

CHAPTER 5

ACCOUNTING FOR MERCHANDISING BUSINESSES

CLASS DISCUSSION QUESTIONS

1. Merchandising businesses acquire merchandise for resale to customers. It is the selling of merchandise, instead of a service, that makes the activities of a merchandising business different from the activities of a service business.
2. Yes. Gross profit is the excess of (net) sales over cost of merchandise sold. A net loss arises when operating expenses exceed gross profit. Therefore, a business can earn a gross profit but incur operating expenses in excess of this gross profit and end up with a net loss.
3.

| | |
|-------------|-------------|
| a. Increase | c. Decrease |
| b. Increase | d. Decrease |
4. Under the **periodic method**, the inventory records do not show the amount available for sale or the amount sold during the period. In contrast, under the **perpetual method** of accounting for merchandise inventory, each purchase and sale of merchandise is recorded in the inventory and the cost of merchandise sold accounts. As a result, the amount of merchandise available for sale and the amount sold are continuously (perpetually) disclosed in the inventory records.
5. The multiple-step form of income statement contains conventional groupings for revenues and expenses, with intermediate balances, before concluding with the net income balance. In the single-step form, the total of all expenses is deducted from the total of all revenues, without intermediate balances.
6. The major advantages of the single-step form of income statement are its simplicity and its emphasis on total revenues and total expenses as the determinants of net income. The major objection to the form is that such relationships as gross profit to sales and income from operations to sales are not as readily determinable as when the multiple-step form is used.
7. Revenues from sources other than the principal activity of the business are classified as other income.

- 8.** Sales to customers who use bank credit cards are generally treated as cash sales. The credit card invoices representing these sales are deposited by the seller directly into the bank, along with the currency and checks received from customers. Sales made by the use of nonbank credit cards generally must be reported periodically to the card company before cash is received. Therefore, such sales create a receivable with the card company. In both cases, any service or collection fees charged by the bank or card company are debited to expense accounts.
- 9.** The date of sale as shown by the date of the invoice or bill.
- 10.**
 - a.** 2% discount allowed if paid within ten days of date of invoice; entire amount of invoice due within 60 days of date of invoice.
 - b.** Payment due within 30 days of date of invoice.
 - c.** Payment due by the end of the month in which the sale was made.
- 11.**
 - a.** A credit memorandum issued by the seller of merchandise indicates the amount for which the buyer's account is to be credited (credit to Accounts Receivable) and the reason for the sales return or allowance.
 - b.** A debit memorandum issued by the buyer of merchandise indicates the amount for which the seller's account is to be debited (debit to Accounts Payable) and the reason for the purchases return or allowance.
- 12.**
 - a.** The buyer
 - b.** The seller
- 13.** Examples of such accounts include the following: Sales, Sales Discounts, Sales Returns and Allowances, Cost of Merchandise Sold, Merchandise Inventory.
- 14.** Cost of Merchandise Sold would be debited; Merchandise Inventory would be credited.
- 15.** Loss From Merchandise Inventory Shrinkage would be debited.

EXERCISES

Ex. 5-1

- a. $\$490,000 (\$250,000 + \$975,000 - \$735,000)$
- b. $40\% (\$490,000 \div \$1,225,000)$
- c. No. If operating expenses are less than gross profit, there will be a net income. On the other hand, if operating expenses exceed gross profit, there will be a net loss.

Ex. 5-2

$\$15,710$ million ($\$20,946$ million – $\$5,236$ million)

Ex. 5-3

- a. Purchases discounts, purchases returns and allowances
- b. Transportation in
- c. Merchandise available for sale
- d. Merchandise inventory (ending)

Ex. 5-4

- a. Cost of merchandise sold:

| | | |
|---|---------------|-------------------|
| Merchandise inventory, May 1, 2005..... | | \$ 121,200 |
| Purchases..... | \$985,000 | |
| Less: Purchases returns and allowances | \$23,500 | |
| Purchases discounts | <u>21,000</u> | <u>44,500</u> |
| Net purchases | \$940,500 | |
| Add transportation in | <u>11,300</u> | |
| Cost of merchandise purchased | | <u>951,800</u> |
| Merchandise available for sale | | \$1,073,000 |
| Less merchandise inventory, April 30, 2006 | | <u>142,000</u> |
| Cost of merchandise sold..... | | <u>\$ 931,000</u> |

b. \$489,000 (\$1,420,000 – \$931,000)

Ex. 5–5

1. The schedule should begin with the January 1, not the December 31, merchandise inventory.
2. Purchases returns and allowances and purchases discounts should be deducted from (not added to) purchases.
3. The result of subtracting purchases returns and allowances and purchases discounts from purchases should be labeled “net purchases.”
4. Transportation in should be added to net purchases to yield cost of merchandise purchased.
5. The merchandise inventory at December 31 should be deducted from merchandise available for sale to yield cost of merchandise sold.

