

CHAPTER 5

Accounting for Merchandising Operations

ASSIGNMENT CLASSIFICATION TABLE

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

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

ASSIGNMENT CHARACTERISTICS TABLE

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

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ACCOUNTING FOR MERCHANDISING OPERATIONS

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

ACCOUNTING FOR MERCHANDISING OPERATIONS (Continued)

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

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

	Knowledge	Comprehension	Application	Analysis	Synthesis	
	Q5-2	Q5-3 Q5-4	E5-1 BE5-1			
ial	Q5-5	Q5-6 Q5-7	Q5-8 BE5-2 BE5-4 DI5-1 E5-2	E5-3 E5-4 P5-1A P5-2A P5-1B	P5-2B P5-4A P5-4B	E5-11
1.	Q5-10		Q5-11 BE5-2 BE5-3 DI5-2 E5-3	E5-4 E5-5 P5-1A P5-2A P5-4A	P5-1B P5-2B P5-4B	Q5-9 E5-11
		Q5-1 Q5-12 Q5-14	Q5-13 BE5-5 BE5-6 DI5-3	E5-6 E5-7 E5-8 P5-4A	P5-5A P5-4B	P5-3A P5-3B
	Q5-18	Q5-19 BE5-8 Q5-17	BE5-7 BE5-9 BE5-11 DI5-4	P5-5A P5-6A P5-7A P5-5B		E5-13 E5-14 P5-3A P5-3B

ANSWERS TO QUESTIONS

1. (a) Disagree. The steps in the accounting cycle are the same for both a merchandising company and a service company.
 (b) The measurement of income is conceptually the same. In both types of companies, net income (or loss) results from the matching of expenses with revenues.
2. The normal operating cycle for a merchandising company is likely to be longer than in a service company because inventory must first be purchased and sold, and then the receivables must be collected.

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

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

- (b) The income measurement process is as follows:



4. Income measurement for a merchandising company differs from a service company as follows:
 (a) sales are the primary source of revenue and (b) expenses are divided into two main categories: cost of goods sold and operating expenses.
5. In a perpetual inventory system, cost of goods sold is determined each time a sale occurs.
6. The letters FOB mean Free on Board. FOB shipping point means that goods are placed free on board the carrier by the seller. The buyer then pays the freight and debits Inventory. FOB destination means that the goods are placed free on board to the buyer's place of business. Thus, the seller pays the freight and debits Freight-out.
7. Credit terms of 2/10, n/30 mean that a 2% cash discount may be taken if payment is made within 10 days of the invoice date; otherwise, the invoice price, less any returns, is due 30 days from the invoice date.

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

9. Agree. In accordance with the revenue recognition principle, sales revenues are generally considered to be recognized when the goods are transferred from the seller to the buyer; that is, when the exchange transaction occurs. The recognition of revenue is not dependent on the collection of credit sales.
10. (a) The primary source documents are: (1) cash sales—cash register tapes and (2) credit sales—sales invoice.

Questions Chapter 5 (Continued)

(b) The entries are:

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

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

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

13. Two closing entries are required:

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

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

15.	Sales revenues.....	\$105,000
	Cost of goods sold	<u>70,000</u>
	Gross profit.....	<u>\$ 35,000</u>

Gross profit rate: $\$35,000 \div \$105,000 = \underline{33.3\%}$

16.	Gross profit.....	\$370,000
	Less: Net income.....	<u>240,000</u>
	Operating expenses.....	<u>\$130,000</u>

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.

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 single-step income statement differs from the multiple-step income statement in that: (1) all data are classified into two categories: revenues and expenses, and (2) only one step, subtracting total expenses from total revenues, is required in determining net income (or net loss).
20. Apple's gross profit rate for 2011 was 40.5% $[(\$108,249 - \$64,431) \div \$108,249]$. Its gross profit rate in 2010 was 39.4% $[(\$65,225 - \$39,541) \div \$65,225]$ so the rate increased from 2010 to 2011.
- *21. The columns are:
- (a) Inventory—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Balance Sheet (Dr.).
- (b) Cost of Goods Sold—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Income Statement (Dr.).

*22.

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

*23.

