## **CHAPTER 5**

## **Accounting for Merchandising Operations**

#### **ASSIGNMENT CLASSIFICATION TABLE**

Stud	ly Objectives	Questions	Brief Exercises	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	2, 3, 4, 10	1A, 2A, 4A	1B, 2B, 4B
3.	Explain the recording of sales revenues under a perpetual inventory system.	9, 10, 11	2, 3	3, 4, 5, 10	1A, 2A, 4A	1B, 2B, 4B
4.	Explain the steps in the accounting cycle for a merchandising company.	1, 12, 13, 14	5, 6	6, 7, 8	3A, 4A, 8A	3B, 4B, 8B
5.	Distinguish between a multiple-step and a single-step income statement.	18, 19, 20	7, 8, 9	6, 9, 11, 12	2A, 3A, 8A	2B, 3B, 8B
6.	Explain the computation and importance of gross profit.	15, 16, 17	9, 11	11, 12	2A, 5A, 6A, 8A	2B, 5B, 6B, 8B
7.	Determine cost of goods sold under a periodic system.	21	10, 11	13, 14, 15	5A, 6A, 7A	5B, 6B, 7B
*8.	Explain the recording of purchases and sales under a periodic inventory system.	22	12	16, 17	7A	7B
*9.	Prepare a worksheet for a merchandising company.	23	13	18, 19	8A	

<sup>\*</sup>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
ЗА	Prepare financial statements and adjusting and closing entries.	Moderate	40–50
4A	Journalize, post, and prepare a trial balance.	Simple	30–40
5A	Determine cost of goods sold and gross profit under periodic approach.	Moderate	40–50
6A	Calculate missing amounts and assess profitability.	Moderate	20–30
*7A	Journalize, post, and prepare trial balance and partial income statement using periodic approach.	Simple	30–40
*8A	Complete accounting cycle beginning with a worksheet.	Moderate	50–60
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

#### **BLOOM'S TAXONOMY TABLE**

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

	Study Objective	Knowledge	Comprehension	Appi	Application	Analysis	Synthesis	Evaluation
1.	Identify the differences between service and merchandising companies.	Q5-2	Q5-3 E5-1 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 Ef BE5-2 Ef BE5-4 Pf E5-2 Pf	E5-3 P5-1B E5-4 P5-2B P5-1A P5-4A P5-2A P5-4B	8 E5-10		
3.	Explain the recording of sales revenues under a perpetual inventory system.	Q5-10		Q5-11 E8 BE5-2 E8 BE5-3 P8 E5-3 P8	E5-4 P5-4A E5-5 P5-1B P5-1A P5-2B P5-2A P5-4B	8 E5-10		
4.	Explain the steps in the accounting cycle for a merchandising company.		Q5-1 Q5-12 Q5-14	Q5-13 Et BE5-5 Et BE5-6 Et	E5-6 P5-4A   E5-7 P5-8A   E5-8 P5-4B	A P5-3A A P5-3B 3		
5.	Distinguish between a multiple-step and a single- step income statement.	Q5-18 Q5-19	Q5-20 BE5-8	BE5-7 E8 BE5-9 E8 E5-6 E8	E5-9 P5-2A E5-11 P5-2B E5-12 P5-8A	A P5-3A 3 P5-3B 4		
9.	Explain the computation and importance of gross profit.		Q5-17	Q5-15 E! Q5-16 E! BE5-9 P! BE5-11 P!	E5-11 P5-5A E5-12 P5-5B P5-2A P5-8A P5-2B	P5-5A P5-6A P5-5B P5-6B P5-8A		
7.	Determine cost of goods sold under a periodic system.	Q5-21		BE5-10 E8 BE5-11 P8 E5-13 P8	E5-15 P5-7A   P5-5A P5-7B   P5-5B	A E5-14 3 P5-6A P5-6B		
* 8	Explain the recording of purchases and sales under a periodic inventory system.			Q5-22 BE5-12 E5-16	E5-17 P5-7A P5-7B	3 8		
.6 *	Prepare a worksheet for a merchandising company.	Q5-23 BE5-13		E5-18 E5-19	P5-8A	4		
Bro	Broadening Your Perspective		Communication	Exploring the Web	he Web	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	Fees, Rents, etc.
Expenses	Cost of Goods Sold and Operating	Operating (only)

(b) The income measurement process is as follows:



- 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 Merchandise 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.
- **9.** Agree. In accordance with the revenue recognition principle, sales revenues are generally considered to be earned when the goods are transferred 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.

#### Questions Chapter 5 (Continued)

	(b)	The entries are:		D 1.11	0 "
		Ocah calaa	Ocal	Debit	Credit
		Cash sales—	CashSales	XX	XX
			Cost of Goods Sold	XX	
			Merchandise Inventory		XX
		Credit sales—	Accounts Receivable	XX	
			Sales	WW	XX
			Cost of Goods Sold  Merchandise Inventory	XX	XX
			erenandee inversery		701
11.	July	10 Cash (\$800 <u></u> \$1	16)	784	
	July		(\$800 X 2%)	16	
			Receivable (\$900 – \$100)		800
12.	The	perpetual inventory re	ecords for merchandise inventory may be incort	rect due to	a variety of
		ses such as recording			
13.	Two	closing entries are req	uired:		
13.				000 000	
	(1)		y	200,000	200,000
					,
	(2)	_	bld	145,000	145,000
		Cost of Goods St	Jid		145,000
14.		he merchandising acc ince.	ounts, only Merchandise Inventory will appear	in the post-	closing trial
15.					\$105,000
		•			70,000 \$ 35,000
		•			· · · · · · · · · · · · · · · · · · ·
	Gro	ss profit rate: \$35,000 -	+ \$105,000 = <u>33.3%</u>		
16.	Gro	ss profit			\$370,000
					240,000 ©120,000
	Ope	raung expenses			<u>\$130,000</u>
17.			hing features in the income statement of a me	•	g company:
	(1) a	a sales revenues sectio	n, (2) a cost of goods sold section, and (3) gross	profit.	

#### **Questions Chapter 5** (Continued)

- **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 functional groupings are selling and administrative. The problem with functional groupings is that some expenses may have to be allocated between the groups.
- 20. 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).

•	4	
•	7	

Acco	ounts	Added/Deducted		
Purc	chase Returns and Allowances	Deducted		
Purchase Discounts Freight-in		Deducted		
		Added		
v 24	Accounts Pavable (\$3.000 – \$200	))	2.800	

*22.	July 24	Accounts Payable (\$3,000 – \$200)	2,800	
		Purchase Discounts (\$2,800 X 2%)		56
		Cash (\$2.800 – \$56)		2.744

- **\*23.** The columns are:
  - (a) Merchandise 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.).

#### **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 = \$151,500 (\$71,900 + \$79,600). Net income = \$40,100 (\$79,600 - \$39,500).

#### **BRIEF EXERCISE 5-2**

Hol	lins Company		
	Merchandise Inventory	780	
	Accounts Payable		780
Gor	don Company		
	Accounts Receivable	780	
	Sales		780
	Cost of Goods Sold	520	
	Merchandise Inventory		520
BRI	EF EXERCISE 5-3		
(a)	Accounts Receivable	900,000	
	Sales		900,000
	Cost of Goods Sold	620,000	
	Merchandise Inventory	ŕ	620,000
(b)	Sales Returns and Allowances	120,000	
` ,	Accounts Receivable		120,000
	Merchandise Inventory	90,000	•
	Cost of Goods Sold	,	90.000

## **BRIEF EXERCISE 5-3 (Continued)**

(c) Cash (\$780,000 – \$15,600)	764,400 15,600	780,000
BRIEF EXERCISE 5-4		
(a) Merchandise InventoryAccounts Payable	900,000	900,000
(b) Accounts Payable  Merchandise Inventory	120,000	120,000
(c) Accounts Payable (\$900,000 – \$120,000)	780,000	15,600
Cash (\$780,000 – \$15,600)		764,400
BRIEF EXERCISE 5-5		
Cost of Goods Sold Merchandise Inventory	1,500	1,500
BRIEF EXERCISE 5-6		
SalesIncome Summary	195,000	195,000
Income Summary  Cost of Goods Sold  Sales Discounts	107,000	105,000 2,000

#### MAULDER COMPANY **Income Statement (Partial)** For the Month Ended October 31, 2008

Sales revenues		
Sales (\$280,000 + \$100,000)		\$380,000
Less: Sales returns and allowances	\$11,000	
Sales discounts	13,000	24,000
Net sales		\$356,000

#### **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 multiplestep statement has five sections whereas a single-step statement has only two sections. The multiple-step statement provides more detail than a singlestep 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.

Section

**Expenses** 

### (1) Multiple-Step Income Statement

Cost of goods sold

Item

	a. b. c.	Gain on sale of equipment Casualty loss from vandalism Cost of goods sold	Other revenues and gains Other expenses and losses Cost of goods sold
(2)	2) Single-Step Income Statement		
		Item	Section
	a. b.	Gain on sale of equipment Casualty loss from vandalism	Revenues Expenses

#### **BRIEF EXERCISE 5-9**

C.

- (a) Net sales = \$510,000 \$15,000 = \$495,000.
- (b) Gross profit = \$495,000 \$350,000 = \$145,000.

## **BRIEF EXERCISE 5-9 (Continued)**

- (c) Income from operations = \$145,000 \$70,000 \$40,000 = \$35,000.
- (d) Gross profit rate =  $$145,000 \div $495,000 = \underline{29.3\%}$ .