A correct cost of merchandise sold section is as follows:

Cost of merchandise sold:

| | | |
|--|--------------|-------------------------|
| Merchandise inventory, January 1, 2006 . | | \$132,000 |
| Purchases | \$600,000 | |
| Less: Purchases returns and allowances \$14,000 | | |
| Purchases discounts | <u>6,000</u> | <u>20,000</u> |
| Net purchases | \$580,000 | |
| Add transportation in | <u>7,500</u> | |
| Cost of merchandise purchased | | <u>587,500</u> |
| Merchandise available for sale | | \$719,500 |
| Less merchandise inventory, December 31, 2006 | | <u>120,000</u> |
| Cost of merchandise sold | | <u><u>\$599,500</u></u> |

Ex. 5–6

Net sales: \$3,010,000 (\$3,570,000 – \$320,000 – \$240,000)

Gross profit: \$868,000 (\$3,010,000 – \$2,142,000)

Ex. 5–7

- a. Selling expense, (1), (3), (8)
- b. Administrative expense, (2), (5), (6), (7)
- c. Other expense, (4)

Ex. 5–8

THE MERIDEN COMPANY
Income Statement
For the Year Ended June 30, 2006

| | |
|--------------------------------|---------------------------|
| Revenues: | |
| Net sales | \$5,400,000 |
| Rent revenue..... | <u>30,000</u> |
| Total revenues | \$5,430,000 |
| Expenses: | |
| Cost of merchandise sold | \$3,240,000 |
| Selling expenses | 480,000 |
| Administrative expenses | 300,000 |
| Interest expense | <u>47,500</u> |
| Total expenses | <u>4,067,500</u> |
| Net income | <u>\$1,362,500</u> |

Ex. 5–9

1. Sales returns and allowances and sales discounts should be deducted from (not added to) sales.
2. Sales returns and allowances and sales discounts should be deducted from sales to yield "net sales" (not gross sales).
3. Deducting the cost of merchandise sold from net sales yields gross profit.
4. Deducting the total operating expenses from gross profit would yield income from operations (or operating income).
5. Interest revenue should be reported under the caption "other income" and should be added to income from operations to arrive at net income.
6. The final amount on the income statement should be labeled net income, not gross profit.

A correct income statement would be as follows:

Ex. 5–9 Concluded

THE PLAUTUS COMPANY
Income Statement
For the Year Ended October 31, 2006

| | | |
|--|-----------------------|---------------------------|
| Revenue from sales: | | |
| Sales | | \$4,200,000 |
| Less: Sales returns and allowances | \$81,200 | |
| Sales discounts | <u>20,300</u> | <u>101,500</u> |
| Net sales | | \$4,098,500 |
| Cost of merchandise sold | | <u>2,093,000</u> |
| Gross profit | | \$2,005,500 |
| Operating expenses: | | |
| Selling expenses | \$ 203,000 | |
| Transportation out | 7,500 | |
| Administrative expenses | <u>122,000</u> | |
| Total operating expenses | | <u>332,500</u> |
| Income from operations | | \$1,673,000 |
| Other income: | | |
| Interest revenue | | <u>66,500</u> |
| Net income | | <u>\$1,739,500</u> |

Ex. 5–10

- | | |
|--------------|--------------|
| a. \$25,000 | e. \$40,000 |
| b. \$210,000 | f. \$520,000 |
| c. \$477,000 | g. \$757,500 |
| d. \$192,000 | h. \$690,000 |

Ex. 5–11

a.

CALLOWAY COMPANY
Income Statement
For the Year Ended January 31, 2006

| | | | |
|---|----------------------|----------------------|--------------------------------|
| Revenue from sales: | | | |
| Sales | | \$925,000 | |
| Less: Sales returns and allowances | \$60,000 | | |
| Sales discounts | <u>20,000</u> | <u>80,000</u> | |
| Net sales | | | \$845,000 |
| Cost of merchandise sold | | | <u>560,000</u> |
| Gross profit | | | \$285,000 |
| Operating expenses: | | | |
| Selling expenses | | \$120,000 | |
| Administrative expenses | | <u>80,000</u> | |
| Total operating expenses | | | <u>200,000</u> |
| Income from operations | | | \$ 85,000 |
| Other expense: | | | |
| Interest expense | | | <u>7,500</u> |
| Net income | | | <u><u>\$ 77,500</u></u> |

- b. The major advantage of the multiple-step form of income statement is that relationships such as gross profit to sales are indicated. The major disadvantages are that it is more complex and the total revenues and expenses are not indicated, as is the case in the single-step income statement.

Ex. 5–12

| | | | |
|----|--|--------|--------|
| a. | Cash | 6,900 | |
| | Sales | | 6,900 |
| | Cost of Merchandise Sold | 4,830 | |
| | Merchandise Inventory | | 4,830 |
| b. | Accounts Receivable | 7,500 | |
| | Sales | | 7,500 |
| | Cost of Merchandise Sold | 5,625 | |
| | Merchandise Inventory | | 5,625 |
| c. | Cash | 10,200 | |
| | Sales | | 10,200 |
| | Cost of Merchandise Sold | 6,630 | |
| | Merchandise Inventory | | 6,630 |
| d. | Accounts Receivable—American Express | 7,200 | |
| | Sales | | 7,200 |
| | Cost of Merchandise Sold | 5,040 | |
| | Merchandise Inventory | | 5,040 |
| e. | Credit Card Expense..... | 675 | |
| | Cash..... | | 675 |
| f. | Cash | 6,875 | |
| | Credit Card Expense..... | 325 | |
| | Accounts Receivable—American Express | | 7,200 |

Ex. 5–13

It was acceptable to debit Sales for the \$235,750. However, using Sales Returns and Allowances assists management in monitoring the amount of returns so that quick action can be taken if returns become excessive.