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

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 5-1

- (a) Cost of goods sold = \$45,000 (\$75,000 – \$30,000).
 Operating expenses = \$19,200 (\$30,000 – \$10,800).
- (b) Gross profit = \$38,000 (\$108,000 – \$70,000).
 Operating expenses = \$8,500 (\$38,000 – \$29,500).
- (c) Sales Revenue = \$163,500 (\$83,900 + \$79,600).
 Net income = \$40,100 (\$79,600 – \$39,500).

BRIEF EXERCISE 5-2

Radomir Company

Inventory	780	
Accounts Payable		780

Lemke Company

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

BRIEF EXERCISE 5-3

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

BRIEF EXERCISE 5-3 (Continued)

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

BRIEF EXERCISE 5-4

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

BRIEF EXERCISE 5-5

Cost of Goods Sold	2,300	
Inventory		2,300

BRIEF EXERCISE 5-6

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

BRIEF EXERCISE 5-7

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

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

BRIEF EXERCISE 5-8

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

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

(1) Multiple-Step Income Statement

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

(2) Single-Step Income Statement

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

BRIEF EXERCISE 5-9

- (a) Net sales = \$510,000 – \$15,000 = \$495,000.
- (b) Gross profit = \$495,000 – \$330,000 = \$165,000.
- (c) Income from operations = \$165,000 – \$110,000 = \$55,000.
- (d) Gross profit rate = \$165,000 ÷ \$495,000 = 33.3%.

*BRIEF EXERCISE 5-10

- (a) Cash: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.
- (b) Inventory: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.
- (c) Sales revenue: Trial balance credit column; Adjusted trial balance credit column, Income statement credit column.
- (d) Cost of goods sold: Trial balance debit column, Adjusted trial balance debit column, Income statement debit column.

*BRIEF EXERCISE 5-11

Purchases		\$450,000
Less: Purchase returns and allowances	\$13,000	
Purchase discounts	<u>8,000</u>	<u>21,000</u>
Net purchases.....		<u>\$429,000</u>
Net purchases.....		\$429,000
Add: Freight-in		<u>16,000</u>
Cost of goods purchased		<u>\$445,000</u>

***BRIEF EXERCISE 5-12**

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

*Information taken from Brief Exercise 5-11.

***BRIEF EXERCISE 5-13**

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

***BRIEF EXERCISE 5-14**

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

***BRIEF EXERCISE 5-15**

- (a) Cash: Trial balance debit column; Adjusted trial balance debit column; Balance sheet debit column.**
- (b) Beginning inventory: Trial balance debit column; Adjusted trial balance debit column; Income statement debit column.**
- (c) Accounts payable: Trial balance credit column; Adjusted trial balance credit column; Balance sheet credit column.**
- (d) Ending inventory: Income statement credit column; Balance sheet debit column.**

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 5-1

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

DO IT! 5-2

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

DO IT! 5-3

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

DO IT! 5-4

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

SOLUTIONS TO EXERCISES

EXERCISE 5-1

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

EXERCISE 5-2

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

EXERCISE 5-3

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

EXERCISE 5-4

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

EXERCISE 5-4 (Continued)

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

EXERCISE 5-5

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

EXERCISE 5-6

(a)

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

Sales revenues		
Sales revenue		\$820,000
Less: Sales returns and allowances	\$25,000	
Sales discounts.....	<u>13,000</u>	<u>38,000</u>
Net sales		<u><u>\$782,000</u></u>

Note: Freight-out is a selling expense.

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

EXERCISE 5-7

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

EXERCISE 5-8

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

EXERCISE 5-9

(a) **FURLow COMPANY**
Income Statement
For the Month Ended March 31, 2014

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

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

EXERCISE 5-10

(a)

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

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

(b)

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

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

EXERCISE 5-11

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

EXERCISE 5-12

- (a) $\$900,000 - \$522,000 = \$378,000$.
- (b) $\$378,000/\$900,000 = 42\%$. The gross profit rate is generally considered to be more useful than the gross profit amount. The rate expresses a more meaningful (qualitative) relationship between net sales and gross profit. The gross profit rate tells how many cents of each sales dollar go to gross profit. The trend of the gross profit rate is closely watched by financial statement users, and is compared with rates of competitors and with industry averages. Such comparisons provide information about the effectiveness of a company's purchasing function and the soundness of its pricing policies.
- (c) Income from operations is \$153,000 ($\$378,000 - \$225,000$), and net income is \$142,000 ($\$153,000 - \$11,000$).
- (d) The amount shown for net income is the same in a multiple-step income statement and a single-step income statement. Both income statements report the same revenues and expenses, but in different order. Therefore, net income in Cruz's single-step income statement is also \$142,000.
- (e) Inventory is reported as a current asset immediately below accounts receivable.

