Accounts Receivable......................	580,000	
			Sales Revenue.........................		580,000
			Cost of Goods Sold	364,800	
			Inventory.................................		364,800
	2.	Dec. 8	Sales Returns and Allowances	28,000	
			Accounts Receivable		28,000
	3.	Dec. 13	Cash (HK$552,000 – HK$5,520)......	546,480	
			Sales Discounts [(HK$580,000 – HK$28,000) X 1%]	5,520	
			Accounts Receivable (HK$580,000 – HK$28,000)..		552,000

(b)	Cash..	552,000	
	Accounts Receivable (HK$580,000 – HK$28,000)..........................		552,000

EXERCISE 5-6

(a)

MENDOZA COMPANY, SLU
Income Statement (Partial)
For the Year Ended October 31, 2017

Sales revenues		
Sales revenue		€820,000
Less: Sales returns and allowances	€28,000	
Sales discounts	13,000	41,000
Net sales		€779,000

Note: Freight-Out is a selling expense.

(b)

(1)	Oct. 31	Sales Revenue	820,000	
		Income Summary		820,000
(2)	31	Income Summary	41,000	
		Sales Returns and Allowances		28,000
		Sales Discounts		13,000

EXERCISE 5-7

(a)

Cost of Goods Sold	800	
Inventory		800

(b)

Sales Revenue	117,000	
Income Summary		117,000
Income Summary	92,800	
Cost of Goods Sold (₺60,000 + ₺800)		60,800
Operating Expenses		29,000
Sales Returns and Allowances		1,700
Sales Discounts		1,300
Income Summary (₺117,000 – ₺92,800)	24,200	
Retained Earnings		24,200

EXERCISE 5-8

(a)	Cost of Goods Sold	600	
	Inventory		600
(b)	Sales Revenue	378,000	
	Income Summary		378,000
	Income Summary	327,600	
	Cost of Goods Sold (€208,000 + €600)		208,600
	Freight-Out		7,000
	Insurance Expense		12,000
	Rent Expense		20,000
	Salaries and Wages Expense		59,000
	Sales Discounts		8,000
	Sales Returns and Allowances		13,000
	Income Summary (€378,000 – €327,600)	50,400	
	Retained Earnings		50,400

EXERCISE 5-9

(a)

BACH COMPANY, LTD.
Income Statement
For the Month Ended March 31, 2017

Sales revenues		
Sales revenue		£380,000
Less: Sales returns and allowances	£13,000	
Sales discounts	7,400	20,400
Net sales		359,600
Cost of goods sold		212,000
Gross profit		147,600
Operating expenses		
Salaries and wages expense	58,000	
Rent expense	32,000	
Freight-out	9,000	
Insurance expense	7,000	
Total operating expenses		106,000
Net income		£ 41,600

EXERCISE 5-9 (Continued)

(b)

BACH COMPANY, LTD.
Comprehensive Income Statement
For the Month Ended March 31, 2017

Net income	£41,600
Other comprehensive income............	2,200
Comprehensive income......................	£43,800

(c) Gross profit rate = £147,600 ÷ £359,600 = 41.05%.

EXERCISE 5-10

(a)

MANCINI COMPANY, SpA
Income Statement
For the Year Ended December 31, 2017

Net sales..		€2,200,000
Cost of goods sold		1,256,000
Gross profit		944,000
Operating expenses...........................		725,000
Income from operations		219,000
Other income and expense		
Interest revenue...........................	€ 33,000	
Loss on disposal of plant assets	(17,000)	16,000
Interest expense		70,000
Net income		€ 165,000

(b)

MANCINI COMPANY, SpA
Comprehensive Income Statement
For the Year Ended December 31, 2017

Net income	€165,000
Other comprehensive income............	8,300
Comprehensive income......................	€173,300

EXERCISE 5-11

1.	Sales Returns and Allowances	1,750	
	Sales Revenue		1,750
2.	Supplies	1,400	
	Cash	1,400	
	Accounts Payable		1,400
	Inventory		1,400
3.	Sales Discounts	2,150	
	Sales Revenue		2,150
4.	Inventory	200	
	Cash	1,800	
	Freight-Out		2,000

EXERCISE 5-12

(a) £860,000 – £533,200 = £326,800.

(b) £326,800/£860,000 = 38%. 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 indicates what portion of each sales dollar goes 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 £105,800 (£326,800 – £221,000), and net income is £98,800 (£105,800 – £7,000).

(d) Inventory is reported as a current asset immediately below prepaid expenses.

EXERCISE 5-13

(a) (*missing amount)

a.	Sales revenue	руб94,000
	*Sales returns	(14,000)
	Net sales	руб80,000
b.	Net sales	руб80,000
	Cost of goods sold	(56,000)
	*Gross profit	руб24,000
c.	Gross profit	руб24,000
	Operating expenses	(12,000)
	*Net income	руб12,000
d.	*Sales revenue	руб103,000
	Sales returns	(5,000)
	Net sales	руб 98,000
e.	Net sales	руб98,000
	*Cost of goods sold	(60,500)
	Gross profit	руб37,500
f.	Gross profit	руб37,500
	*Operating expenses	(22,500)
	Net income	руб15,000

(b) Natasha Company

Gross profit ÷ Net sales = руб24,000 ÷ руб80,000 = 30.0%

Boris's Company

Gross profit ÷ Net sales = руб37,500 ÷ руб98,000 = 38.3%

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 income and expense	(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	(73,000)*
	Gross profit	€ 22,000
(g) and (h)		
	Gross profit	€ 22,000
	Operating expenses (g)	(8,000)*
	Income from operations (h)	€ 14,000*
	Other income and expense	(3,000)
	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 income and expense (l)	1,000*
Net income	€ 5,000

*EXERCISE 5-15

Accounts	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	9,000				9,000	
Inventory	76,000				76,000	
Sales Revenue		460,000		460,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	9,000		9,000			
Cost of Goods Sold	288,000		288,000			

*EXERCISE 5-16

BARBOSA COMPANY, SA
Worksheet
For the Month Ended June 30, 2017

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,120				2,120				2,120	
Accounts Receivable	2,740				2,740				2,740	
Inventory	11,640				11,640				11,640	
Accounts Payable		1,120		1,640		2,760				2,760
Share Capital—Ordinary		4,000				4,000				4,000
Sales Revenue		42,800				42,800		42,800		
Cost of Goods Sold	20,560				20,560		20,560			
Operating Expenses	10,860		1,640		12,500		12,500			
Totals	47,920	47,920	1,640	1,640	49,560	49,560	33,060	42,800	16,500	6,760
Net Income							9,740			9,740
Totals							42,800	42,800	16,500	16,500

EXERCISE 5-17

Inventory, September 1, 2016		R_p17,200
Purchases	R_p149,000	
Less: Purchase returns and allowances	6,200	
Net Purchases	142,800	
Add: Freight-in	5,000	
Cost of goods purchased		147,800
Cost of goods available for sale		165,000
Less: Inventory, August 31, 2017		16,000
Cost of goods sold		R_p149,000

EXERCISE 5-18

(a)

Sales revenue				£840,000
Less: Sales returns and allowances			£ 11,000	
Sales discounts			7,000	18,000
Net sales				822,000
Cost of goods sold				
Inventory, January 1			50,000	
Purchases		£509,000		
Less: Purch. rets. and alls.	£8,000			
Purch. discounts	6,000	14,000		
Net purchases			495,000	
Add: Freight-in			4,000	
Cost of goods available for sale			549,000	
Less: Inventory, December 31			60,000	
Cost of goods sold				489,000
Gross profit				£333,000

(b) Gross profit £333,000 – Operating expenses = Net income £130,000.
Operating expenses = £203,000.