#### **BRIEF EXERCISE 5-10**

Purchases Less: Purchase returns and allowances Purchase discounts Net purchases Net purchases Add: Freight-in Cost of goods purchased	\$11,000 <u>8,000</u>	\$450,000 <u>19,000</u> \$431,000 \$431,000 <u>16,000</u> \$447,000
BRIEF EXERCISE 5-11  Net sales	\$ 60,000 <u>447,000</u> 507,000 <u>90,000</u>	\$630,000 <u>417,000</u> <u>\$213,000</u>
*BRIEF EXERCISE 5-12		
(a) PurchasesAccounts Payable	1,000,000	1,000,000
(b) Accounts Payable Purchase Returns and Allowances	130,000	130,000
(c) Accounts Payable (\$1,000,000 – \$130,000)	870,000	17,400 852,600

#### \*BRIEF EXERCISE 5-13

- (a) Cash: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.
- (b) Merchandise inventory: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.
- (c) Sales: 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.

#### **SOLUTIONS TO EXERCISES**

#### **EXERCISE 5-1**

- 1. True.
- 2. False. For merchandising company, sales less *cost of goods sold* is called gross profit.
- 3. True.
- 4. True.
- 5. False. The operating cycle of a merchandising company *differs* from that that of a service company. The operating cycle of a merchandising company 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	Merchandise InventoryAccounts Payable	25,000	25,000
	(2)	April	6	Merchandise Inventory Cash	900	900
	(3)	April	7	EquipmentAccounts Payable	26,000	26,000
	(4)	April	8	Accounts Payable Merchandise Inventory	4,000	4,000
	(5)	April	15	Accounts Payable(\$25,000 – \$4,000)  Merchandise Inventory  [(\$25,000 – \$4,000) X 2%]  Cash (\$21,000 – \$420)	21,000	420 20,580
(b)	May	, 4		ounts Payable Cash	21,000	21,000

Sept.	6	Mei	rchandise Inventory (80 X \$20) Cash	1,600	1,600
	9	Mei	chandise Inventory Cash	80	80
	10	Acc	counts Payable (2 X \$21) Merchandise Inventory	42	42
	12	Acc	counts Receivable (26 X \$31)Sales	806	806
		Cos	st of Goods Sold (26 X \$21)	546	546
	14	Sal	es Returns and Allowances Accounts Receivable	31	24
		Mei	rchandise Inventory Cost of Goods Sold	21	31 21
	20	Acc	counts Receivable (30 X \$31)	930	000
		Cos	Sales st of Goods Sold (30 X \$21) Merchandise Inventory	630	930 630
EXER	CISI	E 5-4			
(a) J	lune	10	Merchandise InventoryAccounts Payable	8,000	8,000
		11	Merchandise Inventory Cash	400	400
		12	Accounts Payable Merchandise Inventory	300	300
		19	Accounts Payable (\$8,000 – \$300)	7,700	154
			Cash (\$7,700 – \$154)		7,546

## **EXERCISE 5-4 (Continued)**

(b)	Jur	ne 10	Ac	counts Receivable	8,000	
			Co	Salesost of Goods Sold	5,000	8,000
				Merchandise Inventory	3,000	5,000
		12	Sa	les Returns and Allowances	300	200
			Me	Accounts Receivableerchandise Inventory	150	300
			1010	Cost of Goods Sold	100	150
		19	Ca	ısh (\$7,700 – \$154)	7,546	
			Sa	lles Discounts (\$7,700 X 2%)	154	7 700
				Accounts Receivable(\$8,000 – \$300)		7,700
-\/-		<b></b>				
EXI	=RCI	SE 5-5				
(a)	1.	Dec.	3	Accounts ReceivableSales	500,000	500,000
				Cost of Goods Sold	350,000	,
				Merchandise Inventory		350,000
	2.	Dec.	8	Sales Returns and Allowances	27,000	
				Accounts Receivable		27,000
	3.	Dec.	13	Cash (\$473,000 – \$9,460)	463,540	
				Sales Discounts	9,460	
				[(\$500,000 – \$27,000) X 2%] Accounts Receivable		473,000
				(\$500,000 - \$27,000)		,
(b)	Cas	sh			473,000	
ν - /		Acco	unt	s Receivable	,	473,000
		(\$5	00,0	000 – \$27,000)		

# (a) ZAMBRANA COMPANY Income Statement (Partial) For the Year Ended October 31, 2008

	Sales revenues		<b>\$000.000</b>
	Sales		\$800,000
	Less: Sales returns and allowances Sales discounts	. ,	40.000
	Net sales		40,000 \$760,000
	Net sales	•	<u>\$700,000</u>
	Note: Freight-out is a selling expense.		
(b)	(1) Oct. 31 Sales	. 800,000	
(2)	Income Summary	•	800,000
	<b>,</b>	· <del>-</del>	000,000
	(2) 31 Income Summary	. 40,000	
	Sales Returns and		
	Allowances		25,000
	Sales Discounts	•	15,000
EXE	ERCISE 5-7		
(a)	Cost of Goods Sold	. 900	
` '	Merchandise Inventory		900
/ls\	Colon	100.000	
(b)	Sales		100 000
	Income Summary	•	108,000
	Income Summary	. 92,800	
	Cost of Goods Sold		60,900
	Operating Expenses		29,000
	Sales Returns and Allowances		1,700
	Sales Discounts		1,200
	Income Summary (\$108,000 – \$92,800)	. 15,200	
	Peter Kalle, Capital		15,200
	i otoi italio, oapitaliiiiiiiiiiiiiiiiiiiiiiiiiiiiiiiiii		13,200

(a)	Cost of Goods Sold  Merchandise Inventory	600	600
(b)	SalesIncome Summary	350,000	350,000
	Income Summary	341,600	
	Cost of goods sold (\$218,000 + \$600)		218,600
	Freight-out		7,000
	Insurance expense		12,000
	Rent expense		20,000
	Salary expense		61,000
	Sales discounts		10,000
	Sales returns and allowances		13,000
	Income Summary (\$350,000 – \$341,600)	8,400	
	Rogers, Capital	·	8,400

## (a) PELE COMPANY Income Statement

#### For the Year Ended December 31, 2008

Net sales Cost of goods sold			\$2,312,000 1,289,000
Gross profit			1,023,000
Operating expenses			
Selling expenses		\$490,000	
Administrative expenses		435,000	
Total operating expenses			925,000
Income from operations			98,000
Other revenues and gains			
Interest revenue		28,000	
Other expenses and losses			
Interest expense	\$70,000		
Loss on sale of equipment	10,000	80,000	52,000
Net income			\$ 46,000

## (b) PELE COMPANY Income Statement

## For the Year Ended December 31, 2008

Revenues		
Net sales		\$2,312,000
Interest revenue		28,000
Total revenues		2,340,000
Expenses		
Cost of goods sold	\$1,289,000	
Selling expenses	490,000	
Administrative expenses	435,000	
Interest expense	70,000	
Loss on sale of equipment	10,000	
Total expenses		2,294,000
Net income		<b>\$ 46,000</b>

1.	Sales Returns and Allowances Sales	175	175
2.	Supplies	180	
	Cash	180	
	Accounts Payable		180
	Merchandise Inventory		180
3.	Sales Discounts	110	
	Sales		110
4.	Merchandise Inventory	20	
	Cash	180	
	Freight-out		200

#### **EXERCISE 5-11**

- (a) \$900,000 \$540,000 = \$360,000.
- (b) \$360,000/\$900,000 = 40%. 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 \$130,000 (\$360,000 \$230,000), and net income is \$119,000 (\$130,000 \$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 Payton's single-step income statement is also \$119,000.
- (e) Merchandise inventory is reported as a current asset immediately below accounts receivable.

#### (a) (\*missing amount)

a.	Sales*Sales returns Net sales	\$ 90,000 (6,000) \$ 84,000
b.	Net sales  Cost of goods sold *Gross profit	\$ 84,000 (56,000) \$ 28,000
C.	Gross profit Operating expenses *Net income	\$ 28,000 (15,000) \$ 13,000
d.	*Sales Sales returns Net sales	\$105,000 (5,000) <u>\$100,000</u>
e.	Net sales *Cost of goods sold Gross profit	\$100,000 <u>58,500</u> \$ 41,500
f.	Gross profit*Operating expenses Net income	\$ 41,500 <u>26,500</u> \$ 15,000

#### (b) Nam Company

Gross profit  $\div$  Net sales = \$28,000  $\div$  \$84,000 = 33.33%

#### **Mayo Company**

Gross profit  $\div$  Net sales = \$41,500  $\div$  \$100,000 = 41.5%

Inventory, September 1, 2007		\$ 17,200
Purchases	\$149,000	
Less: Purchase returns and allowances	2,000	
Net Purchases	147,000	
Add: Freight-in	4,000	
Cost of goods purchased		151,000
Cost of goods available for sale		168,200
Inventory, August 31, 2008		25,000
Cost of goods sold		\$143,200

#### **EXERCISE 5-14**

(a)	Sales			\$800,000
` '	Less: Sales returns and allowances		\$ 10,000	
	Sales discounts		5,000	15,000
	Net sales			785,000
	Cost of goods sold			
	Inventory, January 1		50,000	
	Purchases	\$500,000		
	Less: Purch. rets. and alls	(2,000)		
	Purch. discounts	(6,000)	492,000	
	Add: Freight-in		4,000	
	Cost of goods available for sale		546,000	
	Inventory, December 31		(60,000)	
	Cost of goods sold			486,000
	Gross profit			\$299,000

(b) Gross profit \$299,000 – Operating expenses = Net income \$130,000. Operating expenses = \$169,000.