EXERCISE 5-13

(a) (*missing amount)

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

(b) May Company

$$\text{Gross profit} \div \text{Net sales} = \$31,000 \div \$87,000 = 35.6\%$$

Reed Company

$$\text{Gross profit} \div \text{Net sales} = \$41,500 \div \$102,000 = 40.7\%$$

EXERCISE 5-14

(*Missing amount)

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

EXERCISE 5-14 (Continued)

(k) and (l)

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

*EXERCISE 5-15

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

*EXERCISE 5-16

MARQUEZ COMPANY Worksheet For the Month Ended June 30, 2014

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

***EXERCISE 5-17**

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

***EXERCISE 5-18**

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

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

***EXERCISE 5-19**

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

***EXERCISE 5-20**

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

***EXERCISE 5-21**

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

***EXERCISE 5-22**

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

PROBLEM 5-1A

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

PROBLEM 5-1A (Continued)

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

PROBLEM 5-2A

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Inventory	120	4,200	
	Accounts Payable	201		4,200
2	Accounts Receivable	112	2,100	
	Sales Revenue	401		2,100
	Cost of Goods Sold	505	1,300	
	Inventory	120		1,300
5	Accounts Payable	201	300	
	Inventory	120		300
9	Cash (\$2,100 – \$21)	101	2,079	
	Sales Discounts (\$2,100 X 1%)	414	21	
	Accounts Receivable	112		2,100
10	Accounts Payable (\$4,200 – \$300)	201	3,900	
	Inventory (\$3,900 X 2%)	120		78
	Cash	101		3,822
11	Supplies	126	400	
	Cash	101		400
12	Inventory	120	1,400	
	Cash	101		1,400
15	Cash	101	150	
	Inventory	120		150
17	Inventory	120	1,300	
	Accounts Payable	201		1,300
19	Inventory	120	130	
	Cash	101		130

PROBLEM 5-2A (Continued)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
May 24	Cash	101	3,200	
	Sales Revenue	401		3,200
	Cost of Goods Sold	505	2,000	
	Inventory	120		2,000
25	Inventory	120	620	
	Accounts Payable	201		620
27	Accounts Payable	201	1,300	
	Inventory			
	(\$1,300 X 2%)	120		26
	Cash	101		1,274
29	Sales Returns and Allowances	412	70	
	Cash	101		70
	Inventory	120	30	
	Cost of Goods Sold	505		30
31	Accounts Receivable	112	1,000	
	Sales Revenue	401		1,000
	Cost of Goods Sold	505	560	
	Inventory	120		560

PROBLEM 5-2A (Continued)

(b)

Cash						No. 101
Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			5,000
	9		J1	2,079		7,079
	10		J1		3,822	3,257
	11		J1		400	2,857
	12		J1		1,400	1,457
	15		J1	150		1,607
	19		J1		130	1,477
	24		J1	3,200		4,677
	27		J1		1,274	3,403
	29		J1		70	3,333

Accounts Receivable						No. 112
Date		Explanation	Ref.	Debit	Credit	Balance
May	2		J1	2,100		2,100
	9		J1		2,100	0
	31		J1	1,000		1,000

Inventory						No. 120
Date		Explanation	Ref.	Debit	Credit	Balance
May	1		J1	4,200		4,200
	2		J1		1,300	2,900
	5		J1		300	2,600
	10		J1		78	2,522
	12		J1	1,400		3,922
	15		J1		150	3,772
	17		J1	1,300		5,072
	19		J1	130		5,202
	24		J1		2,000	3,202
	25		J1	620		3,822
	27		J1		26	3,796
	29		J1	30		3,826
	31		J1		560	3,266

PROBLEM 5-2A (Continued)**Supplies** **No. 126**

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

Accounts Payable **No. 201**

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

Owner's Capital **No. 301**

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

Sales Revenue **No. 401**

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

Sales Returns and Allowances **No. 412**

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

Sales Discounts **No. 414**

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

PROBLEM 5-2A (Continued)