EXERCISE 5-19

(a)	€1,580	(€1,620 – €40)	(g)	€6,500	(€290 + €6,210)
(b)	€1,675	(€1,580 + €95)	(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)	€2,720	(€43,810 – €41,090)
(f)	€90	(€1,350 – €1,260)	(l)	€43,330	(€41,090 + €2,240)

*EXERCISE 5-20

(a)	1.	April 5	Purchases	18,000	
			Accounts Payable		18,000
	2.	April 6	Freight-In	820	
			Cash		820
	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 (€18,000 – €2,800)	15,200	
			Purchase Discounts [(€18,000 – €2,800) X 2%)]		304
			Cash (€15,200 – €304)		14,896
(b)		May 4	Accounts Payable (€18,000 – €2,800)	15,200	
			Cash		15,200

*EXERCISE 5-21

(a)	1.	April 5	Purchases......................................	17,400	
			Accounts Payable.....................		17,400
	2.	April 6	Freight-In.......................................	800	
			Cash..		800
	3.	April 7	Equipment......................................	27,000	
			Accounts Payable.....................		27,000
	4.	April 8	Accounts Payable	4,000	
			Purchase Returns and Allowances		4,000
	5.	April 15	Accounts Payable .... (£17,400 – £4,000)	13,400	
			Purchase Discounts [(£17,400 – £4,000) X 2%)].....		268
			Cash (£13,400 – £268)...............		13,132
(b)		May 4	Accounts Payable (£17,400 – £4,000)	13,400	
			Cash..		13,400

*EXERCISE 5-22

Accounts	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	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			

SOLUTIONS TO PROBLEMS

PROBLEM 5-1A

July 1	Inventory	1,620	
	Accounts Payable		1,620
3	Accounts Receivable	2,200	
	Sales Revenue		2,200
	Cost of Goods Sold	1,400	
	Inventory		1,400
9	Accounts Payable	1,620	
	Inventory (£1,620 X .02)		32
	Cash		1,588
12	Cash	2,178	
	Sales Discounts	22	
	Accounts Receivable		2,200
17	Accounts Receivable	1,400	
	Sales Revenue		1,400
	Cost of Goods Sold	1,030	
	Inventory		1,030
18	Inventory	1,900	
	Accounts Payable		1,900
	Inventory	125	
	Cash		125
20	Accounts Payable	300	
	Inventory		300
21	Cash	1,386	
	Sales Discounts	14	
	Accounts Receivable		1,400

PROBLEM 5-1A (Continued)

July 22	Accounts Receivable..................................	2,400	
	Sales Revenue......................................		2,400
	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 5-2A

(a)

General Journal J1

Date		Account Titles	Ref.	Debit	Credit
Apr.	2	Inventory	120	6,200	
		Accounts Payable	201		6,200
	4	Accounts Receivable	112	5,500	
		Sales Revenue	401		5,500
		Cost of Goods Sold	505	3,400	
		Inventory	120		3,400
	5	Freight-Out	644	240	
		Cash	101		240
	6	Accounts Payable	201	500	
		Inventory	120		500
	11	Accounts Payable (€6,200 – €500)	201	5,700	
		Inventory	120		57
		(€5,700 X 1%)			
		Cash	101		5,643
	13	Cash	101	5,445	
		Sales Discounts (€5,500 X 1%)	414	55	
		Accounts Receivable	112		5,500
	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	160	
		Cash	101		160

PROBLEM 5-2A (Continued)

General Journal J1

Date	Account Titles	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	120		90
	(€4,500 X 2%)			
	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	3,400	
	Sales Revenue	401		3,400
	Cost of Goods Sold	505	1,900	
	Inventory	120		1,900

PROBLEM 5-2A (Continued)

(b)

Cash **No. 101**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			8,000
	5		J1		240	7,760
	11		J1		5,643	2,117
	13		J1	5,445		7,562
	14		J1		3,800	3,762
	16		J1	500		4,262
	20		J1		160	4,102
	23		J1	7,400		11,502
	26		J1		2,300	9,202
	27		J1		4,410	4,792
	29		J1		90	4,702

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1	5,500		5,500
	13		J1		5,500	0
	30		J1	3,400		3,400

Inventory **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	2		J1	6,200		6,200
	4		J1		3,400	2,800
	6		J1		500	2,300
	11		J1		57	2,243
	14		J1	3,800		6,043
	16		J1		500	5,543
	18		J1	4,500		10,043
	20		J1	160		10,203
	23		J1		4,120	6,083
	26		J1	2,300		8,383
	27		J1		90	8,293
	29		J1	30		8,323
	30		J1		1,900	6,423

PROBLEM 5-2A (Continued)

Accounts Payable — **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	2		J1		6,200	6,200
	6		J1	500		5,700
	11		J1	5,700		0
	18		J1		4,500	4,500
	27		J1	4,500		0

Share Capital—Ordinary — **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			8,000

Sales Revenue — **No. 401**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1		5,500	5,500
	23		J1		7,400	12,900
	30		J1		3,400	16,300

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	55		55

Cost of Goods Sold — **No. 505**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1	3,400		3,400
	23		J1	4,120		7,520
	29		J1		30	7,490
	30		J1	1,900		9,390

PROBLEM 5-2A (Continued)

Freight-Out **No. 644**

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

(c)

VREE DISTRIBUTING COMPANY PLC
Income Statement (Partial)
For the Month Ended April 30, 2017

Sales		
Sales revenue		€16,300
Less: Sales returns and allowances	€90	
Sales discounts	55	145
Net sales		16,155
Cost of goods sold		9,390
Gross profit		€ 6,765

PROBLEM 5-3A

(a)

STARZ DEPARTMENT STORE, LTD.
Income Statement
For the Year Ended December 31, 2017

Sales revenues		
Sales		£724,000
Less: Sales returns and allowances		8,000
Net sales		716,000
Cost of goods sold		412,700
Gross profit		303,300
Operating expenses		
Salaries and wages expense	£105,000	
Depreciation expense	23,500	
Sales commissions expense	14,500	
Utilities expense	12,000	
Insurance expense	7,200	
Property tax expense	4,800	
Total operating expenses		167,000
Income from operations		136,300
Other income and expense		
Interest revenue		4,000
Interest expense		8,100
Net income		£ 132,200

PROBLEM 5-3A (Continued)

STARZ DEPARTMENT STORE, LTD.
Retained Earnings Statement
For the Year Ended December 31, 2017

Retained earnings, January 1	£64,600
Add: Net income	132,200
	196,800
Less: Dividends	24,000
Retained earnings, December 31	£172,800

STARZ DEPARTMENT STORE, LTD.
Statement of Financial Position
December 31, 2017

Assets			
Property, plant, and equipment			
Buildings	£290,000		
Less: Accumulated depreciation—buildings	52,500	£237,500	
Equipment	110,000		
Less: Accumulated depreciation—equipment	42,700	67,300	£304,800
Current assets			
Prepaid insurance		2,400	
Inventory		75,000	
Accounts receivable		50,300	
Cash		23,800	151,500
Total assets			£456,300

STARZ DEPARTMENT STORE, LTD.
Statement of Financial Position (Continued)
December 31, 2017

Equity and Liabilities		
Equity		
Share capital—ordinary	£112,000	
Retained earnings	172,800	£284,800
Non-current liabilities		
Mortgage payable		64,000
Current liabilities		
Accounts payable	77,300	
Mortgage payable (due next year)	16,000	
Interest payable	5,100	
Property taxes payable	4,800	
Sales commissions payable	4,300	107,500
Total equity and liabilities		£456,300