Accounts Receivable should also have been credited for \$235,750. In addition, Cost of Merchandise Sold should only have been credited for the cost of the merchandise sold, not the selling price. Merchandise Inventory should also have been debited for the cost of the merchandise returned. The entries to correctly record the returns would have been as follows:

| | | |
|--|---------|---------|
| Sales (or Sales Returns and Allowances)..... | 235,750 | |
| Accounts Receivable..... | | 235,750 |
| Merchandise Inventory | 141,450 | |
| Cost of Merchandise Sold..... | | 141,450 |

Ex. 5–14

| | | | |
|----|--|-------|-------|
| a. | \$7,350 [$\$7,500 - \$150 (\$7,500 \times 2\%)$] | | |
| b. | Sales Returns and Allowances | 7,500 | |
| | Sales Discounts | | 150 |
| | Cash | | 7,350 |
| | Merchandise Inventory | 4,500 | |
| | Cost of Merchandise Sold..... | | 4,500 |

Ex. 5–15

- (1) Sold merchandise on account, \$12,000.
- (2) Recorded the cost of the merchandise sold and reduced the merchandise inventory account, \$7,800.
- (3) Accepted a return of merchandise and granted an allowance, \$2,500.
- (4) Updated the merchandise inventory account for the cost of the merchandise returned, \$1,625.
- (5) Received the balance due within the discount period, \$9,405. [Sale of \$12,000, less return of \$2,500, less discount of \$95 ($1\% \times \$9,500$).]

Ex. 5–16

- a. \$18,000
- b. \$18,375
- c. \$540 ($3\% \times \$18,000$)
- d. \$17,835

Ex. 5–17

- a. \$7,546 [Purchase of \$8,500, less return of \$800, less discount of \$154 ($\$7,700 \times 2\%$)]
- b. Merchandise Inventory

Ex. 5–18

Offer A is lower than offer B. Details are as follows:

| | <u>A</u> | <u>B</u> |
|---------------------|-----------------|-----------------|
| List price | \$40,000 | \$40,300 |
| Less discount | <u>800</u> | <u>403</u> |
| | \$39,200 | \$39,897 |
| Transportation..... | <u>625</u> | <u> </u> |
| | <u>\$39,825</u> | <u>\$39,897</u> |

Ex. 5–19

- (1) Purchased merchandise on account at a net cost of \$8,000.
- (2) Paid transportation costs, \$175.
- (3) An allowance or return of merchandise was granted by the creditor, \$1,000.
- (4) Paid the balance due within the discount period: debited Accounts Payable, \$7,000, and credited Merchandise Inventory for the amount of the discount, \$140, and Cash, \$6,860.

Ex. 5–20

| | | | |
|----|-----------------------------|-------|-------|
| a. | Merchandise Inventory | 7,500 | |
| | Accounts Payable | | 7,500 |
| b. | Accounts Payable | 1,200 | |
| | Merchandise Inventory | | 1,200 |
| c. | Accounts Payable | 6,300 | |
| | Cash | | 6,174 |
| | Merchandise Inventory | | 126 |

Ex. 5–21

| | | | |
|----|---------------------------------|--------|--------|
| a. | Merchandise Inventory | 12,000 | |
| | Accounts Payable—Loew Co. | | 12,000 |
| b. | Accounts Payable—Loew Co..... | 12,000 | |
| | Cash..... | | 11,760 |
| | Merchandise Inventory | | 240 |
| c. | Accounts Payable*—Loew Co. | 2,940 | |
| | Merchandise Inventory | | 2,940 |
| d. | Merchandise Inventory | 2,000 | |
| | Accounts Payable—Loew Co. | | 2,000 |
| e. | Cash | 940 | |
| | Accounts Payable—Loew Co. | | 940 |

***Note:** The debit of \$2,940 to Accounts Payable in entry (c) is the amount of cash refund due from Loew Co. It is computed as the amount that was paid for the returned merchandise, \$3,000, less the purchase discount of \$60 ($\$3,000 \times 2\%$). The credit to Accounts Payable of \$2,000 in entry (d) reduces the debit balance in the account to \$940, which is the amount of the cash refund in entry (e). The alternative entries below yield the same final results.

| | | | |
|----|-----------------------------------|-------|-------|
| c. | Accounts Receivable—Loew Co..... | 2,940 | |
| | Merchandise Inventory | | 2,940 |
| d. | Merchandise Inventory | 2,000 | |
| | Accounts Payable—Loew Co. | | 2,000 |
| e. | Cash | 940 | |
| | Accounts Payable—Loew Co..... | 2,000 | |
| | Accounts Receivable—Loew Co. | | 2,940 |

Ex. 5–22

- a. \$10,500
- b. $\$4,160 [(\$4,500 - \$500) \times 0.99] + \200
- c. \$4,900
- d. \$3,960
- e. $\$834 [(\$1,500 - \$700) \times 0.98] + \50

Ex. 5–23

- a. At the time of sale
- b. \$4,000
- c. \$4,280
- d. Sales Tax Payable

Ex. 5–24

| | | | |
|----|--------------------------------|-------|-------|
| a. | Accounts Receivable | 9,720 | |
| | Sales | | 9,000 |
| | Sales Tax Payable..... | | 720 |
| | Cost of Merchandise Sold | 6,300 | |
| | Merchandise Inventory | | 6,300 |
| b. | Sales Tax Payable..... | 9,175 | |
| | Cash..... | | 9,175 |