Cost of Goods Sold					No. 505
Date	Explanation	Ref.	Debit	Credit	Balance
May 2		J1	1,300		1,300
24		J1	2,000		3,300
29		J1		30	3,270
31		J1	560		3,830

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

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

PROBLEM 5-3A

(a) **THE DELUXE STORE**
Income Statement
For the Year Ended November 30, 2014

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

PROBLEM 5-3A (Continued)

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

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

**THE DELUXE STORE
Balance Sheet
November 30, 2014**

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

PROBLEM 5-3A (Continued)

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

Liabilities and Owner's Equity

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

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

PROBLEM 5-3A (Continued)

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

PROBLEM 5-4A

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 5	Inventory	120	1,200	
	Accounts Payable	201		1,200
7	Inventory	120	50	
	Cash	101		50
9	Accounts Payable	201	100	
	Inventory	120		100
10	Accounts Receivable	112	900	
	Sales Revenue	401		900
	Cost of Goods Sold	505	540	
	Inventory	120		540
12	Inventory	120	670	
	Accounts Payable	201		670
14	Accounts Payable (\$1,200 – \$100)	201	1,100	
	Inventory			
	(\$1,100 X 2%)	120		22
	Cash	101		1,078
17	Accounts Payable	201	70	
	Inventory	120		70
20	Accounts Receivable	112	610	
	Sales Revenue	401		610
	Cost of Goods Sold	505	370	
	Inventory	120		370
21	Accounts Payable (\$670 – \$70)	201	600	
	Inventory			
	(\$600 X 1%)	120		6
	Cash	101		594

PROBLEM 5-4A (Continued)

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 27	Sales Returns and Allowances	412	20	
	Accounts Receivable	112		20
30	Cash.....	101	900	
	Accounts Receivable	112		900

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			1,800
7		J1		50	1,750
14		J1		1,078	672
21		J1		594	78
30		J1	900		978

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	900		900
20		J1	610		1,510
27		J1		20	1,490
30		J1		900	590

Inventory					No. 120
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,500
5		J1	1,200		3,700
7		J1	50		3,750
9		J1		100	3,650
10		J1		540	3,110
12		J1	670		3,780
14		J1		22	3,758
17		J1		70	3,688
20		J1		370	3,318
21		J1		6	3,312

PROBLEM 5-4A (Continued)**Accounts Payable** **No. 201**

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

Owner's Capital **No. 301**

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

Sales Revenue **No. 401**

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

Sales Returns and Allowances **No. 412**

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

Cost of Goods Sold **No. 505**

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

PROBLEM 5-4A (Continued)

(c)

**ADAM'S DISCORAMA
Trial Balance
April 30, 2014**

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

(a)

VALDEZ FASHION CENTER
Worksheet
For the Year Ended November 30, 20

Account Titles	Trial Balance		Adjustments		Adjust
	Dr.	Cr.	Dr.	Cr.	Trial Bal. Dr.
Cash	8,700				8,700
Accounts Receivable	30,700				30,700
Inventory	44,700		(d) 300	300	44,400
Supplies	6,200		(a) 4,200	4,200	2,000
Equipment	133,000				133,000
Accum. Depreciation— Equipment		28,000	(b) 11,500	11,500	
Notes Payable		51,000			
Accounts Payable		48,500			
Owner's Capital		90,000			
Owner's Drawings	12,000				12,000
Sales Revenue		755,200			
Sales Returns and Allowances	8,800				8,800
Cost of Goods Sold	497,400		(d) 300	300	497,700
Salaries and Wages Expense	140,000				140,000
Advertising Expense	24,400				24,400
Utilities Expense	14,000				14,000

PROBLEMS

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

**(b) VALDEZ FASHION CENTER
Income Statement
For the Year Ended November 30, 2014**

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

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

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

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

**VALDEZ FASHION CENTER
Balance Sheet
November 30, 2014**

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

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

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

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

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

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

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

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

(e)