(b)

Dec. 31	Depreciation Expense	23,500	
	Accumulated Depreciation—Buildings		10,400
	Accumulated Depreciation—Equipment		13,100
31	Insurance Expense	7,200	
	Prepaid Insurance		7,200
31	Interest Expense	5,100	
	Interest Payable		5,100
31	Property Tax Expense	4,800	
	Property Taxes Payable		4,800

PROBLEM 5-3A (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	724,000	
			Interest Revenue	4,000	
			Income Summary		728,000
		31	Income Summary	595,800	
			Sales Returns and Allowances		8,000
			Cost of Goods Sold		412,700
			Salaries and Wages Expense		105,000
			Sales Commissions Expense		14,500
			Property Tax Expense		4,800
			Utilities Expense		12,000
			Depreciation Expense		23,500
			Insurance Expense		7,200
			Interest Expense		8,100
		31	Income Summary	132,200	
			Retained Earnings		132,200
		31	Retained Earnings	24,000	
			Dividends		24,000

PROBLEM 5-4A

(a)

General Journal J1

Date		Account Titles	Ref.	Debit	Credit
Apr.	4	Inventory	120	760	
		Accounts Payable	201		760
	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	60	
		Inventory	120		60
	11	Inventory	120	420	
		Cash	101		420
	13	Accounts Payable (¥760 – ¥60)	201	700	
		Inventory	120		14
		(¥700 X 2%)			
		Cash	101		686
	14	Inventory	120	800	
		Accounts Payable	201		800
	15	Cash	101	50	
		Inventory	120		50
	17	Inventory	120	30	
		Cash	101		30
	18	Accounts Receivable	112	980	
		Sales Revenue	401		980
		Cost of Goods Sold	505	520	
		Inventory	120		520

PROBLEM 5-4A (Continued)

General Journal — **J1**

Date	Account Titles	Ref.	Debit	Credit
Apr. 20	Cash	101	600	
	Accounts Receivable	112		600
21	Accounts Payable	201	800	
	Inventory (¥800 X 3%)	120		24
	Cash	101		776
27	Sales Returns and Allowances	412	40	
	Accounts Receivable	112		40
30	Cash	101	820	
	Accounts Receivable	112		820

(b)

Cash — **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,200
6		J1		40	2,160
11		J1		420	1,740
13		J1		686	1,054
15		J1	50		1,104
17		J1		30	1,074
20		J1	600		1,674
21		J1		776	898
30		J1	820		1,718

Accounts Receivable — **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 8		J1	1,150		1,150
18		J1	980		2,130
20		J1		600	1,530
27		J1		40	1,490
30		J1		820	670

PROBLEM 5-4A (Continued)

Inventory **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,800
	4		J1	760		2,560
	6		J1	40		2,600
	8		J1		790	1,810
	10		J1		60	1,750
	11		J1	420		2,170
	13		J1		14	2,156
	14		J1	800		2,956
	15		J1		50	2,906
	17		J1	30		2,936
	18		J1		520	2,416
	21		J1		24	2,392

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1		760	760
	10		J1	60		700
	13		J1	700		0
	14		J1		800	800
	21		J1	800		0

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			4,000

Sales Revenue **No. 401**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	8		J1		1,150	1,150
	18		J1		980	2,130

PROBLEM 5-4A (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	520		1,310

(c)

ZHENG'S TENNIS SHOP, LTD.
Trial Balance
April 30, 2017

	Debit	Credit
Cash	¥1,718	
Accounts Receivable	670	
Inventory	2,392	
Share Capital—Ordinary		¥4,000
Sales Revenue		2,130
Sales Returns and Allowances	40	
Cost of Goods Sold	1,310	
	¥6,130	¥6,130

*PROBLEM 5-5A

(a)

MR. ROSIAK FASHION CENTER, LTD
Worksheet
For the Year Ended November 30, 2017

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	8,700				8,700				8,700	
Accounts Receivable	27,700				27,700				27,700	
Inventory	44,700			(d) 180	44,520				44,520	
Supplies	6,200			(a) 4,100	2,100				2,100	
Equipment	133,000				133,000				133,000	
Accum. Depreciation— Equipment		23,000		(b) 11,500		34,500				34,500
Notes Payable		51,000				51,000				51,000
Accounts Payable		48,500				48,500				48,500
Share Capital—Ordinary		50,000				50,000				50,000
Retained Earnings		38,000				38,000				38,000
Dividends	8,000				8,000				8,000	
Sales Revenue		755,200				755,200		755,200		
Sales Returns and Allowances	12,800				12,800		12,800			
Cost of Goods Sold	497,400		(d) 180		497,580		497,580			
Salaries and Wages Expense	136,000				136,000		136,000			
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	965,700	965,700								
Supplies Expense			(a) 4,100		4,100		4,100			
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			19,780	19,780	981,200	981,200	757,180	755,200	224,020	226,000
Net Loss								1,980	1,980	
Totals							757,180	757,180	226,000	226,000

Key: (a) Supplies used, (b) Depreciation expense, (c) Accrued interest payable, (d) Adjustment of inventory.

(b)

MR. ROSIAK FASHION CENTER, LTD.
Income Statement
For the Year Ended November 30, 2017

Sales revenues		
Sales revenue		£755,200
Less: Sales returns and allowances		12,800
Net sales		742,400
Cost of goods sold		497,580
Gross profit		244,820
Operating expenses		
Salaries and wages expense	£136,000	
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	4,100	
Total operating expenses		242,800
Income from operations		2,020
Interest expense		4,000
Net loss		£ (1,980)

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

MR. ROSIAK FASHION CENTER, LTD.
Retained Earnings Statement
For the Year Ended November 30, 2017

Retained Earnings, December 1, 2016		£38,000
Less: Net loss	£ 1,980	
Dividends	8,000	9,980
Retained Earnings, November 30, 2017		£ 28,020

MR. ROSIAK FASHION CENTER, LTD.
Statement of Financial Position
November 30, 2017

Assets		
Property, plant, and equipment		
Equipment	£133,000	
Less: Accumulated depreciation—equipment	34,500	£98,500
Current assets		
Supplies	2,100	
Inventory	44,520	
Accounts receivable	27,700	
Cash	8,700	83,020
Total assets		£181,520

*PROBLEM 5-5A (Continued)

MR. ROSIAK FASHION CENTER
Statement of Financial Position (Continued)
November 30, 2017

Equity and Liabilities		
Equity		
Share capital—ordinary	£50,000	
Retained earnings	28,020	£ 78,020
Non-current liabilities		
Notes payable		45,000
Current liabilities		
Notes payable (due next year)	6,000	
Accounts payable	48,500	
Interest payable	4,000	58,500
Total equity and liabilities		£181,520

(c)

Date	Account	Debit	Credit
Nov. 30	Supplies Expense	4,100	
	Supplies		4,100
30	Depreciation Expense	11,500	
	Accumulated Depreciation—Equipment		11,500
30	Interest Expense	4,000	
	Interest Payable		4,000
30	Cost of Goods Sold	180	
	Inventory		180

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

(d)	**Nov. 30**	**Sales Revenue**	**755,200**	
		Income Summary		**755,200**
	30	**Income Summary**	**757,180**	
		Sales Returns and Allowances		**12,800**
		Cost of Goods Sold		**497,580**
		Salaries and Wages Expense		**136,000**
		Advertising Expense		**24,400**
		Utilities Expense		**14,000**
		Maintenance and Repairs Expense		**12,100**
		Freight-Out		**16,700**
		Rent Expense		**24,000**
		Supplies Expense		**4,100**
		Depreciation Expense		**11,500**
		Interest Expense		**4,000**
	30	**Retained Earnings**	**1,980**	
		Income Summary		**1,980**
	30	**Retained Earnings**	**8,000**	
		Dividends		**8,000**