Ex. 5–25

| | | | |
|----|------------------------------------|--------|--------|
| a. | Accounts Receivable—Beta Co. | 11,500 | |
| | Sales | | 11,500 |
| | Cost of Merchandise Sold | 6,900 | |
| | Merchandise Inventory | | 6,900 |
| b. | Sales Returns and Allowances | 900 | |
| | Accounts Receivable—Beta Co..... | | 900 |
| | Merchandise Inventory | 540 | |
| | Cost of Merchandise Sold..... | | 540 |
| c. | Cash | 10,388 | |
| | Sales Discounts | 212 | |
| | Accounts Receivable—Beta Co..... | | 10,600 |

Ex. 5–26

| | | | |
|----|-----------------------------------|--------|--------|
| a. | Merchandise Inventory | 11,500 | |
| | Accounts Payable—Superior Co..... | | 11,500 |
| b. | Accounts Payable—Superior Co..... | 900 | |
| | Merchandise Inventory | | 900 |
| c. | Accounts Payable—Superior Co..... | 10,600 | |
| | Cash..... | | 10,388 |
| | Merchandise Inventory | | 212 |

Ex. 5–27

- a. debit
- b. debit
- c. credit
- d. debit
- e. debit
- f. debit

Ex. 5–28

Balance Sheet Accounts

| | |
|------------|---|
| 100 | Assets |
| 110 | Cash |
| 112 | Accounts Receivable |
| 114 | Merchandise Inventory |
| 115 | Store Supplies |
| 116 | Office Supplies |
| 117 | Prepaid Insurance |
| 120 | Land |
| 123 | Store Equipment |
| 124 | Accumulated Depreciation— Store Equipment |
| 125 | Office Equipment |
| 126 | Accumulated Depreciation— Office Equipment |
| 200 | Liabilities |
| 210 | Accounts Payable |
| 211 | Salaries Payable |
| 212 | Notes Payable (Short-Term) |
| 300 | Stockholders' Equity |
| 310 | Capital Stock |
| 311 | Retained Earnings |
| 312 | Dividends |
| 313 | Income Summary |

Income Statement Accounts

| | |
|------------|---|
| 400 | Revenues |
| 410 | Sales |
| 411 | Sales Returns and Allowances |
| 412 | Sales Discounts |
| 500 | Expenses |
| 510 | Cost of Merchandise Sold |
| 520 | Sales Salaries Expense |
| 521 | Advertising Expense |
| 522 | Depreciation Expense— Store Equipment |
| 523 | Store Supplies Expense |
| 524 | Transportation Out |
| 529 | Miscellaneous Selling Expense |
| 530 | Office Salaries Expense |
| 531 | Rent Expense |
| 532 | Depreciation Expense— Office Equipment |
| 533 | Insurance Expense |
| 534 | Office Supplies Expense |
| 539 | Miscellaneous Admin- istrative Expense |
| 600 | Other Expense |
| 610 | Interest Expense |

Note: The order of some of the accounts within subclassifications is somewhat arbitrary, as in accounts 115–117 and accounts 521–524. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.

Ex. 5–29

| | | |
|---------------------------------------|---------------|---------------|
| Cost of Merchandise Sold | 11,550 | |
| Merchandise Inventory | | 11,550 |

Ex. 5–30

- (b) Cost of Merchandise Sold**
- (d) Sales**
- (e) Sales Discounts**
- (f) Sales Returns and Allowances**
- (g) Salaries Expense**
- (j) Supplies Expense**

Ex. 5–31

- a. 2003: 2.07 [$\$58,247,000,000 \div (\$30,011,000,000 + \$26,394,000,000)/2$]**
2002: 2.24 [$\$53,553,000,000 \div (\$26,394,000,000 + \$21,385,000,000)/2$]
- b. These analyses indicate a decrease in the effectiveness in the use of the assets to generate profits. This decrease is probably due to the slowdown in the U.S. economy during 2002–2003. However, a comparison with similar companies or industry averages would be helpful in making a more definitive statement on the effectiveness of the use of the assets.**

Ex. 5–32

- a. 4.13 [$\$12,334,353,000 \div (\$2,937,578,000 + \$3,041,670,000)/2$]**
- b. Although Winn-Dixie and Zales are both retail stores, Zales sells jewelry at a much slower velocity than Winn-Dixie sells groceries. Thus, Winn-Dixie is able to generate \$4.13 of sales for every dollar of assets. Zales, however, is able to generate only \$1.53 in sales per dollar of assets. This makes sense when one considers the sales rate for jewelry and the cost of holding jewelry inventory, relative to groceries. Fortunately, Zales is able to counter its slow sales velocity, relative to groceries, with higher gross profits.**

Appendix Ex. 5–33

| | | |
|---|----------------|----------------|
| Sales | 925,000 | |
| Income Summary | | 925,000 |
| Income Summary | 847,500 | |
| Sales Discounts | | 20,000 |
| Sales Returns and Allowances | | 60,000 |
| Cost of Merchandise Sold | | 560,000 |
| Selling Expenses | | 120,000 |
| Administrative Expenses | | 80,000 |
| Interest Expense | | 7,500 |
| Income Summary | 77,500 | |
| Retained Earnings | | 77,500 |
| Retained Earnings | 25,000 | |
| Dividends | | 25,000 |

PROBLEMS

Prob. 5–1A

1.