#### **EXERCISE 5-15**

(a)	\$1,560	(\$1,600 – \$40)	(g)	\$6,500	(\$290 + \$6,210)
(b)	\$1,670	(\$1,560 + \$110)	(h)	\$1,730	(\$7,940 – \$6,210)
(c)	\$1,510	(\$1,820 – \$310)	(i)	\$8,940	(\$1,000 + \$7,940)
(d)	\$50	(\$1,080 - \$1,030)	(j)	\$6,200	(\$49,530 – \$43,330 from (I))
(e)	\$250	(\$1,280 - \$1,030)	(k)	\$2,500	(\$43,590 – \$41,090)
<b>(f)</b>	\$120	(\$1,350 - \$1,230)	<b>(I)</b>	\$43,330	(\$41,090 + \$2,240)

(a)	1.	April 5	Purchases Accounts Payable	20,000	20,000
	2.	April 6	Freight-in Cash	900	900
	3.	April 7	EquipmentAccounts Payable	26,000	26,000
	4.	April 8	Accounts Payable Purchase Returns and Allowances	2,800	2,800
	5.	April 15	Accounts Payable(\$20,000 – \$2,800)	17,200	
			Purchase Discounts[(\$20,000 – \$2,800) X 2%)]		344
			Cash (\$17,200 – \$344)		16,856
(b)		May 4	Accounts Payable(\$20,000 – \$2,800)  Cash	17,200	17,200
*EX	ERC	ISE 5-17			
				00.000	
(a)	1.	April 5	PurchasesAccounts Payable	22,000	22,000
	2.	April 5	Freight-in Cash	800	800
	3.	April 7	EquipmentAccounts Payable	26,000	26,000
	4.	April 8	Accounts Payable Purchase Returns and Allowances	4,000	4,000
					,

## \*EXERCISE 5-17 (Continued)

	5.	April	15	Accounts Payable(\$22,000 – \$4,000)	18,000	
				Purchase Discounts[(\$22,000 – \$4,000) X 2%)]		360
				Cash (\$18,000 – \$360)		17,640
(b)		May	4	Accounts Payable(\$22,000 – \$4,000)	18,000	
				Cash		18,000

#### \*EXERCISE 5-18

Accounts	•	isted Salance		ome ment	Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	9,000				9,000	
Merchandise Inventory	76,000				76,000	
Sales		450,000		450,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	9,000		9,000			
Cost of Goods Sold	300,000		300,000			

#### \*EXERCISE 5-19

#### GREEN COMPANY Worksheet For the Month Ended June 30, 2008

					Adj. 🗅	Γrial	Inco	me		
<b>Account Titles</b>	Trial Ba	<u>alance</u>	Adjust	ments	Bala	nce	State	ment	Balance	Sheet
	<u>Dr.</u>	Cr.	Dr.	Cr.	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr</u> .
Cash	2,320				2,320				2,320	
Accounts Receivable	2,440				2,440				2,440	
Merchandise										
Inventory	11,640				11,640				11,640	
Accounts Payable		1,120		1,500		2,620				2,620
Ed Green, Capital		3,600				3,600				3,600
Sales		42,400				42,400		42,400		
Cost of Goods Sold	20,560				20,560		20,560			
Operating Expenses	10,160		1,500		11,660		11,660			
Totals	<u>47,120</u>	<u>47,120</u>	<u>1,500</u>	<u>1,500</u>	48,620	48,620	32,220	42,400	16,400	6,220
Net Income							10,180			10,180
Totals							<u>42,400</u>	<u>42,400</u>	<u>16,400</u>	<u>16,400</u>

## **SOLUTIONS TO PROBLEMS**

#### PROBLEM 5-1A

(a)	July	1	Merchandise Inventory (60 X \$30)Accounts Payable	1,800	1,800
		3	Accounts Receivable (40 X \$50) Sales	2,000	2,000
			Cost of Goods Sold (40 X \$30)  Merchandise Inventory	1,200	1,200
		9	Accounts Payable	1,800	36
			Cash		1,764
	,	12	CashSales DiscountsAccounts Receivable	1,980 20	2,000
	,	17	Accounts Receivable (30 X \$50)	1,500	1,500
			Cost of Goods Sold (30 X \$30)  Merchandise Inventory	900	900
	,	18	Merchandise InventoryAccounts Payable	1,700	1,700
			Merchandise Inventory Cash	100	100
	?	20	Accounts Payable Merchandise Inventory	300	300
	;	21	Cash Sales Discounts Accounts Receivable	1,485 15	1,500

July 22	Accounts Receivable (45 X \$50) Sales	2,250	2,250
	Cost of Goods Sold (45 X \$30)  Merchandise Inventory	1,350	1,350
30	Accounts Payable (\$1,700 – \$300) Cash	1,400	1,400
31	Sales Returns and Allowances (4 X \$50) Accounts Receivable	200	200
	Merchandise Inventory (4 X \$30) Cost of Goods Sold	120	120

## PROBLEM 5-2A

## (a) General Journal

(a)	General Journal			
				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 2	Merchandise Inventory	120	6,900	_
	Accounts Payable	201		6,900
4	Accounts Receivable	112	5,500	
	Sales	401		5,500
	Cost of Goods Sold	505	4,100	
	Merchandise Inventory	120		4,100
5	Freight-out	644	240	
	Cash	101		240
6	Accounts Payable	201	500	
	Merchandise Inventory	120		500
11	Accounts Payable (\$6,900 – \$500)	201	6,400	
	Merchandise Inventory(\$6,400 X 1%)	120		64
	Cash	101		6,336
13	Cash	101	5,445	
	Sales Discounts (\$5,500 X 1%)	414	55	
	Accounts Receivable	112		5,500
14	Merchandise Inventory	120	3,800	
	Cash	101		3,800
16	Cash	101	500	
	Merchandise Inventory	120		500
18	Merchandise Inventory	120	4,500	
	Accounts Payable	201		4,500
20	Merchandise Inventory	120	100	
	Cash	101		100

## **General Journal**

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
<b>Apr. 23</b>	Cash	101	6,400	
-	Sales	401		6,400
	Cost of Goods Sold	505	5,120	
	Merchandise Inventory	120		5,120
26	Merchandise Inventory	120	2,300	
	Cash	101		2,300
27	Accounts Payable	201	4,500	
	Merchandise Inventory(\$4,500 X 2%)	120		90
	Cash	101		4,410
29	Sales Returns and Allowances	412	90	
	Cash	101		90
	Merchandise Inventory	120	30	
	Cost of Goods Sold	505		30
30	Accounts Receivable	112	3,700	
	Sales	401		3,700
	Cost of Goods Sold	505	2,800	
	Merchandise Inventory	120		2,800

(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	5,445		7,869
	14		J1		3,800	4,069
	16		J1	500		4,569
	20		J1		100	4,469
	23		J1	6,400		10,869
	26		J1		2,300	8,569
	27		J1		4,410	4,159
	29		J1		90	4,069
Acco	unts	Receivable				No. 112
Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	4		J1	5,500		5,500
•	13		J1	,	5,500	<b>0</b>
	30		J1	3,700	,	3,700
Merch	nand	lise Inventory				No. 120
Date		Explanation	Ref.	Debit	Credit	Balance
	2		J1	6,900	0.00.1	6,900
Apr.	4		J1	0,900	4,100	2,800
	6		J1		500	2,300
	11		J1		64	2,336 2,236
	14		J1	3,800	04	6,036
	16		J1	0,000	500	5,536
	18		J1	4,500	000	10,036
	20		J1	100		10,036
	23		J1		5,120	5,016
	26		J1	2,300	J, 123	7,316
	27		J1	_,000	90	7,226
	29		J1	30		7,256
	30		J1	20	2,800	4,456

_					
Date	Explanation	Ref.	Debit	Credit	Balance
•	2	J1		6,900	6,900
	6	J1	500		6,400
	1	J1	6,400	4 500	4.500
	8 27	J1 J1	4 500	4,500	4,500
2		Ji	4,500		0
M. Olaf,	, Capital				No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
Apr.	1 Balance	✓			9,000
Sales					No. 401
Date	Explanation	Ref.	Debit	Credit	Balance
	4			5,500	5,500
-	3	J1		6,400	11,900
	0	J1		3,700	15,600
Sales R	eturns and Allowances				No. 412
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2	•	J1	90	0.00.1	90
Sales D	iscounts				No. 414
Date	Explanation	Ref.	Debit	Credit	Balance
	3	J1	55	Orcan	55
Cost of	Goods Sold				No. 505
Date	Explanation	Ref.	Debit	Credit	Balance
•	4	J1	4,100		4,100
	3	J1	5,120		9,220
	9	J1	0.000	30	9,190
3	0	J1	2,800		11,990

Freigl	ht-oı	ut				No. 644
Date		Explanation	Ref.	Debit	Credit	Balance
Apr.	5		J1	240		240

# (c) OLAF DISTRIBUTING COMPANY Income Statement (Partial) For the Month Ended April 30, 2008

Sales revenues		
Sales		\$15,600
Less: Sales returns and allowances	\$90	
Sales discounts	55	145
Net sales		15,455
Cost of goods sold		11,990
Gross profit		\$ 3,465