*PROBLEM 5-5A (Continued)

(e)

MR. ROSIAK FASHION CENTER, LTD.
Post-Closing Trial Balance
November 30, 2017

	Debit	Credit
Cash	£ 8,700	
Accounts Receivable	27,700	
Inventory	44,520	
Supplies	2,100	
Equipment	133,000	
Accumulated Depreciation—Equipment		£ 34,500
Notes Payable		51,000
Accounts Payable		48,500
Interest Payable		4,000
Share Capital—Ordinary		50,000
Retained Earnings		28,020
	£216,020	£216,020

*PROBLEM 5-6A

HOTAI DEPARTMENT STORE, LTD.
Income Statement (Partial)
For the Year Ended December 31, 2017

Sales revenues				
Sales revenue				NT$21,540,000
Less: Sales returns and allowances				510,000
Net sales				21,030,000
Cost of goods sold				
Inventory, January 1			NT$1,215,000	
Purchases		NT$13,200,000		
Less: Purchase returns and allowances	NT$192,000			
Purchase discounts	360,000	552,000		
Net purchases		12,648,000		
Add: Freight-in		165,000		
Cost of goods purchased			12,813,000	
Cost of goods available for sale			14,028,000	
Less: Inventory, December 31			1,950,000	
Cost of goods sold				12,078,000
Gross profit				NT$8,952,000

*PROBLEM 5-7A

(a)

	2015	2016	2017
Cost of goods sold:			
Beginning inventory	€ 13,000	€ 11,300	€ 14,700
Plus: Purchases	141,000	150,000	132,000
Cost of goods available	154,000	161,300	146,700
Less: Ending inventory	11,300	14,700	12,200
Cost of goods sold	€142,700	€146,600	€134,500

(b)

	2015	2016	2017
Sales revenue	€225,700	€240,300	€235,000
Less: CGS	142,700	146,600	134,500
Gross profit	€ 83,000	€ 93,700	€100,500

(c)

	2015	2016	2017
Beginning accounts payable	€ 20,000	€ 26,000	€ 15,000
Plus: Purchases	141,000	150,000	132,000
Less: Payments to suppliers	135,000	161,000	127,000
Ending accounts payable	€ 26,000	€ 15,000	€ 20,000

(d) Gross profit rate	[1]36.8%	[2]39.0%	[3]42.8%
	[1]€83,000 ÷ €225,700	[2]€93,700 ÷ €240,300	[3]€100,500 ÷ €235,000

No. Even though sales declined in 2017 from the prior year, 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 5-8A

(a)

General Journal

Date	Account Titles	Debit	Credit
Apr. 4	Purchases	860	
	Accounts Payable		860
6	Freight-In	74	
	Cash		74
8	Accounts Receivable	900	
	Sales Revenue		900
10	Accounts Payable	60	
	Purchase Returns and Allowances		60
11	Purchases	300	
	Cash		300
13	Accounts Payable (CHF860 – CHF60)	800	
	Purchase Discounts (CHF800 X 3%)		24
	Cash		776
14	Purchases	700	
	Accounts Payable		700
15	Cash	90	
	Purchase Returns and Allowances		90
17	Freight-In	25	
	Cash		25
18	Accounts Receivable	1,200	
	Sales Revenue		1,200
20	Cash	500	
	Accounts Receivable		500
21	Accounts Payable	700	
	Purchase Discounts (CHF700 X 2%)		14
	Cash		686

*PROBLEM 5-8A (Continued)

Date		Account Titles	Debit	Credit
Apr.	27	Sales Returns and Allowances	25	
		Accounts Receivable		25
	30	Cash	630	
		Accounts Receivable		630

(b)

Cash

4/1 Bal.	2,500	4/6	74
4/15	90	4/11	300
4/20	500	4/13	776
4/30	630	4/17	25
		4/21	686
4/30 Bal.	1,859		

Accounts Receivable

4/8	900	4/20	500
4/18	1,200	4/27	25
		4/30	630
4/30 Bal.	945		

Inventory

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

Sales Returns and Allowances

4/27	25		
4/30 Bal.	25		

Purchases

4/4	860		
4/11	300		
4/14	700		
4/30 Bal.	1,860		

Purchase Returns and Allowances

		4/10	60
		4/15	90
		4/30 Bal.	150

Accounts Payable

4/10	60	4/4	860
4/13	800	4/14	700
4/21	700		
		4/30 Bal.	0

Share Capital—Ordinary

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

Sales Revenue

		4/8	900
		4/18	1,200
		4/30 Bal.	2,100

Purchase Discounts

		4/13	24
		4/21	14
		4/30 Bal.	38

Freight-In

4/6	74		
4/17	25		
4/30 Bal.	99		

*PROBLEM 5-8A (Continued)

(c)

VILLAGE TENNIS SHOP, AG
Trial Balance
April 30, 2017

	Debit	Credit
Cash	CHF1,859	
Accounts Receivable	945	
Inventory	1,700	
Share Capital—Ordinary		CHF4,200
Sales Revenue		2,100
Sales Returns and Allowances	25	
Purchases	1,860	
Purchase Returns and Allowances		150
Purchase Discounts		38
Freight-In	99	
	CHF 6,488	CHF 6,488

VILLAGE TENNIS SHOP, AG
Income Statement (Partial)
For the Month Ended April 30, 2017

Sales revenues				
Sales revenue				CHF2,100
Less: Sales returns and allowances				25
Net sales				2,075
Cost of goods sold				
Inventory, April 1			CHF1,700	
Purchases		CHF1,860		
Less: Purchase returns and allowances	CHF150			
Purchase discounts	38	188		
Net purchases		1,672		
Add: Freight-in		99		
Cost of goods purchased			1,771	
Cost of goods available for sale			3,471	
Less: Inventory, April 30			2,140	
Cost of goods sold				1,331
Gross profit				CHF 744

PROBLEM 5-1B

(a)	June	1	Inventory	1,850	
			Accounts Payable		1,850
		3	Accounts Receivable	2,600	
			Sales Revenue		2,600
			Cost of Goods Sold	1,440	
			Inventory		1,440
		6	Accounts Payable	150	
			Inventory		150
		9	Accounts Payable (€1,850 – €150)	1,700	
			Inventory (€1,700 X .02)		34
			Cash		1,666
		15	Cash	2,600	
			Accounts Receivable		2,600
		17	Accounts Receivable	1,800	
			Sales Revenue		1,800
			Cost of Goods Sold	1,040	
			Inventory		1,040
		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 5-1B (Continued)

June 28	Accounts Receivable	1,300	
	Sales Revenue		1,300
	Cost of Goods Sold	850	
	Inventory		850
30	Sales Returns and Allowances	125	
	Accounts Receivable		125
	Inventory	74	
	Cost of Goods Sold		74

PROBLEM 5-2B

(a)

General Journal J1

Date		Account Titles	Ref.	Debit	Credit
May	1	Inventory	120	4,200	
		Accounts Payable	201		4,200
	2	Accounts Receivable	112	2,300	
		Sales Revenue	401		2,300
		Cost of Goods Sold	505	1,300	
		Inventory	120		1,300
	5	Accounts Payable	201	500	
		Inventory	120		500
	9	Cash (£2,300 – £23)	101	2,277	
		Sales Discounts (£2,300 X 1%)	414	23	
		Accounts Receivable	112		2,300
	10	Accounts Payable (£4,200 – £500)	201	3,700	
		Inventory (£3,700 X 2%)	120		74
		Cash	101		3,626
	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 5-2B (Continued)