SOMBRERO CO.
Income Statement
For the Year Ended November 30, 2006

| | | |
|--|---------------|------------------|
| Revenue from sales: | | |
| Sales | | \$1,802,400 |
| Less: Sales returns and allowances | \$ 25,200 | |
| Sales discounts..... | <u>13,200</u> | <u>38,400</u> |
| Net sales..... | | \$1,764,000 |
| Cost of merchandise sold | | <u>1,284,000</u> |
| Gross profit..... | | \$ 480,000 |
| Operating expenses: | | |
| Selling expenses: | | |
| Sales salaries expense | \$252,000 | |
| Advertising expense | 33,960 | |
| Depreciation expense—store equipment..... | 5,520 | |
| Miscellaneous selling expense | <u>1,320</u> | |
| Total selling expenses..... | | \$ 292,800 |
| Administrative expenses: | | |
| Office salaries expense..... | \$ 49,200 | |
| Rent expense | 26,580 | |
| Insurance expense..... | 15,300 | |
| Depreciation expense—office equipment | 10,800 | |
| Office supplies expense..... | 1,080 | |
| Miscellaneous administrative expense.... | <u>1,440</u> | |
| Total administrative expenses | | <u>104,400</u> |
| Total operating expenses | | <u>397,200</u> |
| Income from operations | | \$ 82,800 |
| Other expense: | | |
| Interest expense..... | | <u>1,200</u> |
| Net income..... | | <u>\$ 81,600</u> |

Prob. 5-1A Continued

2.

SOMBRERO CO.
Retained Earnings Statement
For the Year Ended November 30, 2006

| | | |
|---|---------------|------------------|
| Retained earnings, December 1, 2005..... | | \$261,600 |
| Net income for the year | \$81,600 | |
| Less dividends | <u>30,000</u> | |
| Increase in retained earnings..... | | <u>51,600</u> |
| Retained earnings, November 30, 2006..... | | <u>\$313,200</u> |

Prob. 5-1A Continued

3.

**SOMBRERO CO.
Balance Sheet
November 30, 2006**

Assets

| | | |
|---|---------------|-------------------------|
| Current assets: | | |
| Cash | \$ 91,800 | |
| Accounts receivable | 74,400 | |
| Merchandise inventory | 120,000 | |
| Office supplies | 3,120 | |
| Prepaid insurance | <u>8,160</u> | |
| Total current assets | | \$297,480 |
| Property, plant, and equipment: | | |
| Office equipment | \$ 76,800 | |
| Less accumulated depreciation..... | <u>12,960</u> | \$ 63,840 |
| Store equipment..... | \$141,000 | |
| Less accumulated depreciation..... | <u>58,320</u> | <u>82,680</u> |
| Total property, plant, and equipment | | <u>146,520</u> |
| Total assets | | <u>\$444,000</u> |

Liabilities

| | | |
|---|--------------|------------------|
| Current liabilities: | | |
| Accounts payable | \$ 32,400 | |
| Note payable (current portion) | 3,000 | |
| Salaries payable..... | <u>2,400</u> | |
| Total current liabilities..... | | \$ 37,800 |
| Long-term liabilities: | | |
| Note payable (final payment due 2016).... | | <u>33,000</u> |
| Total liabilities | | \$ 70,800 |

Stockholders' Equity

| | | |
|--|----------------|-------------------------|
| Capital stock..... | \$ 60,000 | |
| Retained earnings | <u>313,200</u> | <u>373,200</u> |
| Total liabilities and stockholders' equity..... | | <u>\$444,000</u> |

Prob. 5–1A Concluded

4. a. The multiple-step form of income statement contains various sections for revenues and expenses, with intermediate balances, and concludes with net income. In the single-step form, the total of all expenses is deducted from the total of all revenues. There are no intermediate balances.
- b. In the report form of balance sheet, the assets, liabilities, and stockholders' equity are presented in that order in a downward sequence. In the account form, the assets are listed on the left-hand side, and the liabilities and stockholders' equity are listed on the right-hand side.

Prob. 5-2A

1.

SOMBRERO CO.
Income Statement
For the Year Ended November 30, 2006

| | | |
|--------------------------------|---------------------|-------------------------|
| Revenues: | | |
| Net sales | | \$1,764,000 |
| Expenses: | | |
| Cost of merchandise sold | \$1,284,000 | |
| Selling expenses | 292,800 | |
| Administrative expenses | 104,400 | |
| Interest expense | <u>1,200</u> | |
| Total expenses | | <u>1,682,400</u> |
| Net income | | <u>\$ 81,600</u> |

2.

SOMBRERO CO.
Retained Earnings Statement
For the Year Ended November 30, 2006

| | | |
|---|----------------------|-------------------------|
| Retained earnings, December 1, 2005..... | | \$261,600 |
| Net income for the year | \$81,600 | |
| Less dividends | <u>30,000</u> | |
| Increase in retained earnings..... | | <u>51,600</u> |
| Retained earnings, November 30, 2006..... | | <u>\$313,200</u> |

Prob. 5–2A Concluded

3.