#### PROBLEM 5-3A

## (a) MAINE DEPARTMENT STORE

## Income Statement For the Year Ended December 31, 2008

Sales         \$628,000           Less: Sales returns and allowances         8,000           Net sales         620,000           Cost of goods sold         412,700           Gross profit         207,300           Operating expenses         207,300           Sales salaries expense         14,500           Sales commissions expense         14,500           Depr. expense—equipment         13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         \$115,320           Administrative expenses         \$115,320           Administrative expenses         32,000           Depr. expense—building         10,400           Property tax expense         4,800           Utilities expense         (\$12,000 X 40%)           Utilities expense         54,880           Total administrative expenses         54,880           Total operating expenses         54,880           Income from operations         37,100           Other revenues and gains Interest revenue         4,000           Other expenses and losses Interest expense         111,000         7,000           Net income         \$30,100	Sales revenues			
Less: Sales returns and allowances       8,000         Net sales       620,000         Cost of goods sold       412,700         Gross profit       207,300         Operating expenses       \$76,000         Sales salaries expense       14,500         Depr. expense—equipment       13,300         Utilities expense       (\$12,000 X 60%)       7,200         Insurance expense       \$115,320         Administrative expenses       \$115,320         Administrative expenses       \$115,320         Office salaries expense       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       (\$12,000 X 40%)       4,800         Insurance expense       (\$7,200 X 40%)       2,880         Total administrative expenses       54,880         Total operating expenses       54,880         Total operating expenses       4,000         Income from operations       37,100         Other revenues and gains lnterest revenue       4,000         Other expenses and losses lnterest expense       11,000       7,000	Sales			\$628,000
Net sales         620,000           Cost of goods sold         412,700           Gross profit         207,300           Operating expenses         \$76,000           Sales salaries expense         14,500           Depr. expense—equipment         13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         (\$7,200 X 60%)         4,320           Total selling expenses         \$115,320           Administrative expenses         32,000           Depr. expense—building         10,400           Property tax expense         4,800           Utilities expense         (\$12,000 X 40%)         4,800           Insurance expense         (\$7,200 X 40%)         2,880           Total administrative expenses         54,880           Total operating expenses         54,880           Income from operations         37,100           Other revenues and gains Interest revenue         4,000           Other expenses and losses Interest expense         11,000         7,000	Less: Sales returns and			,
Cost of goods sold         412,700           Gross profit         207,300           Operating expenses         \$76,000           Sales salaries expense         \$76,000           Sales commissions expense         14,500           Depr. expense—equipment         13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         \$115,320           Administrative expenses         \$115,320           Administrative expenses         \$10,400           Property tax expense         4,800           Utilities expense         4,800           Utilities expense         4,800           Insurance expense         54,880           Total administrative         expenses           Total operating         expenses           Income from operations         37,100           Other revenues and gains         4,000           Interest revenue         4,000           Other expenses and losses         11,000         7,000	allowances			8,000
Gross profit         207,300           Operating expenses         \$76,000           Sales salaries expense         14,500           Depr. expense—equipment         13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         (\$7,200 X 60%)         4,320           Total selling expenses         \$115,320           Administrative expenses         32,000           Depr. expense—building         10,400           Property tax expense         4,800           Utilities expense         4,800           Utilities expense         (\$12,000 X 40%)         4,800           Insurance expense         54,880           Total administrative         expenses         54,880           Total operating         expenses         54,880           Income from operations         37,100           Other revenues and gains         1nterest revenue         4,000           Other expenses and losses         11,000         7,000	Net sales			620,000
Gross profit         207,300           Operating expenses         \$76,000           Sales salaries expense         14,500           Depr. expense—equipment         13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         (\$7,200 X 60%)         4,320           Total selling expenses         \$115,320           Administrative expenses         32,000           Depr. expense—building         10,400           Property tax expense         4,800           Utilities expense         4,800           Utilities expense         (\$12,000 X 40%)         4,800           Insurance expense         54,880           Total administrative         expenses         54,880           Total operating         expenses         54,880           Income from operations         37,100           Other revenues and gains         1nterest revenue         4,000           Other expenses and losses         11,000         7,000	Cost of goods sold			412,700
Operating expenses         \$76,000           Sales salaries expense         \$76,000           Sales commissions expense         \$14,500           Depr. expense—equipment         \$13,300           Utilities expense         (\$12,000 X 60%)         7,200           Insurance expense         \$115,320           Administrative expenses         \$115,320           Administrative expenses         \$10,400           Depr. expense—building         \$10,400           Property tax expense         \$4,800           Utilities expense         \$4,800           Insurance expense         \$4,800           Insurance expense         \$54,880           Total administrative         \$54,880           Total operating         \$7,200           expenses         \$170,200           Income from operations         \$37,100           Other revenues and gains         \$1,000           Interest revenue         \$4,000           Other expenses and losses         \$11,000           Interest expense         \$11,000	Gross profit			207,300
Sales salaries expense       \$76,000         Sales commissions expense       14,500         Depr. expense—equipment       13,300         Utilities expense       (\$12,000 X 60%)       7,200         Insurance expense       (\$7,200 X 60%)       4,320         Total selling expenses       \$115,320         Administrative expenses       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       (\$12,000 X 40%)       4,800         Insurance expense       (\$7,200 X 40%)       2,880         Total administrative       54,880         Total operating       expenses       54,880         Income from operations       37,100         Other revenues and gains       Interest revenue       4,000         Other expenses and losses       11,000       7,000				
Sales commissions expense       14,500         Depr. expense—equipment       13,300         Utilities expense       7,200         (\$12,000 X 60%)       7,200         Insurance expense       4,320         Total selling expenses       \$115,320         Administrative expenses       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       4,800         Insurance expense       2,880         Total administrative       2,880         Total operating       54,880         Total operating       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	Selling expenses			
Sales commissions expense       14,500         Depr. expense—equipment       13,300         Utilities expense       7,200         (\$12,000 X 60%)       7,200         Insurance expense       4,320         Total selling expenses       \$115,320         Administrative expenses       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       4,800         Insurance expense       2,880         Total administrative       2,880         Total operating       54,880         Total operating       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	Sales salaries expense	\$76,000		
Utilities expense         (\$12,000 X 60%)       7,200         Insurance expense       4,320         Total selling expenses       \$115,320         Administrative expenses       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       (\$12,000 X 40%)         (\$7,200 X 40%)       2,880         Total administrative       54,880         Total operating       expenses         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000		14,500		
(\$12,000 X 60%)       7,200         Insurance expense       (\$7,200 X 60%)       4,320         Total selling expenses       \$115,320         Administrative expenses       32,000         Depr. expense—building       10,400         Property tax expense       4,800         Utilities expense       (\$12,000 X 40%)       4,800         Insurance expense       (\$7,200 X 40%)       2,880         Total administrative       expenses       54,880         Total operating       expenses       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	Depr. expense—equipment	13,300		
Insurance expense	Utilities expense			
Insurance expense	(\$12,000 X 60%)	7,200		
Total selling expenses   \$115,320				
Administrative expenses  Office salaries expense	(\$7,200 X 60%)	4,320		
Administrative expenses  Office salaries expense	·		\$115,320	
Depr. expense—building			·	
Property tax expense	Office salaries expense	32,000		
Utilities expense         (\$12,000 X 40%)       4,800         Insurance expense         (\$7,200 X 40%)       2,880         Total administrative         expenses       54,880         Total operating         expenses       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	Depr. expense—building	10,400		
(\$12,000 X 40%)       4,800         Insurance expense       2,880         (\$7,200 X 40%)       2,880         Total administrative       54,880         expenses       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	Property tax expense	4,800		
Insurance expense	Utilities expense			
(\$7,200 X 40%)       2,880         Total administrative       54,880         expenses       170,200         Income from operations       37,100         Other revenues and gains       4,000         Interest revenue       4,000         Other expenses and losses       11,000       7,000	(\$12,000 X 40%)	4,800		
Total administrative	Insurance expense			
expenses	(\$7,200 X 40%)	2,880		
Total operating	Total administrative			
expenses         170,200           Income from operations         37,100           Other revenues and gains         4,000           Other expenses and losses         11,000         7,000	expenses		<u>54,880</u>	
Income from operations 37,100 Other revenues and gains Interest revenue 4,000 Other expenses and losses Interest expense 11,000 7,000	Total operating			
Other revenues and gains Interest revenue	expenses			170,200
Interest revenue	Income from operations			37,100
Other expenses and losses Interest expense	Other revenues and gains			
Interest expense	Interest revenue		4,000	
	Other expenses and losses			
Net income	Interest expense		11,000	
	Net income			<u>\$ 30,100</u>

# MAINE DEPARTMENT STORE Owner's Equity Statement For the Year Ended December 31, 2008

B. Maine, Capital, January 1	\$176,600
Add: Net income	30,100
	206,700
Less: Drawings	28,000
B. Maine, Capital, December 31	\$178,700

## MAINE DEPARTMENT STORE

Balance Sheet December 31, 2008

Assets			
Current assets			
Cash		\$ 23,800	
Accounts receivable		50,300	
Merchandise inventory		75,000	
Prepaid insurance		2,400	
Total current assets			\$151,500
Property, plant, and equipment			
Building	\$190,000		
Less: Accumulated depreciation—			
building	<b>52,500</b>	137,500	
Equipment	110,000		
Less: Accumulated depreciation—			
equipment	42,900	67,100	204,600
Total assets			\$356,100

#### MAINE DEPARTMENT STORE Balance Sheet (Continued) December 31, 2008

0		Liabilities and Owner's Equity		
Cur	rent liabilit		¢ 70.000	
		payable		
		payable due next year	20,000	
		ayable	8,000	
		taxes payable		
		nmissions payable	4,300	
	Utilities e	xpense payable	1,000	
		current liabilities		\$117,400
Lon	g-term liab			CO 000
	Mortgage	payable		60,000
0		liabilities		177,400
Ow	ner's equit	<del>7</del>		170 700
		Capital		178,700
	Total	liabilities and owner's equity		<u>\$356,100</u>
(b)	Dec. 31	Depreciation Expense—Building Accumulated Depreciation— Building	10,400	10,400
	31	Depreciation Expense—Equipment  Accumulated Depreciation— Equipment	13,300	13,300
		=qa.p		10,000
	31	Insurance ExpensePrepaid Insurance	7,200	7,200
	31	Interest ExpenseInterest Payable	8,000	8,000
	31	Property Tax Expense Property Taxes Payable	4,800	4,800

	31	Sales Commissions ExpenseSales Commissions Payable	4,300	4,300
	31	Utilities Expense Utilities Expense Payable	1,000	1,000
(c)	Dec. 31	Sales	628,000	
		Interest Revenue	4,000	
		Income Summary	·	632,000
	31	Income Summary	601,900	
		Sales Returns and Allowances		8,000
		Cost of Goods Sold		412,700
		Office Salaries Expense		32,000
		Sales Salaries Expense		76,000
		Sales Commissions Expense		14,500
		Property Tax Expense		4,800
		Utilities Expense		12,000
		Depreciation Expense—		
		Building		10,400
		Depreciation Expense—		
		Equipment		13,300
		Insurance Expense		7,200
		Interest Expense		11,000
	31	Income Summary	30,100	
		B. Maine, Capital	,	30,100
	31	B. Maine, Capital	28,000	
		B. Maine, Drawing		28,000