General Journal **J1**

Date	Account Titles	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	90	
	Cash	101		90
	Inventory	120	40	
	Cost of Goods Sold	505		40
31	Accounts Receivable	112	1,000	
	Sales Revenue	401		1,000
	Cost of Goods Sold	505	560	
	Inventory	120		560

PROBLEM 5-2B (Continued)

(b)

Cash						**No. 101**
Date		**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May	1	Balance	✓			5,000
	9		J1	2,277		7,277
	10		J1		3,626	3,651
	11		J1		400	3,251
	12		J1		1,400	1,851
	15		J1	150		2,001
	19		J1		130	1,871
	24		J1	3,200		5,071
	27		J1		1,274	3,797
	29		J1		90	3,707

Accounts Receivable						**No. 112**
Date		**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May	2		J1	2,300		2,300
	9		J1		2,300	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		500	2,400
	10		J1		74	2,326
	12		J1	1,400		3,726
	15		J1		150	3,576
	17		J1	1,300		4,876
	19		J1	130		5,006
	24		J1		2,000	3,006
	25		J1	620		3,626
	27		J1		26	3,600
	29		J1	40		3,640
	31		J1		560	3,080

PROBLEM 5-2B (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	500		3,700
	10		J1	3,700		0
	17		J1		1,300	1,300
	25		J1		620	1,920
	27		J1	1,300		620

Share Capital—Ordinary — No. 311

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

Sales Revenue — No. 401

Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1		2,300	2,300
	24		J1		3,200	5,500
	31		J1		1,000	6,500

Sales Returns and Allowances — No. 412

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

Sales Discounts — No. 414

Date		Explanation	Ref.	Debit	Credit	Balance
May	9		J1	23		23

PROBLEM 5-2B (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		40	3,260
	31		J1	560		3,820

(c)

NORWICH HARDWARE STORE, LTD.
Income Statement (Partial)
For the Month Ended May 31, 2017

Sales revenues		
Sales revenue		£6,500
Less: Sales returns and allowances	£90	
Sales discounts	23	113
Net sales		6,387
Cost of goods sold		3,820
Gross profit		£2,567

PROBLEM 5-3B

(a)

LERWICK STORE, LTD.
Income Statement
For the Year Ended November 30, 2017

Sales		
Sales revenue		£706,000
Less: Sales returns & allowances ...		9,000
Net sales..		697,000
Cost of goods sold		507,000
Gross profit..		190,000
Operating expenses		
Salaries and wages expense......	£96,000	
Rent expense	15,000	
Sales commissions expense	13,500	
Depreciation expense.................	11,000	
Utilities expense	8,500	
Insurance expense	6,000	
Freight–out..................................	6,500	
Property tax expense..................	3,200	
Total oper. expenses		159,700
Income from operations..........................		30,300
Other income and expense		
Interest revenue................................		8,000
Interest expense		6,100
Net income..		£ 32,200

LERWICK STORE, LTD.
Retained Earnings Statement
For the Year Ended November 30, 2017

Retained earnings, December 1, 2016	£61,700
Add: Net income	32,200
	93,900
Less: Dividends	8,000
Retained earnings, November 30, 2017	£85,900

LERWICK STORE, LTD.
Statement of Financial Position
November 30, 2017

Assets		
Property, plant, and equipment		
Equipment	£154,300	
Less: Accumulated depreciation—equipment	33,000	£121,300
Current assets		
Prepaid insurance	4,500	
Inventory	26,000	
Accounts receivable	30,500	
Cash	21,000	82,000
Total assets		£203,300

PROBLEM 5-3B (Continued)

LERWICK STORE, LTD.
Statement of Financial Position (Continued)
November 30, 2017

Equity and Liabilities

Equity		
Share capital—ordinary	£45,000	
Retained earnings	85,900	£130,900
Non-current liabilities		
Notes payable		37,000
Current liabilities		
Accounts payable	25,200	
Sales commissions payable	7,000	
Property taxes payable	3,200	35,400
Total equity and liabilities		£203,300

(b)	Nov. 30	Depr. Expense	11,000	
		Accumulated Depreciation—Equipment		11,000
	30	Insurance Expense	6,000	
		Prepaid Insurance		6,000
	30	Property Tax Expense	3,200	
		Property Taxes Payable		3,200
	30	Sales Commissions Expense	7,000	
		Sales Commissions Payable		7,000

PROBLEM 5-3B (Continued)

(c)	Nov. 30	Sales Revenue	706,000	
		Interest Revenue	8,000	
		Income Summary............................		714,000
	30	Income Summary	681,800	
		Sales Returns and Allowances..................................		9,000
		Cost of Goods Sold		507,000
		Salaries and Wages Expense		96,000
		Depreciation Expense		11,000
		Freight–Out		6,500
		Sales Commissions Expense		13,500
		Insurance Expense		6,000
		Rent Expense..................................		15,000
		Property Tax Expense		3,200
		Utilities Expense.............................		8,500
		Interest Expense.............................		6,100
	30	Income Summary	32,200	
		Retained Earnings		32,200
	30	Retained Earnings..................................	8,000	
		Dividends		8,000

PROBLEM 5-4B

(a)

General Journal **J1**

Date		Account Titles	Ref.	Debit	Credit
Apr.	5	Inventory	120	1,200	
		Accounts Payable	201		1,200
	7	Inventory	120	75	
		Cash	101		75
	9	Accounts Payable	201	100	
		Inventory	120		100
	10	Accounts Receivable	112	930	
		Sales Revenue	401		930
		Cost of Goods Sold	505	540	
		Inventory	120		540
	12	Inventory	120	720	
		Accounts Payable	201		720
	14	Accounts Payable (€1,200 – €100)	201	1,100	
		Inventory (€1,100 X 2%)	120		22
		Cash	101		1,078
	17	Accounts Payable	201	120	
		Inventory	120		120
	20	Accounts Receivable	112	610	
		Sales Revenue	401		610
		Cost of Goods Sold	505	370	
		Inventory	120		370
	21	Accounts Payable (€720 – €120)	201	600	
		Inventory (€600 X 1%)	120		6
		Cash	101		594

PROBLEM 5-4B (Continued)

J1

Date	Account Titles	Ref.	Debit	Credit
Apr. 27	Sales Returns and Allowances......	412	20	
	Accounts Receivable	112		20
30	Cash...	101	960	
	Accounts Receivable	112		960

(b)

Cash — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			1,850
	7		J1		75	1,775
	14		J1		1,078	697
	21		J1		594	103
	30		J1	960		1,063

Accounts Receivable — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	10		J1	930		930
	20		J1	610		1,540
	27		J1		20	1,520
	30		J1		960	560

Inventory — No. 120

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			2,150
	5		J1	1,200		3,350
	7		J1	75		3,425
	9		J1		100	3,325
	10		J1		540	2,785
	12		J1	720		3,505
	14		J1		22	3,483
	17		J1		120	3,363
	20		J1		370	2,993
	21		J1		6	2,987

PROBLEM 5-4B (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		720	1,820
	14		J1	1,100		720
	17		J1	120		600
	21		J1	600		0

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	1	Balance	✓			4,000

Sales Revenue **No. 401**

Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	10		J1		930	930
	20		J1		610	1,540

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 5-4B (Continued)