SOMBRERO CO.
Balance Sheet
November 30, 2006

| <u>Assets</u> | | <u>Liabilities</u> | |
|--|-------------------------|------------------------------------|-------------------------|
| Current assets: | | Current liabilities: | |
| Cash | \$ 91,800 | Accounts payable | \$32,400 |
| Accounts receivable | 74,400 | Note payable (current | |
| Merchandise inventory | 120,000 | portion)..... | 3,000 |
| Office supplies | 3,120 | Salaries payable..... | <u>2,400</u> |
| Prepaid insurance | <u>8,160</u> | Total current liabilities | \$ 37,800 |
| Total current assets | \$297,480 | Long-term liabilities: | |
| Property, plant, and equipment: | | Note payable (final | |
| Office equipment..... | \$ 76,800 | payment due 2016) | <u>33,000</u> |
| Less accum. depreciation | <u>12,960</u> | Total liabilities | \$ 70,800 |
| | \$ 63,840 | | |
| Store equipment..... | \$141,000 | | |
| Less accum. depreciation | <u>58,320</u> | | |
| Total property, plant, | <u>82,680</u> | | |
| and equipment | <u>146,520</u> | | |
| Total assets | <u>\$444,000</u> | | |
| | | <u>Stockholders' Equity</u> | |
| | | Capital stock | \$ 60,000 |
| | | Retained earnings..... | <u>313,200</u> |
| | | Total liabilities and | <u>373,200</u> |
| | | stockholders' equity | <u>\$444,000</u> |

Prob. 5–3A

| | | | | |
|-------------|-----------|---|---------------|---------------|
| Mar. | 1 | Accounts Receivable—Babcock Co..... | 7,500 | |
| | | Sales | | 7,500 |
| | 1 | Cost of Merchandise Sold | 4,500 | |
| | | Merchandise Inventory | | 4,500 |
| | 2 | Cash | 8,480 | |
| | | Sales | | 8,000 |
| | | Sales Tax Payable | | 480 |
| | 2 | Cost of Merchandise Sold | 4,750 | |
| | | Merchandise Inventory | | 4,750 |
| | 5 | Accounts Receivable—North Star Company.... | 16,000 | |
| | | Sales | | 16,000 |
| | 5 | Cost of Merchandise Sold | 10,500 | |
| | | Merchandise Inventory | | 10,500 |
| | 8 | Cash | 6,519 | |
| | | Sales | | 6,150 |
| | | Sales Tax Payable | | 369 |
| | 8 | Cost of Merchandise Sold | 3,700 | |
| | | Merchandise Inventory | | 3,700 |
| | 13 | Accounts Receivable—American Express | 6,500 | |
| | | Sales | | 6,500 |
| | 13 | Cost of Merchandise Sold | 3,600 | |
| | | Merchandise Inventory | | 3,600 |
| | 14 | Accounts Receivable—Blech Co..... | 7,500 | |
| | | Sales | | 7,500 |
| | 14 | Cost of Merchandise Sold | 4,000 | |
| | | Merchandise Inventory | | 4,000 |
| | 15 | Cash | 15,840 | |
| | | Sales Discounts | 160 | |
| | | Accounts Receivable—North Star | | |
| | | Company | | 16,000 |

Prob. 5–3A Continued

| | | | | |
|--------------|-----------|---|--------------|--------------|
| Mar. | 16 | Sales Returns and Allowances | 800 | |
| | | Accounts Receivable—Blech Co..... | | 800 |
| | 16 | Merchandise Inventory | 360 | |
| | | Cost of Merchandise Sold..... | | 360 |
| | 18 | Accounts Receivable—Westech Company..... | 6,850 | |
| | | Sales | | 6,850 |
| | 18 | Accounts Receivable—Westech Company..... | 210 | |
| | | Cash..... | | 210 |
| | 18 | Cost of Merchandise Sold | 4,100 | |
| | | Merchandise Inventory | | 4,100 |
| | 24 | Cash | 6,633 | |
| | | Sales Discounts | 67 | |
| | | Accounts Receivable—Blech Co..... | | 6,700 |
| | 27 | Cash | 7,680 | |
| | | Credit Card Expense..... | 320 | |
| | | Accounts Receivable—American Express.. | | 8,000 |
| | 28 | Cash | 6,923 | |
| | | Sales Discounts | 137 | |
| | | Accounts Receivable—Westech Company . | | 7,060 |
| | 31 | Transportation Out | 1,275 | |
| | | Cash..... | | 1,275 |
| | 31 | Cash | 7,500 | |
| | | Accounts Receivable—Babcock Co. | | 7,500 |
| April | 3 | Credit Card Expense..... | 725 | |
| | | Cash..... | | 725 |
| | 10 | Sales Tax Payable..... | 2,800 | |
| | | Cash..... | | 2,800 |

Prob. 5–3A Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

INTERSTATE SUPPLIES CO.
Trial Balance
April 10, 20—

| | | | |
|-----|---|------------------|------------------|
| 110 | Cash | 88,315 | |
| 111 | Notes Receivable | 120,000 | |
| 112 | Accounts Receivable | 117,500 | |
| 115 | Merchandise Inventory | 140,210 | |
| 116 | Office Supplies | 5,600 | |
| 117 | Prepaid Insurance | 3,400 | |
| 120 | Office Equipment | 85,000 | |
| 121 | Accum. Depreciation—Office Equipment | | 12,800 |
| 210 | Accounts Payable | | 55,600 |
| 212 | Salaries Payable | | 2,400 |
| 220 | Notes Payable | | 48,500 |
| 310 | Capital Stock | | 100,000 |
| 311 | Retained Earnings | | 249,999 |
| 312 | Dividends | 29,500 | |
| 410 | Sales | | 1,333,500 |
| 411 | Sales Returns and Allowance | 23,900 | |
| 412 | Sales Discounts | 22,264 | |
| 510 | Cost of Merchandise Sold | 809,790 | |
| 520 | Sales Salaries Expense | 173,200 | |
| 521 | Advertising Expense | 43,800 | |
| 522 | Depreciation Expense—Store Equipment | 6,400 | |
| 523 | Credit Card Expense | 1,045 | |
| 524 | Transportation Out | 1,275 | |
| 529 | Miscellaneous Selling Expense | 1,600 | |
| 530 | Office Salaries Expense | 84,150 | |
| 531 | Rent Expense | 31,350 | |
| 532 | Depreciation Expense—Office Equipment | 12,700 | |
| 533 | Insurance Expense | 3,900 | |
| 534 | Office Supplies Expense | 1,300 | |
| 539 | Miscellaneous Administrative Expense | 1,600 | |
| 610 | Interest Revenue | | 11,000 |
| 710 | Interest Expense | 6,000 | |
| | Totals | <u>1,813,799</u> | <u>1,813,799</u> |