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

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

***PROBLEM 5-6A**

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

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

***PROBLEM 5-7A**

- (1) (a) **Cost of goods sold = Sales revenue – Gross profit**
= \$55,000 – \$38,300 = \$16,700
- (b) **Net income = Gross profit – Operating expenses**
= \$38,300 – \$34,900 = \$3,400
- (c) **Inventory = 2011 Inventory + Purchases – CGS**
= \$7,200 + \$14,200 – \$16,700 = \$4,700
- (d) **Cash payments to suppliers = 2011 Accounts payable +**
Purchases – 2012 Accounts payable
= \$3,200 + \$14,200 – \$3,600 = \$13,800
- (e) **Sales revenue = Cost of goods sold + Gross profit**
= \$13,800 + \$35,200 = \$49,000
- (f) **Operating expenses = Gross profit – Net income**
= \$35,200 – \$2,500 = \$32,700
- (g) **2012 Inventory + Purchases – 2013 Inventory = CGS**
Purchases = CGS – 2012 Inventory + 2013 Inventory
= \$13,800 – \$4,700 [from (c)] + \$8,100
= \$17,200
- (h) **Cash payments to suppliers = 2012 Accounts payable +**
Purchases – 2013 Accounts Payable
= \$3,600 + \$17,200 [from (g)] – \$2,500
= \$18,300
- (i) **Gross profit = Sales revenue – CGS**
= \$47,000 – \$14,300 = \$32,700
- (j) **Net income = Gross profit – Operating expenses**
= \$32,700 [from (i)] – \$28,600 = \$4,100
- (k) **2013 Inventory + Purchases – 2014 Inventory = CGS**
Inventory = 2013 Inventory + Purchases – CGS
= \$8,100 + \$13,200 – \$14,300 = \$7,000
- (l) **Accounts payable = 2013 Accounts payable +**
Purchases – Cash payments
= \$2,500 + \$13,200 – \$13,600 = \$2,100

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

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

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

***PROBLEM 5-8A**

(a)

General Journal

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

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

(b)

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

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

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

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

Purchase Returns and Allowances		
	4/9	100
	4/17	50
	4/30 Bal.	150

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

Owner's Capital		
	4/1 Bal.	7,000
	4/30 Bal.	7,000

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

Sales Returns and Allowances		
	4/27	35
	4/30 Bal.	35

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

Freight-In		
	4/7	50
	4/30 Bal.	50

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

(c)

**KOKOTT PRO SHOP
Trial Balance
April 30, 2014**

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

(d)

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

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

SOLUTIONS TO PROBLEMS

PROBLEM 5-1B

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

PROBLEM 5-1B (Continued)

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

PROBLEM 5-2B

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 2	Inventory	120	6,900	
	Accounts Payable	201		6,900
4	Accounts Receivable	112	6,500	
	Sales Revenue	401		6,500
	Cost of Goods Sold	505	3,900	
	Inventory	120		3,900
5	Freight-Out	644	240	
	Cash	101		240
6	Accounts Payable	201	500	
	Inventory	120		500
11	Accounts Payable (\$6,900 – \$500)	201	6,400	
	Inventory	120		64
	(\$6,400 X 1%)			
	Cash	101		6,336
13	Cash	101	6,435	
	Sales Discounts (\$6,500 X 1%)	414	65	
	Accounts Receivable	112		6,500
14	Inventory	120	3,800	
	Cash	101		3,800
16	Cash	101	500	
	Inventory	120		500
18	Inventory	120	4,500	
	Accounts Payable	201		4,500
20	Inventory	120	100	
	Cash	101		100

PROBLEM 5-2B (Continued)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 23	Cash	101	7,400	
	Sales Revenue	401		7,400
	Cost of Goods Sold.....	505	4,120	
	Inventory	120		4,120
26	Inventory.....	120	2,300	
	Cash	101		2,300
27	Accounts Payable	201	4,500	
	Inventory	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	3,700	
	Sales Revenue	401		3,700
	Cost of Goods Sold.....	505	2,800	
	Inventory	120		2,800

PROBLEM 5-2B (Continued)

(b)

Cash						No. 101
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			9,000	
5		J1		240	8,760	
11		J1		6,336	2,424	
13		J1	6,435		8,859	
14		J1		3,800	5,059	
16		J1	500		5,559	
20		J1		100	5,459	
23		J1	7,400		12,859	
26		J1		2,300	10,559	
27		J1		4,410	6,149	
29		J1		90	6,059	

Accounts Receivable						No. 112
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 4		J1	6,500		6,500	
13		J1		6,500	0	
30		J1	3,700		3,700	