(c)

EMILE'S DISCORAMA, SA
Trial Balance
April 30, 2017

	Debit	Credit
Cash	€ 1,063	
Accounts Receivable	560	
Inventory	2,987	
Share Capital—Ordinary		€4,000
Sales Revenue		1,540
Sales Returns and Allowances	20	
Cost of Goods Sold	910	
	€5,540	€5,540

***PROBLEM 5-5B**

ILHAN DEPARTMENT STORE
Income Statement (Partial)
For the Year Ended November 30, 2017

Sales				
Sales revenue				₺1,000,000
Less: Sales returns and allowances				25,000
Net sales................................				975,000
Cost of goods sold				
Inventory, Dec. 1, 2016			₺42,000	
Purchases		₺585,000		
Less: Purchase returns and allowances	₺2,900			
Purchase discounts...	5,100	8,000		
Net purchases........................		577,000		
Add: Freight-in......................		7,500		
Cost of goods purchased......			584,500	
Cost of goods available for sale........................			626,500	
Less: Inventory, Nov. 30, 2017........................			54,600	
Cost of goods sold				571,900
Gross profit..................................				₺403,100

*PROBLEM 5-6B

(a) (a) Cost of goods sold = Sales – Gross profit
= £53,000 – £38,300 = £14,700

(b) Net income = Gross profit – Operating expenses
= £38,300 – £35,900 = £2,400

(c) Inventory = 2014 Inventory + Purchases – CGS
= £7,200 + £14,200 – £14,700 = £6,700

(d) Cash payments to suppliers = 2014 Accounts payable +
Purchases – 2015 Accounts payable
= £3,200 + £14,200 – £3,400 = £14,000

(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) 2015 Inventory + Purchases – 2016 Inventory = CGS
Purchases = CGS – 2015 Inventory + 2016 Inventory
= £13,800 – £6,700 [from (c)] + £8,100
= £15,200

(h) Cash payments to suppliers = 2015 Accounts payable +
Purchases – 2016 Accounts Payable
= £3,400 + £15,200 [from (g)] –
£2,500
= £16,100

(i) Gross profit = Sales – CGS
= £46,000 – £14,300 = £31,700

(j) Net income = Gross profit – Operating expenses
= £31,700 [from (i)] – £28,600 = £3,100

(k) 2016 Inventory + Purchases – 2017 Inventory = CGS
Inventory = 2016 Inventory + Purchases – CGS
= £8,100 + £13,200 – £14,300 = £7,000

(l) Accounts payable = 2016 Accounts payable +
Purchases – Cash payments
= £2,500 + £13,200 – £13,600 = £2,100

***PROBLEM 5-6B (Continued)**

(b) A decline in sales does not necessarily mean that profitability declined. Profitability is affected by sales, cost of goods sold, and operating expenses. If cost of goods sold or operating expenses decline more than sales, profitability can increase even when sales decline. In this particular case, the sales decline was offset by cost savings to improve profitability. Therefore, profitability increased for Psang Ltd. from 2015 to 2017.

	2015	2016	2017
Gross profit rate	$38,300 ÷ $53,000 = 72.3%	$35,200 ÷ $49,000 = 71.8%	$31,700 ÷ $46,000 = 68.9%
Profit margin ratio	$2,400 ÷ $53,000 = 4.5%	$2,500 ÷ $49,000 = 5.1%	$3,100 ÷ $46,000 = 6.7%

*PROBLEM 5-7B

(a)

General Journal

Date		Account Titles	Debit	Credit
Apr.	5	Purchases	1,300	
		Accounts Payable		1,300
	7	Freight-In	80	
		Cash		80
	9	Accounts Payable	100	
		Purchase Returns and Allowances		100
	10	Accounts Receivable	710	
		Sales Revenue		710
	12	Purchases	450	
		Accounts Payable		450
	14	Accounts Payable (€1,300 – €100)	1,200	
		Purchase Discounts (€1,200 X 2%)		24
		Cash (€1,200 – €24)		1,176
	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	55	
		Accounts Receivable		55
	30	Cash	590	
		Accounts Receivable		590

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

(b)

Cash

4/1 Bal.	3,000	4/7	80
4/30	590	4/14	1,176
		4/21	396
4/30 Bal.	1,938		

Accounts Receivable

4/10	710	4/27	55
4/20	600	4/30	590
4/30 Bal.	665		

Inventory

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

Accounts Payable

4/9	100	4/5	1,300
4/14	1,200	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	24
		4/21	4
		4/30 Bal.	28

Share Capital—Ordinary

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

Sales Revenue

		4/10	710
		4/20	600
		4/30 Bal.	1,310

Sales Returns and Allowances

4/27	55		
4/30 Bal.	55		

Purchases

4/5	1,300		
4/12	450		
4/30 Bal.	1,750		

Freight-In

4/7	80		
4/30 Bal.	80		

(c)

OOSTHUIZEN PRO SHOP, NV
Trial Balance
April 30, 2017

	Debit	Credit
Cash	€1,938	
Accounts Receivable	665	
Inventory	4,000	
Share Capital—Ordinary		€7,000
Sales Revenue		1,310
Sales Returns and Allowances	55	
Purchases	1,750	
Purchase Returns and Allowances		150
Purchase Discounts		28
Freight-In	80	
	€8,488	€8,488

(d)

OOSTHUIZEN PRO SHOP, NV
Income Statement (Partial)
For the Month Ended April 30, 2017

Sales revenues				
Sales revenue				€1,310
Less: Sales returns and allowances				55
Net sales				1,255
Cost of goods sold				
Inventory, April 1			€4,000	
Purchases		€1,750		
Less: Purchase returns and allowances	€150			
Purchase discounts	28	178		
Net purchases		1,572		
Add: Freight-in		80		
Cost of goods purchased			1,652	
Cost of goods available for sale			5,652	
Less: Inventory, April 30			4,824	
Cost of goods sold				828
Gross profit				€ 427

COMPREHENSIVE PROBLEM SOLUTION

(a)	Dec. 6	Salaries and Wages Payable	1,000	
		Salaries and Wages Expense	600	
		Cash		1,600
	8	Cash	2,100	
		Accounts Receivable		2,100
	10	Cash	6,600	
		Sales Revenue		6,600
		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	8,400	
		Inventory		8,400
	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

COMPREHENSIVE PROBLEM SOLUTION (Continued)

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

(b) & (c) **General Ledger**

Cash

12/1 Bal.	7,200	12/6	1,600
12/8	2,100	12/15	2,000
12/10	6,600	12/20	1,800
12/27	11,640	12/23	8,820
12/31 Bal.	13,320		

Accounts Receivable

12/1 Bal.	4,600	12/8	2,100
12/18	12,000	12/27	12,000
12/31 Bal.	2,500		

Inventory

12/1 Bal.	12,000	12/10	4,100
12/13	9,000	12/18	8,400
		12/23	180
12/31 Bal.	8,320		

Supplies

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

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)

Share Capital—Ordinary

		12/1 Bal.	30,000
		12/31 Bal.	30,000

Retained Earnings

		12/1 Bal.	9,300
		12/31 Bal.	9,300

Sales Revenue

		12/10	6,600
		12/18	12,000
		12/31 Bal.	18,600

Sales Discounts

12/27	360		
12/31 Bal.	360		

Cost of Goods Sold

12/10	4,100		
12/18	8,400		
12/31 Bal.	12,500		

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	1,500		
12/31 Bal.	1,500		

(d)