Prob. 5–4A

| | | | |
|--------|--|--------|--------|
| Aug. 1 | Merchandise Inventory | 8,750 | |
| | Accounts Payable—Fisher Co..... | | 8,750 |
| 5 | Merchandise Inventory | 10,400 | |
| | Accounts Payable—Byrd Co. | | 10,400 |
| 10 | Accounts Payable—Fisher Co. | 8,750 | |
| | Cash | | 8,580 |
| | Merchandise Inventory | | 170 |
| 13 | Merchandise Inventory | 7,500 | |
| | Accounts Payable—Mickle Co..... | | 7,500 |
| 14 | Accounts Payable—Mickle Co..... | 2,500 | |
| | Merchandise Inventory | | 2,500 |
| 18 | Merchandise Inventory | 10,000 | |
| | Accounts Payable—Lanning Company | | 10,000 |
| 18 | Merchandise Inventory | 150 | |
| | Cash | | 150 |
| 19 | Merchandise Inventory | 7,500 | |
| | Accounts Payable—Hatcher Co. | | 7,500 |
| 23 | Accounts Payable—Mickle Co..... | 5,000 | |
| | Cash | | 4,950 |
| | Merchandise Inventory | | 50 |
| 29 | Accounts Payable—Hatcher Co..... | 7,500 | |
| | Cash | | 7,350 |
| | Merchandise Inventory | | 150 |
| 31 | Accounts Payable—Lanning Company..... | 10,000 | |
| | Cash | | 10,000 |
| 31 | Accounts Payable—Byrd Co..... | 10,400 | |
| | Cash | | 10,400 |

Prob. 5–4A Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

**PETUNIA CO.
Trial Balance
August 31, 20—**

| | | | |
|-----|---|------------------|------------------|
| 110 | Cash | 42,320 | |
| 111 | Notes Receivable | 120,000 | |
| 112 | Accounts Receivable | 121,000 | |
| 115 | Merchandise Inventory | 216,430 | |
| 116 | Office Supplies | 5,600 | |
| 117 | Prepaid Insurance | 3,400 | |
| 120 | Office Equipment | 85,000 | |
| 121 | Accumulated Depreciation—Office Equipment ... | | 12,800 |
| 122 | Store Equipment | 153,000 | |
| 123 | Accumulated Depreciation—Store Equipment | | 34,200 |
| 210 | Accounts Payable | | 55,600 |
| 212 | Salaries Payable | | 2,400 |
| 220 | Notes Payable | | 56,000 |
| 310 | Capital Stock | | 50,000 |
| 311 | Retained Earnings | | 470,750 |
| 312 | Dividends | 35,000 | |
| 410 | Sales | | 1,275,000 |
| 411 | Sales Returns and Allowance | 23,100 | |
| 412 | Sales Discounts | 21,900 | |
| 510 | Cost of Merchandise Sold | 775,000 | |
| 520 | Sales Salaries Expense | 173,200 | |
| 521 | Advertising Expense | 43,800 | |
| 522 | Depreciation Expense—Store Equipment | 6,400 | |
| 529 | Miscellaneous Selling Expense | 1,600 | |
| 530 | Office Salaries Expense | 84,150 | |
| 531 | Rent Expense | 31,350 | |
| 532 | Depreciation Expense—Office Equipment | 12,700 | |
| 533 | Insurance Expense | 3,900 | |
| 534 | Office Supplies Expense | 1,300 | |
| 539 | Miscellaneous Administrative Expense | 1,600 | |
| 610 | Interest Revenue | | 11,000 |
| 710 | Interest Expense | 6,000 | |
| | Totals | <u>1,967,750</u> | <u>1,967,750</u> |

Prob. 5–5A

| | | | |
|--------|--|--------|--------|
| Jan. 3 | Merchandise Inventory | 10,720 | |
| | Accounts Payable—Pynn Co. | | 10,720 |
| | [$\$16,000 - (\$16,000 \times 35\%)$] = \$10,400 | | |
| | \$10,400 + \$320 = \$10,720 | | |
| 5 | Merchandise Inventory | 8,000 | |
| | Accounts Payable—Wilhelm Co. | | 8,000 |
| 6 | Accounts Receivable—Sievert Co. | 7,500 | |
| | Sales | | 7,500 |
| 6 | Cost of Merchandise Sold | 4,500 | |
| | Merchandise Inventory | | 4,500 |
| 7 | Accounts Payable—Wilhelm Co. | 1,800 | |
| | Merchandise Inventory | | 1,800 |
| 13 | Accounts Payable—Pynn Co. | 10,720 | |
| | Cash | | 10,512 |
| | Merchandise Inventory | | 208 |
| 15 | Accounts Payable—Wilhelm Co. | 6,200 | |
| | Cash | | 6,138 |
| | Merchandise Inventory | | 62 |
| 16 | Cash | 7,350 | |
| | Sales Discounts | 150 | |
| | Accounts Receivable—Sievert Co. | | 7,500 |
| 19 | Accounts Receivable—American Express | 6,450 | |
| | Sales | | 6,450 |
| 19 | Cost of Merchandise Sold | 3,950 | |
| | Merchandise Inventory | | 3,950 |
| 22 | Accounts Receivable—Elk River Co. | 3,480 | |
| | Sales | | 3,480 |
| 22 | Cost of Merchandise Sold | 1,400 | |
| | Merchandise Inventory | | 1,400 |
| 23 | Cash | 9,350 | |
| | Sales | | 9,350 |