Inventory						No. 120
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 2		J1	6,900		6,900	
4		J1		3,900	3,000	
6		J1		500	2,500	
11		J1		64	2,436	
14		J1	3,800		6,236	
16		J1		500	5,736	
18		J1	4,500		10,236	
20		J1	100		10,336	
23		J1		4,120	6,216	
26		J1	2,300		8,516	
27		J1		90	8,426	
29		J1	30		8,456	
30		J1		2,800	5,656	

PROBLEM 5-2B (Continued)

Accounts Payable **No. 201**

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

Owner's Capital **No. 301**

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

Sales Revenue **No. 401**

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

Sales Returns and Allowances **No. 412**

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

Sales Discounts **No. 414**

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

Cost of Goods Sold **No. 505**

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

PROBLEM 5-2B (Continued)

Freight-Out					No. 644
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 5		J1	240		240

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

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

PROBLEM 5-3B

(a) **MACKEY DEPARTMENT STORE**
Income Statement
For the Year Ended December 31, 2014

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

PROBLEM 5-3B (Continued)

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

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

MACKEY DEPARTMENT STORE
Balance Sheet
December 31, 2014

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

PROBLEM 5-3B (Continued)

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

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

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

PROBLEM 5-3B (Continued)

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

PROBLEM 5-4B

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 4	Inventory.....	120	840	
	Accounts Payable.....	201		840
6	Inventory.....	120	40	
	Cash	101		40
8	Accounts Receivable	112	1,150	
	Sales Revenue	401		1,150
	Cost of Goods Sold.....	505	790	
	Inventory	120		790
10	Accounts Payable	201	40	
	Inventory	120		40
11	Inventory.....	120	420	
	Cash	101		420
13	Accounts Payable (\$840 – \$40).....	201	800	
	Inventory	120		16
	(\$800 X 2%)			
	Cash	101		784
14	Inventory.....	120	900	
	Accounts Payable.....	201		900
15	Cash.....	101	50	
	Inventory	120		50
17	Inventory.....	120	30	
	Cash	101		30
18	Accounts Receivable	112	900	
	Sales Revenue	401		900
	Cost of Goods Sold.....	505	540	
	Inventory	120		540

PROBLEM 5-4B (Continued)

General Journal					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Apr. 20	Cash	101	600		
	Accounts Receivable	112		600	
21	Accounts Payable.....	201	900		
	Inventory (\$900 X 3%)	120		27	
	Cash.....	101		873	
27	Sales Returns and Allowances.....	412	40		
	Accounts Receivable	112		40	
30	Cash	101	710		
	Accounts Receivable.....	112		710	

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,500
6		J1		40	2,460
11		J1		420	2,040
13		J1		784	1,256
15		J1	50		1,306
17		J1		30	1,276
20		J1	600		1,876
21		J1		873	1,003
30		J1	710		1,713

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 8		J1	1,150		1,150
18		J1	900		2,050
20		J1		600	1,450
27		J1		40	1,410
30		J1		710	700

PROBLEM 5-4B (Continued)

Inventory						No. 120
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			1,700	
4		J1	840		2,540	
6		J1	40		2,580	
8		J1		790	1,790	
10		J1		40	1,750	
11		J1	420		2,170	
13		J1		16	2,154	
14		J1	900		3,054	
15		J1		50	3,004	
17		J1	30		3,034	
18		J1		540	2,494	
21		J1		27	2,467	

Accounts Payable						No. 201
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 4		J1		840	840	
10		J1	40		800	
13		J1	800		0	
14		J1		900	900	
21		J1	900		0	

Owner's Capital						No. 301
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			4,200	

Sales Revenue						No. 401
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 8		J1		1,150	1,150	
18		J1		900	2,050	

PROBLEM 5-4B (Continued)