JURCZYK DISTRIBUTING COMPANY, LTD.
Adjusted Trial Balance
December 31, 2017

	DR.	CR.
Cash	€13,320	
Accounts Receivable	2,500	
Inventory	8,320	
Supplies	1,700	
Equipment	22,000	
Accumulated Depreciation—Equipment		€ 2,400
Accounts Payable		4,500
Salaries and Wages Payable		800
Share Capital—Ordinary		30,000
Retained Earnings		9,300
Sales Revenue		18,600
Sales Discounts	360	
Cost of Goods Sold	12,500	
Depreciation Expense	200	
Salaries and Wages Expense	3,200	
Supplies Expense	1,500	
	€65,600	€65,600

(e)

JURCZYK DISTRIBUTING COMPANY, LTD.
Income Statement
For the Month Ending December 31, 2017

Sales revenue		€18,600
Less: Sales discounts		360
Net sales		18,240
Cost of goods sold		12,500
Gross profit		5,740
Operating expenses		
Salaries and wages expense	€3,200	
Supplies expense	1,500	
Depreciation expense	200	4,900
Net income		€ 840

JURCZYK DISTRIBUTING COMPANY, LTD.
Retained Earnings Statement
For the Month Ended December 31, 2017

Retained Earnings, Dec. 1	€9,300
Add: Net income	840
Retained Earnings, Dec. 31	€10,140

JURCZYK DISTRIBUTING COMPANY, LTD.
Statement of Financial Position
December 31, 2017

Assets

Property, plant, and equipment		
Equipment	€ 22,000	
Less: Accumulated depreciation	2,400	€19,600
Current assets		
Supplies	1,700	
Inventory	8,320	
Accounts receivable	2,500	
Cash	13,320	25,840
Total assets		€45,440

Equity and Liabilities'

Equity		
Share capital—ordinary	€ 30,000	
Retained earnings	10,140	€40,140
Current liabilities		
Accounts payable	€4,500	
Salaries and wages payable	800	5,300
Total equity and liabilities		€45,440

MC5 MATCHA CREATIONS

(a) Responses to Mei-ling questions

1. **The mixers should be classified as inventory as they are for resale.**
2. **A perpetual inventory system will provide better control over inventory. Because you are dealing with high-value items you should use the perpetual system.**
3. **You still need to count inventory to ensure that your records are accurate and that the inventory that is supposed to be on hand is actually there. I suggest you should count the inventory once a month.**

(b)

GENERAL JOURNAL **J1**

Date		Account Titles	Debit	Credit
Jan.	4	Inventory	2,875	
		Accounts Payable		2,875
	6	Inventory	100	
		Cash		100
	7	Accounts Payable [(NT$2,875 ÷ 5) + NT$20]	595	
		Inventory		595
	8	Cash	375	
		Accounts Receivable		375
	12	Accounts Receivable	3,450	
		Sales Revenue		3,450
	12	Cost of Goods Sold (NT$595 X 3)	1,785	
		Inventory		1,785

MC5 (Continued)

(b) (Continued)

Jan. 14	**Freight-Out**	**75**	
	Cash		**75**
14	**Inventory**	**2,300**	
	Accounts Payable		**2,300**
17	**Cash**	**1,000**	
	Share Capital—Ordinary		**1,000**
18	**Inventory**	**80**	
	Cash		**80**
20	**Cash**	**2,300**	
	Sales Revenue		**2,300**
20	**Cost of Goods Sold (NT$595 X 2)**	**1,190**	
	Inventory		**1,190**
28	**Salaries and Wages Expense**	**160**	
	Salaries and Wages Payable	**56**	
	Cash		**216**
28	**Cash**	**3,450**	
	Accounts Receivable		**3,450**
30	**Accounts Payable**	**75**	
	Utilities Expense	**70**	
	Cash		**145**
31	**Accounts Payable (NT$2,875 – NT$595 + NT$2,300)**	**4,580**	
	Cash		**4,580**
31	**Dividends**	**750**	
	Cash		**750**

MC5 (Continued)

(b) and (d)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,180
	6		J1		100	1,080
	8		J1	375		1,455
	14		J1		75	1,380
	17		J1	1,000		2,380
	18		J1		80	2,300
	20		J1	2,300		4,600
	28		J1		216	4,384
	28		J1	3,450		7,834
	30		J1		145	7,689
	31		J1		4,580	3,109
	31		J1		750	2,359

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			875
	8		J1		375	500
	12		J1	3,450		3,950
	28		J1		3,450	500

Inventory

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	4		J1	2,875		2,875
	6		J1	100		2,975
	7		J1		595	2,380
	12		J1		1,785	595
	14		J1	2,300		2,895
	18		J1	80		2,975
	20		J1		1,190	1,785

MC5 (Continued)

(b) and (d) (Continued)

Supplies

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			350

Prepaid Insurance

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,210
	31	Adjusting entry	J2		110	1,100

Equipment

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			1,200

Accumulated Depreciation—Equipment

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			40
	31	Adjusting entry	J2		20	60

Accounts Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	1	Balance	✓			75
	4		J1		2,875	2,950
	7		J1	595		2,355
	14		J1		2,300	4,655
	30		J1	75		4,580
	31		J1	4,580		0

MC5 (Continued)

(b) and (d) (Continued)

Salaries and Wages Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance		✓		56
28		J1	56		0

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance		✓		300

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance		✓		15
31	Adjusting entry	J2		10	25

Notes Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance		✓		2,000

Share Capital—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance		✓		2,329
17			J1	1,000	3,329

Dividends

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 31			J1	750	750

MC5 (Continued)

(b) and (d) (Continued)

Sales Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 12		J1		3,450	3,450
20		J1		2,300	5,750

Cost of Goods Sold

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 12		J1	1,785		1,785
20		J1	1,190		2,975

Salaries and Wages Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 28		J1	160		160

Utilities Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 30		J1	70		70

Depreciation Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 31	Adjusting entry	J2	20		20

Insurance Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 31	Adjusting entry	J2	110		110

MC5 (Continued)

(b) and (d) (Continued)

Freight-Out

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 14		J1	75		75

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 31	Adjusting entry	J2	10		10

(c)

MATCHA CREATIONS
Trial Balance
January 31, 2017

	Debit	Credit
Cash	NT$ 2,359	
Accounts Receivable	500	
Inventory	1,785	
Supplies	350	
Prepaid Insurance	1,210	
Equipment	1,200	
Accumulated Depreciation—Equipment		NT$ 40
Accounts Payable		
Salaries and Wages Payable		
Unearned Service Revenue		300
Interest Payable		15
Notes Payable		2,000
Share Capital—Ordinary		3,329
Dividends	750	
Sales Revenue		5,750
Cost of Goods Sold	2,975	
Salaries and Wages Expense	160	
Utilities Expense	70	
Depreciation Expense		
Insurance Expense		
Freight-Out	75	
Interest Expense		
	NT$11,434	NT$11,434

MC5 (Continued)

(d) GENERAL JOURNAL J2

Date		Account Titles	Debit	Credit
Jan.	31	Depreciation Expense	20	
		Accumulated Depreciation— Equipment (NT$1,200 ÷ 60 months)		20
	31	Interest Expense	10	
		Interest Payable (NT$2,000 X 6% X 1/12)		10
	31	Insurance Expense	110	
		Prepaid Insurance		110

MC5 (Continued)

(e)