## PROBLEM 5-4A

(a) General Journal

(a)	General Journal			J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 4	Merchandise Inventory	120	840	
	Accounts Payable	201	0.0	840
6	Merchandise Inventory	120	40	
	Cash	101		40
8	Accounts Receivable	112	1,150	
	Sales	401		1,150
	Cost of Goods Sold	505	790	
	Merchandise Inventory	120		790
10	Accounts Payable	201	40	
	Merchandise Inventory	120		40
11	Merchandise Inventory	120	420	
	Cash	101		420
13	Accounts Payable (\$840 – \$40)	201	800	
	Merchandise Inventory(\$800 X 2%)	120		16
	Cash	101		784
14	Merchandise Inventory	120	900	
	Accounts Payable	201		900
15	Cash	101	50	
	Merchandise Inventory	120		50
17	Merchandise Inventory	120	30	
	Cash	101		30
18	Accounts Receivable	112	810	
	Sales	401		810
	Cost of Goods Sold	505	530	
	Merchandise Inventory	120		530

#### **General Journal**

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 20	Cash	101	500	
	Accounts Receivable	112		500
21	Accounts Payable	201	900	
	Merchandise Inventory(\$900 X 3%)	120		27
	Cash	101		873
27	Sales Returns and Allowances	412	30	
	Accounts Receivable	112		30
30	Cash	101	660	
	Accounts Receivable	112		660
(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	500		1,776
21		J1		873	903
30		J1	660		1,563

#### **Accounts Receivable**

No. 112

Date	<b>Explanation</b>	Ref.	Debit	Credit	Balance
Apr. 8		J1	1,150		1,150
18		J1	810		1,960
20		J1		500	1,460
27		J1		30	1,430
30		J1		660	770

Merchand	dise 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		530	2,504
21		J1		27	2,477
Accounts	: Pavahle				No. 201
-		Def	Dalait	Ou a al!4	
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 4		J1	4.0	840	840
10		J1	40		800
13		J1	800		0
14		J1	000	900	900
21		J1	900		0
J. Hafner	, Capital				No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	<b>✓</b>			4,200
Sales					No. 401
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 8		J1		1,150	1,150
18		J1		810	1,960

#### **Sales Returns and Allowances**

No. 412

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2	7	J1	30		30

#### **Cost of Goods Sold**

No. 505

Date	<b>Explanation</b>	Ref.	Debit	Credit	Balance
Apr. 8	8	J1	790		790
18	8	J1	530		1,320

### (c)

#### HAFNER'S TENNIS SHOP Trial Balance April 30, 2008

	Debit	Credit
Cash	\$1,563	
Accounts Receivable	770	
Merchandise Inventory	2,477	
J. Hafner, Capital		\$4,200
Sales		1,960
Sales Returns and Allowances	30	
Cost of Goods Sold	1,320	
	<u>\$6,160</u>	<u>\$6,160</u>

#### PROBLEM 5-5A

#### **GORDMAN DEPARTMENT STORE**

## Income Statement (Partial) For the Year Ended December 31, 2008

Sales revenues				
Sales				\$718,000
Less: Sales returns and				-
allowances				8,000
Net sales				710,000
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			<b>75,000</b>	
Cost of goods sold				399,700
Gross profit				\$310,300

#### **PROBLEM 5-6A**

(a)			
`,	2006	2007	2008
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)			
	2006	2007	2008
Sales	\$225,700	\$227,600	\$219,500
Less: CGS	147,700	141,600	131,500
Gross profit	\$ 78,000	\$ 86,000	\$ 88,000
•	<del></del>	<del></del>	<del></del>
(c)			
(6)	2006	2007	2008
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	<sup>1</sup> 34.6%	<sup>2</sup> 37.8%	<sup>3</sup> 40.1%
		2 4 5 5 5 5 5	2 400
	1 \$78,000 ÷	<sup>2</sup> \$86,000 ÷	<sup>3</sup> \$88,000 ÷
	\$225,700	\$227,600	\$219,500

No. Even though sales declined in 2008 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 5-7A

(a)	General Journal		
Date	Account Titles and Explanation	Debit	Credit
Apr. 4	Purchases Accounts Payable	740	740
6	Freight-inCash	60	60
8	Accounts Receivable Sales	900	900
10	Accounts Payable Purchase Returns and Allowances	40	40
11	Purchases Cash	300	300
13	Accounts Payable (\$740 – \$40) Purchase Discount (\$700 X 3%) Cash	700	21 679
14	Purchases Accounts Payable	600	600
15	CashPurchase Returns and Allowances	50	50
17	Freight-in Cash	30	30
18	Accounts Receivable Sales	1,000	1,000
20	CashAccounts Receivable	500	500
21	Accounts Payable  Purchase Discounts (\$600 X 2%)  Cash	600	12 588

Date		ınt Titles ar				Debit	Credit			
<b>Apr.</b> 27				ances		30				
	Α	ccounts Re	ceivab	le	•••		30			
30	Cook					E00				
30	Cash.			le		500	500			
		ccounts ne	Cervan	ic	•••		300			
(b)										
	Ca	sh		Acc	ount	s Payable				
4/1 Bal.	2,500		60	4/10		4/4	740			
4/15		4/11	300	4/13		4/14	600			
4/20		4/13	679	4/21	600					
4/30	500	4/17	30			4/30 Bal.	0			
		4/21	588							
4/30 Bal.	1,893			Angie	Wilk	pert, Capita	4,200			
	4/1 Bal.									
Acc	ounts	Receivable				4/30 Bal.	4,200			
4/8	900	4/20	500							
4/18	1,000	4/27	30		Sa	ales				
		4/30	<b>500</b>			4/8	900			
4/30 Bal.	870					4/18	1,000			
		I				4/30 Bal.	1,900			
Merc	handis	se Inventory	<u> </u>				,			
4/1 Bal.	1,700			Purc	hase	Discounts	<u> </u>			
4/30 Bal.	1,700					4/13	21			
		'				4/21	12			
Sales Re	turns a	and Allowar	ices			4/30 Bal.	33			
4/27	30	1			!					
4/30 Bal.	30				Frei	ght-in				
		ı		4/6	60	<u> </u>				
	Purcl	nases		4/17	30					
4/4	740			4/30 Bal.	90					
4/11	300				!					
4/14	600									
4/30 Bal.	1,640									
	Purc	hase								
Retur		Allowance	S							
		4/10	40							
		4/15	50							
-		4/30 Bal.	90							
		1								

## (c)

#### VILLAGE TENNIS SHOP Trial Balance April 30, 2008

	Debit	Credit
Cash	\$1,893	
Accounts Receivable	870	
Merchandise Inventory	1,700	
Angie Wilbert, Capital		\$4,200
Sales		1,900
Sales Returns and Allowances	30	·
Purchases	1,640	
Purchase Returns and Allowances	•	90
Purchase Discounts		33
Freight-in	90	
	\$6,223	\$6,223

#### VILLAGE TENNIS SHOP Income Statement (Partial) For the Month Ended April 30, 2008

Sales revenues				
Sales				\$1,900
Less: Sales returns and				
allowances				30
Net sales				1,870
Cost of goods sold				
Inventory, April 1			\$1,700	
Purchases		\$1,640		
Less: Purchase returns	<b>\$90</b>			
and allowances				
Purchase discounts	33	<u>123</u>		
Net purchases		1,517		
Add: Freight-in		90		
Cost of goods purchased			1,607	
Cost of goods available				
for sale			3,307	
Inventory, April 30			2,296	
Cost of goods sold				1,011
Gross profit				<b>\$ 859</b>

TERRY MANNING FASHION CENTER
Worksheet

(a)

For the Year Ended November 30, 2008

Sheet	Cr.							31,000			11,000	51,000	48,500	110,000																			4,080	255,580		255,580
Balance Sheet	Dr.	28,700	30,700	44,400	2,500	85,000			48,000						12,000																			251,300	4,280	255,580
Income Statement	ç.															755,200																		755,200	4,280	759,480
Income Statemer	Dr.																	8,800	497,700	140,000	24,400	14,000	12,100	16,700	24,000		3,700		9,000		5,000	4,080		759,480		759,480
sted alance	Ç.							31,000			11,000	51,000	48,500	110,000		755,200																	4,080	1,010,780		
Adjusted Trial Balance	Dr.	28,700	30,700	44,400	2,500	82,000			48,000						12,000			8,800	497,700	140,000	24,400	14,000	12,100	16,700	24,000		3,700		9,000		2,000	4,080		1,010,780		
ents	Ċ.			(e) 300	(a) 3,700			000'6 (q)			(c) 5,000																						(d) 4,080	-		
Adjustments	Dr.			_	_			_			_								300								3,700		000'6		2,000	4,080		22,080		
																			<b>(e)</b>								(a)		<u>a</u>		<u>ပ</u>	ਉ				
alance	Cr.							22,000			9,000	51,000	48,500	110,000		755,200									000	992,700										
Trial Balance	Dr.	28,700	30,700	44,700	6,200	85,000			48,000						12,000			8,800	497,400	140,000	24,400	14,000	12,100	16,700	24,000	992,700										
Account Titles		Cash	Accounts Receivable	Merchandise Inventory	Store Supplies	Store Equipment	Accum. Depreciation—	Store Equipment	<b>Delivery Equipment</b>	Accum. Depreciation—	Delivery Equipment	Notes Payable	Accounts Payable	T. Manning, Capital	T. Manning, Drawing	Sales	Sales Returns and	Allowances	Cost of Goods Sold	Salaries Expense	Advertising Expense	Utilities Expense	Repair Expense	Delivery Expense	Rent Expense	Totals	Store Supplies Expense	Depreciation Expense—	Store Equipment	Depreciation Expense—	Delivery Equipment	Interest Expense	Interest Payable	Totals	Net Loss	Totals