Sales Returns and Allowances **No. 412**

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

Cost of Goods Sold **No. 505**

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

(c) DIAZ TENNIS SHOP
Trial Balance
April 30, 2014

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

***PROBLEM 5-5B**

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

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

***PROBLEM 5-6B**

(a)	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cost of goods sold:			
Beginning inventory	\$ 13,000	\$ 11,300	\$ 14,700
Plus: Purchases	<u>146,000</u>	<u>145,000</u>	<u>129,000</u>
Cost of goods available	159,000	156,300	143,700
Less: Ending inventory	<u>(11,300)</u>	<u>(14,700)</u>	<u>(12,200)</u>
Cost of goods sold	<u>\$147,700</u>	<u>\$141,600</u>	<u>\$131,500</u>
(b)	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sales revenue	\$239,000	\$237,000	\$235,000
Less: CGS	<u>147,700</u>	<u>141,600</u>	<u>131,500</u>
Gross profit	<u>\$ 91,300</u>	<u>\$ 95,400</u>	<u>\$103,500</u>
(c)	<u>2012</u>	<u>2013</u>	<u>2014</u>
Beginning accounts payable	\$ 20,000	\$ 31,000	\$ 15,000
Plus: Purchases	146,000	145,000	129,000
Less: Payments to suppliers	<u>135,000</u>	<u>161,000</u>	<u>127,000</u>
Ending accounts payable	<u>\$ 31,000</u>	<u>\$ 15,000</u>	<u>\$ 17,000</u>
(d) Gross profit rate	¹ 38.2%	² 40.3%	³ 44.0%
	¹ \$91,300 ÷ \$239,000	² \$95,400 ÷ \$237,000	³ \$103,500 ÷ \$235,000

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

***PROBLEM 5-7B**

(a)

General Journal

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

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

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

(b)

Cash	
4/1 Bal.	2,500
4/15	50
4/20	500
4/30	550
4/30 Bal.	1,845

Accounts Receivable	
4/8	900
4/18	1,000
4/30 Bal.	825

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

Purchase Returns and Allowances	
	4/10 40
	4/15 50
	4/30 Bal. 90

Accounts Payable	
4/10	40
4/13	700
4/21	700
	4/30 Bal. 0

Owner's Capital	
	4/1 Bal. 4,200
	4/30 Bal. 4,200

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

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

Freight-In	
4/6	60
4/17	30
4/30 Bal.	90

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

(c)

EVERETT TENNIS SHOP
Trial Balance
April 30, 2014

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

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

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

COMPREHENSIVE PROBLEM SOLUTION

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

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	1,700	
		Supplies (\$3,200 – \$1,500)		1,700

(b) & (c)

General Ledger

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

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

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

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

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

Accumulated Depr.—Equipment	
12/1 Bal.	2,200
12/31	200
12/31 Bal.	

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

Salaries and Wages Payable			
12/6	1,000	12/1 Bal.	1,000
		12/31	800
		12/31 Bal. 800	

COMPREHENSIVE PROBLEM SOLUTION (Continued)

Owner's Capital

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

Sales Revenue

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

Sales Discounts

12/27 360	
12/31 Bal. 360	

Cost of Goods Sold

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

Depreciation Expense

12/31 200	
12/31 Bal. 200	

Salaries and Wages Expense

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

Supplies Expense

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

COMPREHENSIVE PROBLEM SOLUTION (Continued)

**(d) PROSEN DISTRIBUTING COMPANY
Adjusted Trial Balance
December 31, 2014**

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

**(e) PROSEN DISTRIBUTING COMPANY
Income Statement
For the Month Ending December 31, 2014**

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

COMPREHENSIVE PROBLEM SOLUTION (Continued)

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

Owner's Capital, Dec. 1	\$39,300
Add: Net income.....	<u>740</u>
Owner's Capital, Dec. 31	<u>\$40,040</u>

**PROSEN DISTRIBUTING COMPANY
Balance Sheet
December 31, 2014**

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

	<u>2010</u>	<u>2011</u>
(a) (1) Percentage change in sales:		
(\$65,225 – \$42,905) ÷ \$42,905	52.0% increase	
(\$108,249 – \$65,225) ÷ \$65,225		66.0% increase
(2) Percentage change in net income:		
(\$14,013 – \$8,235) ÷ \$8,235	70.2% increase	
(\$25,922 – \$14,013) ÷ \$14,013		85.0% increase
(b) Gross profit rate:		
2009 (\$42,905 – \$25,683) ÷ \$42,905		40.1%
2010 (\$65,225 – \$39,541) ÷ \$65,225		39.4%
2011 (\$108,249 – \$64,431) ÷ \$108,249		40.5%
(c) Percentage of net income to sales:		
2009 (\$8,235 ÷ \$42,905)		19.2%
2010 (\$14,013 ÷ \$65,225)		21.5%
2011 (\$25,922 ÷ \$108,249)		23.9%