MATCHA CREATIONS
Adjusted Trial Balance
January 31, 2017

	Debit	Credit
Cash	NT$ 2,359	
Accounts Receivable	500	
Inventory	1,785	
Supplies	350	
Prepaid Insurance	1,100	
Equipment	1,200	
Accumulated Depreciation—Equipment		NT$ 60
Accounts Payable		
Salaries and Wages Payable		
Unearned Service Revenue		300
Interest Payable		25
Notes Payable		2,000
Share Capital—Ordinary		3,329
Dividends	750	
Sales Revenue		5,750
Cost of Goods Sold	2,975	
Salaries and Wages Expense	160	
Utilities Expense	70	
Depreciation Expense	20	
Insurance Expense	110	
Freight-Out	75	
Interest Expense	10	
	NT$11,464	NT$11,464

MC5 (Continued)

(f)

MATCHA CREATIONS
Income Statement
For the Month Ended January 31, 2017

Sales revenue		NT$5,750
Cost of goods sold		2,975
Gross profit		2,775
Operating expenses		
Salaries and wages expense	NT$160	
Insurance expense	110	
Freight-out	75	
Utilities expense	70	
Depreciation expense	20	
Total operating expenses		435
Income from operations		2,340
Interest expense		10
Net income		NT$2,330

BYP 5-1 FINANCIAL REPORTING PROBLEM

			2012	2013
(a)	(1)	Percentage change in sales: (NT$597,024.2 – NT$506,745.3) ÷ NT$506,745.3		17.8% increase
	(2)	Percentage change in net income: (NT$183,849.7 – NT$159,286.4) ÷ NT$159,286.4		15.4% increase
(b)	Gross profit rate:			
	NT$244,127.8 ÷ NT$506,745.3		48.2%	
	NT$281,360.8 ÷ NT$597,024.2			47.1%
(c)	Percentage of net income to sales:			
	NT$159,286.4 ÷ NT$506,745.3 NT$183,849.7 ÷ NT$597,024.2		31.4%	30.8%

Comment

The percentage of net income to sales decreased 1.9% from 2012 to 2013 (31.4% to 30.8%). The gross profit rate decreased 2.2% during this time. (48.2% to 47.1%)

This indicates the company did a slightly better job of controlling operating expenses in 2012 than in 2013.

BYP 5-2 COMPARATIVE ANALYSIS PROBLEM

			Petra Foods (US$ 000)	Nestlé (CHF in Millions)
(a)	(1)	Gross profit	US$162,846	CHF44,047[1]
	(2)	Gross profit rate	32.0%[2]	47.8%[3]
	(3)	Operating income	US$82.823	CHF13,068
	(4)	Percent change in operating income	8.9%[4] increase	2.4%[5] decrease

[1]CHF92,158 – CHF48,111

[2]US$162,846 ÷ US$508,800

[3]CHF44,047 ÷ CHF92,158

[4](US$82,823 – US$76,071) ÷ US$76,071

[5](CHF13,068 – CHF13,380) ÷ CHF13,380

(b) Because the companies report using different currencies, direct comparisons of total gross profit, or total operating income are difficult. Comparisons of ratios and percentages can be performed. Nestlé reported a significantly higher gross profit rate, but Petra had a much bigger percentage increase in operating income.

BYP 5-3 DECISION MAKING ACROSS THE ORGANIZATION

(a) (1)

FAMILY DEPARTMENT STORE, LTD.
Income Statement
For the Year Ended December 31, 2017

Net sales [£700,000 + (£700,000 X 5%)]......		£735,000
Cost of goods sold (£735,000 X 76%)*.......		558,600
Gross profit (£735,000 X 24%)		176,400
Operating expenses		
Selling expenses................................	£100,000	
Administrative expenses....................	20,000	
Total operating expenses		120,000
Net income..		£ 56,400

***Alternatively: Net sales, £735,000 – gross profit, £176,400.**

(2)

FAMILY DEPARTMENT STORE, LTD.
Income Statement
For the Year Ended December 31, 2017

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) **Debbie's proposed changes will increase net income by £29,400. Mike'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 Debbie's plan and Mike's plan, Debbie's plan should be adopted. While Mike's plan will increase net income, it may also have an adverse effect on sales personnel. Under Mike's plan, sales personnel will be taking a cut of £16,000 in compensation [£60,000 – (£30,000 + £14,000)].**

BYP 5-3 (Continued)

(c)

FAMILY DEPARTMENT STORE, LTD.
Income Statement
For the Year Ended December 31, 2017

Net sales		£735,000
Cost of goods sold		558,600
Gross profit		176,400
Operating expenses		
Selling expenses	£72,700*	
Administrative expenses	20,000	
Total operating expenses		92,700
Net income		£ 83,700

***£72,000 + [2% X (£735,000 – £700,000)] = £72,700.**

If both plans are implemented, net income will be £56,700 (£83,700 – £27,000) higher than the 2016 results. This is an increase of over 200%. Given the size of the increase, Mike'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 £8,650 [£16,000 (from (b)) – £735,000 X (3% – 2%)].

BYP 5-4 COMMUNICATION ACTIVITY

(a), (b)

President
Boardin Co.

Dear Sir:

As you know, the financial statements for Boardin Co. are prepared in accordance with IFRS. One of these principles is the revenue recognition principle, which provides that revenues should be recognized when the performance obligation is satisfied.

Typically, sales revenues are recognized 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 Dexter is earned at event No. 8, when Dexter picks up the surfboard.

The circumstances pertaining to this sale may seem to you to be atypical because Dexter 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 IFRS to recognize sales revenue when you have completed the surfboard for Dexter.

Whether Dexter makes a down payment with the purchase order is irrelevant in recognizing sales revenue because at this time, the performance obligation has not been satisfied. A down payment may be an indication of Dexter'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 5-4 ETHICS CASE

(a) Anita Zurbrugg, 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:

- Anita Zurbrugg, the assistant treasurer.
- Chris Dadian, the treasurer.
- Yorktown Stores, the company.
- Creditors of Yorktown Stores (suppliers).
- Mail room employees (those assigned the blame).

(c) Anita'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 Chris. The company may not condone this practice. Anita definitely has a choice, but probably not without consequence. To continue the practice is definitely unethical. If Anita submits to this request, she may be asked to perform other unethical tasks. If Anita 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 Chris'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.

GAAP EXERCISES

GAAP 5-1

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.

GAAP5-2

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

GAAP5-3

ATLANTIS COMPANY
Comprehensive Income Statement
For the Year Ended 2017

(in thousands of dollars)		
Net income		$150
Unrealized gain related to revaluation of buildings	$10	
Unrealized loss on available for sale securities	(35)	(25)
Comprehensive income		$125

GAAP FINANCIAL REPORTING PROBLEM

GAAP 5-4

			2012	2013
(a)	(1)	Percentage change in net sales:		
		(\$156,508 – \$108,249) ÷ \$108,249	44.6% increase	
		(\$170,910 – \$156,508) ÷ \$156,508		9.2% increase
	(2)	Percentage change in net income:		
		(\$41,733 – \$25,922) ÷ \$25,922	61.0% increase	
		(\$37,037 – \$41,733) ÷ \$41,733		11.3% decrease

(b)	Gross profit rate:	
	2011 \$43,818 ÷ \$108,249	40.5%
	2012 \$68,662 ÷ \$156,508	43.9%
	2013 \$64,304 ÷ \$170,910	37.6%
(c)	Percentage of net income to sales:	
	2011 (\$25,922 ÷ \$108,249)	23.9%
	2012 (\$41,733 ÷ \$156,508)	26.7%
	2013 (\$37,037 ÷ \$170,910)	21.7%

Comment

The percentage of net income to sales increased 11.7% from 2011 to 2012 (23.9% to 26.7%) and decreased 18.7% from 2012 to 2013 (26.7% to 21.7%). The gross profit rate shows a similar pattern during this time.