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

# (b) TERRY MANNING FASHION CENTER Income Statement For the Year Ended November 30, 2008

Sales revenues			
Sales			\$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			-
Selling expenses			
Salaries expense	\$98,000		
(\$140,000 X 70%)			
Advertising expense	24,400		
Rent expense (\$24,000 X 80%)	19,200		
Delivery expense	16,700		
Utilities expense	11,200		
(\$14,000 X 80%)			
Depreciation expense—			
store equipment	9,000		
Depreciation expense—			
delivery equipment	5,000		
Store supplies expense	3,700		
Total selling expenses		\$187,200	
Administrative expenses			
Salaries expense	42,000		
(\$140,000 X 30%)			
Repair expense	12,100		
Rent expense (\$24,000 X 20%)	4,800		
Utilities expense			
(\$14,000 X 20%)	2,800		
Total administrative			
expenses		<u>61,700</u>	
Total operating			
expenses			248,900
Loss from operations			(200)
Other expenses and losses			
Interest expense			4,080
Net loss			<u>\$ (4,280)</u>

# TERRY MANNING FASHION CENTER Owner's Equity Statement For the Year Ended November 30, 2008

T. Manning, Capital, December 1, 2007		\$110,000
Less: Net loss	\$ 4,280	
Drawings	12,000	16,280
T. Manning, Capital, November 30, 2008		\$ 93,720

# TERRY MANNING FASHION CENTER Balance Sheet November 30, 2008

Assets			
Current assets			
Cash		\$28,700	
Accounts receivable		30,700	
Merchandise inventory		44,400	
Store supplies		2,500	
Total current assets		·	\$106,300
Property, plant, and equipment			-
Store equipment	\$85,000		
Accumulated depreciation—			
store equipment	31,000	54,000	
Delivery equipment	48,000		
Accumulated depreciation—			
delivery equipment	11,000	37,000	91,000
Total assets			\$197,300

#### TERRY MANNING FASHION CENTER Balance Sheet (Continued) November 30, 2008

		<b>Liabilities and Owner's Equity</b>		
Cur	rent liabili	ties		
		yable due next year	\$30,000	
		payable	48,500	
	Interest payable			
	Total	current liabilities		\$ 82,580
Lon	g-term lial	pilities		
	Notes pay	yable		21,000
	Total	liabilities		103,580
Owi	ner's equit	у		
	T. Mannir	ng, Capital		93,720
	Total	liabilities and owner's equity		<u>\$197,300</u>
(c)	Nov. 30	Store Supplies Expense	3,700	
` '		Store Supplies	,	3,700
		• •		,
	30	Depreciation Expense—Store		
		Equipment	9,000	
		Accumulated Depreciation—	•	
		Store Equipment		9,000
		• •		,
	30	Depreciation Expense—Delivery		
		Equipment	5,000	
		Accumulated Depreciation—	•	
		Delivery Equipment		5,000
				·
	30	Interest Expense	4,080	
		Interest Payable	-	4,080
		-		•
	30	Cost of Goods Sold	300	
		Merchandise Inventory		300
		•		

(d)	Nov. 30	Sales	755,200	
		Income Summary		755,200
	30	Income Summary	759,480	
		Sales Returns and		
		Allowances		8,800
		Cost of Goods Sold		497,700
		Salaries Expense		140,000
		Advertising Expense		24,400
		Utilities Expense		14,000
		Repair Expense		12,100
		Delivery Expense		16,700
		Rent Expense		24,000
		Store Supplies Expense		3,700
		Depreciation Expense—Store		•
		Equipment		9,000
		Depreciation Expense—Delivery		, , , , ,
		Equipment		5,000
		Interest Expense		4,080
		•		•
	30	T. Manning, Capital	4,280	
		Income Summary	,	4,280
	30	T. Manning, Capital	12,000	
		T. Manning, Drawing	,	12,000

# (e) TERRY MANNING FASHION CENTER Post-Closing Trial Balance November 30, 2008

	Debit	Credit
Cash	\$ 28,700	
Accounts Receivable	30,700	
Merchandise Inventory	44,400	
Store Supplies	2,500	
Store Equipment	85,000	
Accumulated Depreciation—Store		
Equipment		\$ 31,000
Delivery Equipment	48,000	
Accumulated Depreciation—Delivery		
Equipment		11,000
Notes Payable		51,000
Accounts Payable		48,500
Interest Payable		4,080
T. Manning, Capital		93,720
	<u>\$239,300</u>	<u>\$239,300</u>

### PROBLEM 5-1B

(a)	June	1	Merchandise Inventory (180 X \$5) Accounts Payable	900	900
		3	Accounts Receivable (120 X \$10)	1,200	1,200
			Cost of Goods Sold (120 X \$5)  Merchandise Inventory	600	600
		6	Accounts Payable (10 X \$5)  Merchandise Inventory	50	50
		9	Accounts Payable (\$900 – \$50) Merchandise Inventory (\$850 X .02)	850	17
			Cash		833
		15	CashAccounts Receivable	1,200	1,200
		17	Accounts Receivable (150 X \$10)	1,500	1,500
			Cost of Goods Sold (150 X \$5)  Merchandise Inventory	750	750
		20	Merchandise Inventory (120 X \$5) Accounts Payable	600	600
		24	Cash Sales Discounts (\$1,500 X .02) Accounts Receivable	1,470 30	1,500
		26	Accounts Payable  Merchandise Inventory (\$600 X .02)	600	12
			Cash		588

June 28	Accounts Receivable (110 X \$10) Sales	1,100	1,100
	Cost of Goods Sold (110 X \$5)  Merchandise Inventory	550	550
30	Sales Returns and Allowances(15 X \$10)  Accounts Receivable	150	150
	Merchandise Inventory (15 X \$5)	75	
	Cost of Goods Sold		75

## PROBLEM 5-2B

## (a) General Journal

(a)	General Journal				
Date	Account Titles and Explanation	Ref.	Debit	J1 Credit	
May 1	Merchandise Inventory	120	8,000	Orcait	
iviay i	Accounts Payable	201	0,000	8,000	
	Accounts Fayable	201		0,000	
2	Accounts Receivable	112	4,000		
	Sales	401		4,000	
	Cost of Goods Sold	505	3,100		
	Merchandise Inventory	120		3,100	
5	Accounts Payable	201	600		
	Merchandise Inventory	120		600	
9	Cash (\$4,000 – \$40)	101	3,960		
	Sales Discounts (\$4,000 X 1%)	414	<b>40</b>		
	Accounts Receivable	112		4,000	
10	Accounts Payable (\$8,000 – \$600)	201	7,400		
	Merchandise Inventory(\$7,400 X 2%)	120	·	148	
	Cash	101		7,252	
11	Supplies	126	900		
	Cash	101		900	
12	Merchandise Inventory	120	2,700		
	Cash	101		2,700	
15	Cash	101	230		
	Merchandise Inventory	120		230	
17	Merchandise Inventory	120	2,500		
	Accounts Payable	201		2,500	
19	Merchandise Inventory	120	250		
	Cash	101		250	

### **General Journal**

	acriciai coarriai			
				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
May 24	Cash	101	6,200	
-	Sales	401		6,200
	Cost of Goods Sold	505	4,600	
	Merchandise Inventory	120		4,600
25	Merchandise Inventory	120	1,000	
	Accounts Payable	201		1,000
27	Accounts Payable	201	2,500	
	Merchandise Inventory (\$2,500 X 2%)	120		50
	Cash	101		2,450
29	Sales Returns and Allowances	412	100	
	Cash	101		100
	Merchandise Inventory	120	20	
	Cost of Goods Sold	505		20
31	Accounts Receivable	112	1,600	
	Sales	401		1,600
	Cost of Goods Sold	505	1,120	
	Merchandise Inventory	120	-	1,120

(b)

Cash						No. 101
Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			10,000
	9		J1	3,960		13,960
	10		J1		7,252	6,708
	11		J1		900	5,808
	12		J1		2,700	3,108
	15		J1	230		3,338
	19		J1		250	3,088
	24		J1	6,200		9,288
	27		J1		2,450	6,838
	29		J1		100	6,738
Acco	unts	Receivable				No. 112
Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1	4,000		4,000
•	9		J1	,	4,000	0
	31		J1	1,600	•	1,600
Merch	nandi	ise Inventory				No. 120
Date		Explanation	Ref.	Debit	Credit	Balance
May	1	·	J1	8,000		8,000
,	2		J1	,	3,100	4,900
	5		J1		600	4,300
	10		J1		148	4,152
	12		J1	2,700		6,852
	15		J1	,	230	6,622
	17		J1	2,500		9,122
	19		J1	250		9,372
	24		J1		4,600	4,772
	25		J1	1,000		5,772
	<b>27</b>		J1		50	5,722
	29		J1	20		5,742
	31		J1		1,120	4,622

Supp	lies					No. 126
Date		Explanation	Ref.	Debit	Credit	Balance
May	11		J1	900		900
Acco	unts	Payable				No. 201
Date		Explanation	Ref.	Debit	Credit	Balance
May	1		J1		8,000	8,000
	5		J1	600		7,400
	10		J1	7,400		0
	17		J1		2,500	2,500
	25		J1		1,000	3,500
	27		J1	2,500		1,000
J. Ne	wsor	ո, Capital				No. 301
Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	<b>√</b>			10,000
Sales	}					No. 401
Date		Explanation	Ref.	Debit	Credit	Balance
May	2	<del>-</del>	J1		4,000	4,000
•	24		J1		6,200	10,200
	31		J1		1,600	11,800
Sales	Ret	urns and Allowances				No. 412
Date		Explanation	Ref.	Debit	Credit	Balance
May	29		J1	100		100
Sales	Disc	counts				No. 414
Date		Explanation	Ref.	Debit	Credit	Balance
May	9		J1	40	<u> </u>	40
,	-		<del>-</del> -			- •