Comment

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

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

$$^1\$66,504 - \$31,593 \quad ^2(\$46,542 - \$18,216) \quad ^3\$34,911 \div \$66,504$$

$$^4\$28,326 \div \$46,542 \quad ^5(\$9,633 - \$8,332) \div \$8,332$$

$$^6(\$10,154 - \$8,449) \div \$8,449$$

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

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

	<u>Amazon</u>	<u>Wal-Mart</u>
(a) (1) 2011 Gross profit	\$4,712 ¹	\$108,727 ²
(2) 2011 Gross profit rate	11.2% ³	24.5% ⁴
(3) 2011 Operating income	\$862	\$26,558
(4) Percent change in operating income, 2010 to 2011	38.7% ⁵ decrease	4.0% ⁶ increase
	¹ \$42,000 – \$37,288	² (\$443,854 – \$335,127)
	³ \$4,712 ÷ \$42,000	⁴ \$108,727 ÷ \$443,854
	⁵ (\$862 – \$1,406) ÷ \$1,406	⁶ (\$26,558 – \$25,542) ÷ \$25,542

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

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

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

(a) (1) **FAMILY DEPARTMENT STORE**
Income Statement
For the Year Ended December 31, 2014

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

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

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

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

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

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

BYP 5-5 (Continued)

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

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

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

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

(a), (b)

**President
Surfing USA Co.**

Dear Sir:

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

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

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

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

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

Sincerely,

- (a) **Jacque Boynton, as a new employee, is placed in a position of responsibility and is pressured by her supervisor to continue an unethical practice previously performed by him. The unethical practice is taking undeserved cash discounts. Her dilemma is either follow her boss's unethical instructions or offend her boss and maybe lose the job she just assumed.**
- (b) **The stakeholders (affected parties) are:**
- **Jacque Boynton, the assistant treasurer.**
 - **Phelan Carter, the treasurer.**
 - **Key West, the company.**
 - **Creditors of Key West Stores (suppliers).**
 - **Mail room employees (those assigned the blame).**
- (c) **Jacque's alternatives:**
1. **Tell the treasurer (her boss) that she will attempt to take every allowable cash discount by preparing and mailing checks within the discount period—the ethical thing to do. This will offend her boss and may jeopardize her continued employment.**
 2. **Join the team and continue the unethical practice of taking undeserved cash discounts.**
 3. **Go over her boss's head and take the chance of receiving just and reasonable treatment from an officer superior to Phelan. The company may not condone this practice. Jacque definitely has a choice, but probably not without consequence. To continue the practice is definitely unethical. If Jacque submits to this request, she may be asked to perform other unethical tasks. If Jacque stands her ground and refuses to participate in this unethical practice, she probably won't be asked to do other unethical things—if she isn't fired. Maybe nobody has ever challenged Phelan's unethical behavior and his reaction may be one of respect rather than anger and retribution. Being ethically compromised is no way to start a new job.**

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

- (a) (1) Inventory is the aggregate of those items of tangible personal property that have any of the following characteristics:
- Held for sale in the ordinary course of business
 - In process of production for such sale
 - To be currently consumed in the production of goods or services to be available for sale.

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

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

BYP 5-9 (Continued)

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

IFRS EXERCISES

IFRS5-1

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

IFRS5-2

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

IFRS5-3

MATILDA COMPANY Comprehensive Income Statement For the Year Ended 2014

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

IFRS5-4

- (a) Zetar uses a multiple step format. The income statement isolates gross profit, operating profit, and profit from continuing operations before taxation rather than simply showing total revenues less total expenses to arrive at net income.**
- (b) Zetar uses Finance Costs rather than Interest Expense on its income statement.**
- (c) Zetar's income statement shows Adjusted results, Adjusting items, and Total amounts for revenue and expense items. Note 13 indicates that Zetar considers the adjusted results and adjusted EPS to provide additional useful information on its performance. It goes on to list a number of unusual items that it has adjusted for on its income statement. One-off items are listed as part of the adjustments group. One-off items are non-recurring material costs or revenues of an unusual nature that have been excluded from the Adjusted results on the income statement in order to provide a more consistent measure of underlying performance.**