#### **Cost of Goods Sold**

No. 505

Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1	3,100		3,100
-	24		J1	4,600		7,700
	29		J1		20	7,680
	31		J1	1,120		8,800

# (c) NEWSON HARDWARE STORE Income Statement (Partial) For the Month Ended May 31, 2008

Sales revenues		
Sales		\$11,800
Less: Sales returns and allowances	\$100	
Sales discounts	40	140
Net sales		11,660
Cost of goods sold		8,800
Gross profit		\$ 2,860

#### PROBLEM 5-3B

## (a) HUFFMAN DEPARTMENT STORE Income Statement

For the Year Ended November 30, 2008

Sales revenues			
Sales			\$850,000
Less: Sales returns & allowances			10,000
Net sales			840,000
Cost of goods sold			633,220
Gross profit			206,780
Operating expenses			,
Selling expenses			
Salaries expense	\$90,000		
(\$120,000 X 75%)	. ,		
Sales commissions expense	14,000		
Depreciation expense—store	,		
equipment	9,500		
Delivery expense	8,200		
Insurance expense	4,500		
(\$9,000 X 50%)	,		
Depreciation expense—delivery			
equipment	4,000		
Total selling expenses		\$130,200	
Administrative expenses			
Salaries expense	30,000		
(\$120,000 X 25%)	,		
Rent expense	19,000		
Utilities expense	10,600		
Insurance expense	4,500		
(\$9,000 X 50%)	,		
Property tax expense	3,500		
Total admin. expenses		67,600	
Total oper. expenses			197,800
Income from operations			8,980
Other revenues and gains			,
Interest revenue		5,000	
Other expenses and losses		•	
Interest expense		8,000	3,000
Net income			\$ 5,980

#### HUFFMAN DEPARTMENT STORE Owner's Equity Statement For the Year Ended November 30, 2008

M. Huffman, Capital, December 1, 2007Add: Net income	\$84,200 5,980
	90,180
Less: Drawings	12,000
M. Huffman, Capital, November 30, 2008	\$78,180

#### **HUFFMAN DEPARTMENT STORE**

## **Balance Sheet November 30, 2008**

Assets			
Current assets			
Cash		\$ 8,000	
Accounts receivable		11,770	
Merchandise inventory		36,200	
Prepaid insurance		4,500	
Total current assets			\$ 60,470
Property, plant, and equipment			
Store equipment	\$125,000		
Less: Accumulated depreciation—			
store equipment	41,800	83,200	
Delivery equipment	57,000		
Less: Accumulated depreciation—			
delivery equipment	<b>19,680</b>	37,320	120,520
Total assets			<u>\$180,990</u>

## **HUFFMAN DEPARTMENT STORE**

### Balance Sheet (Continued) November 30, 2008

	<b>Liabilities and Owner's Equity</b>		
Current li			
	unts payable	\$47,310	
	commissions payable	6,000	
Prop	erty taxes payable	<u>3,500</u>	<b>6 50</b> 040
	Total current liabilities		\$ 56,810
_	n liabilities		40 000
Note	s payable due 2011		46,000
	Total liabilities		102,810
Owner's	• •		78,180
	ıffman, Capital Fotal liabilities and owner's equity		<del>70,180</del> \$180,990
	otal habilities and owner s equity		ψ100,330
(b) Nov	20 Done Evnence Delivery Equip	4 000	
(b) Nov.	30 Depr. Expense—Delivery Equip Accumulated Depreciation—	4,000	
	Delivery Equipment		4,000
	Delivery Equipment		7,000
	Depr. Expense—Store Equip	9,500	
	Accumulated Depreciation—	0,000	
	Store Equipment		9,500
	4. 1		-,
	Insurance Expense	9,000	
	Prepaid Insurance	·	9,000
	Property Tax Expense	3,500	
	Property Taxes Payable		3,500
	Sales Commissions Expense	6,000	
	Sales Commissions Payable		6,000

(c)	Nov. 30	SalesInterest RevenueIncome Summary	850,000 5,000	855,000
	30	Income SummarySales Returns and	849,020	
				10,000
		Allowances		•
		Cost of Goods Sold		633,220
		Salaries Expense  Depreciation Expense—		120,000
		Delivery Equipment		4,000
		Delivery Expense		8,200
		Sales Commissions Expense		14,000
		Depreciation Expense—		•
		Store Equipment		9,500
		Insurance Expense		9,000
		Rent Expense		19,000
		Property Tax Expense		3,500
		Utilities Expense		10,600
		Interest Expense		8,000
		THOTOGE EXPONOCIONISTICION		0,000
	30	Income Summary	5,980	
		M. Huffman, Capital		5,980
	30	M. Huffman, Capital	12,000	
		M. Huffman, Drawing	•	12,000

### PROBLEM 5-4B

(a) General Journal

Debit 1,500 80	Ref. 120 201	Account Titles and Explanation Merchandise Inventory	Date
1,500	120	•	
·			Apr. 5
80	201		Apr. 5
80		Accounts Payable	
	120	Merchandise Inventory	7
	101	Cash	
100	201	Accounts Payable	9
	120	Merchandise Inventory	
1.100	112	Accounts Receivable	10
.,			
	401	Jaies	
810	505	Cost of Goods Sold	
	120	Merchandise Inventory	
860	120	Merchandise Inventory	12
	201	Accounts Payable	
1.400	201	Accounts Pavable (\$1.500 – \$100)	14
.,			
	120	(\$1,400 X 2%)	
	101	Cash	
60	201	Accounts Payable	17
	120	Merchandise Inventory	
700	112	Accounts Receivable	20
	401	Sales	_0
490	505	Cost of Goods Sold	
100	120	Merchandise Inventory	
200	201	Accounts Pavable (\$860 - \$60)	21
000	_	·	<b>4</b> I
	120	(\$800 X 1%)	
	101	Cash	
860 1,400		112 401 505 120 120 201 201 120 101 201 120 112 401 505 120 201 120	Accounts Receivable

					J1
Date	<b>Account Titles and</b>	Explanation	Ref.	Debit	Credit
Apr. 27	Sales Returns and	Allowances	412	40	
_	Accounts Rece	eivable	112		40
00	0 1		404	1 000	
30	Cash			1,000	1 000
	Accounts Rece	ervable	112		1,000
(b)					
Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,500
. 7		J1		80	2,420
14		J1		1,372	1,048
21		J1		792	256
30		J1	1,000		1,256
A	Dessivable				No. 110
	s Receivable				No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	1,100		1,100
20		J1	700		1,800
27		J1		40	1,760
30		J1		1,000	760
Merchan	dise Inventory				No. 120
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance		DODIC	Oroun	3,500
дрі. і 5	Dalance	J1	1,500		5,000
7		J1	80		5,080
9		J1	00	100	4,980
10		J1		810	4,170
12		J1	860	3 · <b>c</b>	5,030
14		J1		28	5,002
17		J1		60	4,942
20		J1		490	4,452
21		J1		8	4,444

Accounts	Payable				No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 5		J1		1,500	1,500
9		J1	100		1,400
12		J1		860	2,260
14		J1	1,400		860
17		J1	60		800
21		J1	800		0
M. Palmer,	Capital				No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000
Sales					No. 401
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1		1,100	1,100
20		J1		700	1,800
Sales Retu	irns and Allowances				No. 412
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 27	•	J1	40		40
Cost of Go	ods Sold				No. 505
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	810		810
. 20		J1	490		1,300

#### (c) MIKE'S PRO SHOP

#### **April 30, 2008 Debit Credit** \$1,256 Cash..... Accounts Receivable ..... 760 Merchandise Inventory ..... 4,444 M. Palmer, Capital ..... \$6,000 Sales ..... 1,800

40

\$7,800

1,300 \$7,800

**Trial Balance** 

Sales Returns and Allowances.....

Cost of Goods Sold .....

#### PROBLEM 5-5B

## DUCKWALL DEPARTMENT STORE Income Statement (Partial)

### For the Year Ended November 30, 2008

Sales revenues				
Sales				\$900,000
Less: Sales returns and				
allowances				20,000
Net sales				880,000
Cost of goods sold				
Inventory, Dec. 1, 2007			\$ 44,360	
Purchases		\$650,000		
Less: Purchase returns				
and allowances	\$3,000			
Purchase discounts	7,000	10,000		
Net purchases		640,000		
Add: Freight-in		5,060		
Cost of goods purchased			645,060	
Cost of goods available				
for sale			689,420	
Inventory, Nov. 30, 2008			36,200	
Cost of goods sold				653,220
Gross profit				<u>\$226,780</u>

#### PROBLEM 5-6B

- (1) (a) Cost of goods sold = Sales Gross profit = \$96,850 - \$69,640 = \$27,210
  - (b) Net income = Gross profit Operating expenses = \$69,640 \$63,500 = \$6,140
  - (c) Merchandise inventory = 2005 Inventory + Purchases CGS = \$13,000 + \$25,890 \$27,210 = \$11,680
  - (d) Cash payments to suppliers = 2005 Accounts payable +
    Purchases 2006 Accounts payable
    = \$5,800 + \$25,890 \$6,500 = \$25,190
  - (e) Sales = Cost of goods sold + Gross profit = \$25,140 + \$61,540 = \$86,680
  - (f) Operating expenses = Gross profit Net income = \$61,540 – \$4,570 = \$56,970
  - (g) 2006 Inventory + Purchases 2007 Inventory = CGS Purchases = CGS – 2006 Inventory + 2007 Inventory = \$25,140 – \$11,680 [from (c)] + \$14,700 = \$28,160

  - (i) Gross profit = Sales CGS = \$82,220 - \$25,990 = \$56,230
  - (j) Net income = Gross profit Operating expenses = \$56,230 [from (i)] – \$52,060 = \$4,170
  - (k) 2007 Inventory + Purchases 2008 Inventory = CGS
    Merchandise inventory = 2007 Inventory + Purchases CGS
    = \$14,700 + \$24,050 \$25,990 = \$12,760
  - (I) Accounts payable = 2007 Accounts payable + Purchases - Cash payments = \$4,600 + \$24,050 - \$24,650 = \$4,000

(2) 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. However, in this particular case, sales declined with insufficient offsetting cost savings to improve profitability. Therefore, profitability declined for Howit Inc.

	2006	2007	2008
Gross profit rate	\$69,640 ÷ \$96,850	\$61,540 ÷ \$86,680	\$56,230 ÷ \$82,220
	= 72%	= 71%	= 68%
Profit margin ratio	\$6,140 ÷ \$96,850	\$4,570 ÷ \$86,680	\$4,170 ÷ \$82,220
	= 6.3%	= 5.3%	= 5.1%

### \*PROBLEM 5-7B

(a)	General Journal		
Date	Account Titles and Explanation	Debit	Credit
Apr. 5	PurchasesAccounts Payable	2,200	2,200
7	Freight-in Cash	80	80
9	Accounts Payable Purchase Returns and Allowances	200	200
10	Accounts Receivable Sales	950	950
12	PurchasesAccounts Payable	460	460
14	Accounts Payable (\$2,200 – \$200) Purchase Discounts (\$2,000 X 2%) Cash (\$2,000 – \$40)	2,000	40 1,960
17	Accounts Payable Purchase Returns and Allowances	60	60
20	Accounts Receivable Sales	1,000	1,000
21	Accounts Payable (\$460 – \$60) Purchase Discounts (\$400 X 1%) Cash (\$400 – \$4)	400	4 396
27	Sales Returns and Allowances Accounts Receivable	75	75
30	CashAccounts Receivable	1,100	1,100

(	b)	
•	- /	

Cash			
4/1 Bal.	2,500 1,100	4/7	80
4/30	1,100	4/14	1,960
		4/21	396
4/30 Bal.	1,164		_

#### **Accounts Receivable**

4/10	950	4/27	75
4/20	1,000	4/30	1,100
4/30 Bal.	775		

#### **Merchandise Inventory**

4/1 Bal.	3,500	
4/30 Bal.	3,500	

#### **Accounts Payable**

4/9	200	4/5	2,200
4/14	2,000	4/12	460
4/17	60		
4/21	400		
		4/30 Bal.	0

## Purchase Returns and Allowances

ricturiis and	neturns and Anowances		
	4/9	200	
	4/17	60	
	4/30 Bal.	260	

#### Purchase Discounts

Fulchase Discoulls		
	4/14	40
	4/21	4
	4/30 Bal.	44

#### Phil Mickel, Capital

1 1111 1111011	i iiii iiiiokoi, Gapitai	
	4/1 Bal.	6,000
	4/30 Bal.	6,000

#### Sales

	4/10	950
	4/20	1,000
	4/30 Bal.	1,950

#### **Sales Returns and Allowances**

4/27	75	
4/30 Bal.	75	

#### **Purchases**

		101000
4/5	2,200	
4/12	460	
4/30 Bal.	2,660	

#### Freight-in

4/7	80	
4/30 Bal.	80	

# (c) FOUR OAKS PRO SHOP Trial Balance April 30, 2008

	Debit	Credit
Cash	\$1,164	Orount
Accounts Receivable	775	
Merchandise Inventory	3,500	
Phil Mickel, Capital	•	\$6,000
Sales		1,950
Sales Returns and Allowances	<b>75</b>	
Purchases	2,660	
Purchase Returns and Allowances		260
Purchase Discounts		44
Freight-in	80	
	<u>\$8,254</u>	<u>\$8,254</u>

#### FOUR OAKS PRO SHOP Income Statement (Partial) For the Month Ended April 30, 2008

Sales revenues				
Sales				\$1,950
Less: Sales returns and				
allowances				<u>75</u>
Net sales				1,875
Cost of goods sold				
Inventory, April 1			\$3,500	
Purchases		\$2,660		
Less: Purchase returns				
and allowances	\$260			
Purchase discounts	44	304		
Net purchases		2,356		
Add: Freight-in		80		
Cost of goods purchased			2,436	
Cost of goods available				
for sale			5,936	
Inventory, April 30			4,524	
Cost of goods sold				1,412
Gross profit				\$ 463
•				

#### FINANCIAL REPORTING PROBLEM

		2004	2005
(a)	(1) Percentage change in sales: (\$29,261 - \$26,971) ÷ \$26,971 (\$32,562 - \$29,261) ÷ \$29,261	8.5% increase	11.3% increase
	(2) Percentage change in net income: (\$4,212 - \$3,568) ÷ \$3,568 (\$4,078 - \$4,212) ÷ \$4,212	18.0% increase	3.2% decrease
(b)	Gross profit rate: 2003 (\$26,971 - \$11,691) ÷ \$26,971 2004 (\$29,261 - \$12,674) ÷ \$29,261 2005 (\$32,562 - \$14,176) ÷ \$32,562	56.7% 56.7% 56.5%	
(c)	Percentage of net income to sales: 2003 (\$3,568 ÷ \$26,971) 2004 (\$4,212 ÷ \$29,261) 2005 (\$4,078 ÷ \$32,562)	13.2% 14.4% 12.5%	

#### Comment

The percentage of net income to sales increased 9% from 2003 to 2004 (13.2% to 14.4%) but declined 13% from 2004 to 2005 (14.4% to 12.5%). The gross profit rate has remained steady during this time. The primary reason for the decrease in 2005 income was the increase in income tax expense. Note 5 explains that the company's 2005 tax expense includes a one-time tax that resulted from including "repatriated" earnings from international transactions.

		<b>PepsiCo</b>	Coca-Cola
(a) (1)	2005 Gross profit	\$18,386¹	\$14,909
(2)	2005 Gross profit rate	56.5% <sup>2</sup>	64.5% <sup>3</sup>
(3)	2005 Operating income	\$5,922	\$6,085
(4)	Percent change in operating income, 2004 to 2005	g 12.6% <sup>4</sup> increase	6.8% <sup>5</sup> increase
<sup>1</sup> \$3	2,562 – \$14,176     ² \$18,386 -	÷ \$32,562 <sup>3</sup> \$14,9	09 ÷ \$23,104
<sup>4</sup> (\$5	5,922 – \$5,259) ÷ \$5,259	5 (\$6,085 – \$5,698) ÷	\$5,698

<sup>(</sup>b) PepsiCo has a higher gross profit but a lower gross profit rate than Coca-Cola. This difference can be explained by PepsiCo's higher sales level and a higher cost of goods sold.

Coca-Cola had a larger operating income because its cost of goods sold was smaller than PepsiCo's and it reported no amortization of intangible assets.

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

#### **GROUP DECISION CASE**

## (a) (1) FEDCO DEPARTMENT STORE Income Statement For the Year Ended December 31, 2008

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

<sup>\*</sup>Alternatively: Net sales, \$742,000 – gross profit, \$178,080.

## (2) FEDCO DEPARTMENT STORE Income Statement For the Year Ended December 31, 2008

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		<b>\$</b> 55,000

<sup>\*\$100,000 - \$30,000 - (\$30,000</sup> X 40%) + (\$700,000 X 2%) = \$72,000.

(b) Carrie's proposed changes will increase net income by \$31,080. Luke'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 Carrie's plan and Luke's plan, Carrie's plan should be adopted. While Luke's plan will increase net income, it may also have an adverse effect on sales personnel. Under Luke's plan, sales personnel will be taking a cut of \$16,000 in compensation [\$60,000 – (\$30,000 + \$14,000)].

(c)

## FEDCO DEPARTMENT STORE Income Statement For the Year Ended December 31, 2008

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

<sup>\*\$72,000 + [2%</sup> 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 2007 results. This is an increase of over 200%. Given the size of the increase, Luke'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%)].

#### **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 Flutie is earned at event No. 8, when Flutie picks up the surfboard.

The circumstances pertaining to this sale may seem to you to be atypical because Flutie 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 Flutie.

Whether Flutie 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 Flutie'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,

- (a) Laura McAntee, 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:
  - ► Laura McAntee, the assistant treasurer.
  - ► Danny Feeney, the treasurer.
  - **▶** Dorchester Stores, the company.
  - ► Creditors of Dorchester Stores (suppliers).
  - ▶ Mail room employees (those assigned the blame).
- (c) Laura'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 Danny. The company may not condone this practice. Laura definitely has a choice, but probably not without consequence. To continue the practice is definitely unethical. If Laura submits to this request, she may be asked to perform other unethical tasks. If Laura 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 Danny'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.

#### **ALL ABOUT YOU ACTIVITY**

(a) In a cash transaction the value of the item being exchanged is determined by the cash exchanged. In a barter transaction it is important that the value of the item being given up be objectively determined. To do this, Atlantis must demonstrate that it has sold similar space for cash to other parties. If it cannot demonstrate this, then it should not recognize revenue.

In the late 1990's it was quite common for Internet companies to engage in transactions in which they essentially swapped advertisements on each other's web sites. At the time this was being done many of these companies were reporting net losses. It was believed by many that their high share prices were being driven instead by increasing revenues. Many observers were concerned that these swap transactions were simply a means to artificially boost reported revenue.

- (b) In order for revenue to be recognized it must be earned. In this case Atlantis 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 Atlantis cannot record revenue.
- (C) In this case Atlantis has sold two separate products. First, it has sold a stereo. Revenue from the sale of the stereo would be recorded upon delivery of the product. Second, it has sold an extended warranty. Under the warranty, it has an obligation to fix or replace the product for a three year period. Therefore, it has not fully earned the warranty revenue of \$150 until the three years have passed. Rather than waiting until the end of the warranty period, it should instead recognize some revenue during each of the three years. It might do this evenly, or it might do it proportional to the related expenses it expects.