Prob. 5–5A Continued

| | | | |
|---------|--|-------|-------|
| Jan. 23 | Cost of Merchandise Sold | 5,750 | |
| | Merchandise Inventory | | 5,750 |
| 25 | Sales Returns and Allowances | 1,480 | |
| | Accounts Receivable—Elk River Co. | | 1,480 |
| 25 | Merchandise Inventory | 600 | |
| | Cost of Merchandise Sold..... | | 600 |
| 31 | Cash | 6,225 | |
| | Credit Card Expense..... | 225 | |
| | Accounts Receivable—American Express.. | | 6,450 |

Prob. 5–5A Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

INGRESS COMPANY
Trial Balance
January 31, 20—

| | | | |
|-----|--|-----------------------|-----------------------|
| 110 | Cash | 23,819 | |
| 111 | Accounts Receivable | 11,500 | |
| 115 | Merchandise Inventory | 77,745 | |
| 116 | Prepaid Insurance | 3,200 | |
| 117 | Office Supplies | 1,000 | |
| 210 | Accounts Payable | | 12,000 |
| 310 | Capital Stock | | 30,000 |
| 311 | Retained Earnings | | 54,660 |
| 312 | Dividends | 16,000 | |
| 410 | Sales | | 104,080 |
| 411 | Sales Returns and Allowance | 6,980 | |
| 412 | Sales Discounts | 816 | |
| 510 | Cost of Merchandise Sold | 31,245 | |
| 520 | Sales Salaries Expense | 10,500 | |
| 521 | Advertising Expense | 5,000 | |
| 522 | Credit Card Expense | 485 | |
| 529 | Miscellaneous Selling Expense | 250 | |
| 530 | Office Salaries Expense | 6,500 | |
| 531 | Rent Expense | 5,500 | |
| 539 | Miscellaneous Administrative Expense | 200 | |
| | Totals | <u>200,740</u> | <u>200,740</u> |

Prob. 5–6A

1.

| | | | | |
|------|----|--|--------|--------|
| June | 2 | Accounts Receivable—Brandy Company | 14,000 | |
| | | Sales | | 14,000 |
| | 2 | Accounts Receivable—Brandy Company | 350 | |
| | | Cash | | 350 |
| | 2 | Cost of Merchandise Sold | 8,000 | |
| | | Merchandise Inventory | | 8,000 |
| | 8 | Accounts Receivable—Brandy Company | 12,500 | |
| | | Sales | | 12,500 |
| | 8 | Cost of Merchandise Sold | 7,500 | |
| | | Merchandise Inventory | | 7,500 |
| | 8 | Transportation Out | 550 | |
| | | Cash | | 550 |
| | 12 | Sales Returns and Allowances | 3,000 | |
| | | Accounts Receivable—Brandy Company.... | | 3,000 |
| | 12 | Merchandise Inventory | 1,800 | |
| | | Cost of Merchandise Sold..... | | 1,800 |
| | 12 | Cash | 14,070 | |
| | | Sales Discounts | 280 | |
| | | Accounts Receivable—Brandy Company.... | | 14,350 |
| | 23 | Cash | 9,405 | |
| | | Sales Discounts | 95 | |
| | | Accounts Receivable—Brandy Company.... | | 9,500 |
| | 24 | Accounts Receivable—Brandy Company | 10,000 | |
| | | Sales | | 10,000 |
| | 24 | Cost of Merchandise Sold | 6,000 | |
| | | Merchandise Inventory | | 6,000 |
| | 30 | Cash | 10,000 | |
| | | Accounts Receivable—Brandy Company.... | | 10,000 |

Prob. 5–6A Concluded

2.

| | | | | |
|------|----|--|--------|--------|
| June | 2 | Merchandise Inventory | 14,350 | |
| | | Accounts Payable—Schnaps Company | | 14,350 |
| | | \$14,000 + \$350 = \$14,350 | | |
| | 8 | Merchandise Inventory | 12,500 | |
| | | Accounts Payable—Schnaps Company | | 12,500 |
| | 12 | Accounts Payable—Schnaps Company..... | 3,000 | |
| | | Merchandise Inventory | | 3,000 |
| | 12 | Accounts Payable—Schnaps Company..... | 14,350 | |
| | | Cash | | 14,070 |
| | | Merchandise Inventory | | 280 |
| | 23 | Accounts Payable—Schnaps Company..... | 9,500 | |
| | | Cash | | 9,405 |
| | | Merchandise Inventory | | 95 |
| | 24 | Merchandise Inventory | 10,000 | |
| | | Accounts Payable—Schnaps Company | | 10,000 |
| | 26 | Merchandise Inventory | 310 | |
| | | Cash | | 310 |
| | 30 | Accounts Payable—Schnaps Company..... | 10,000 | |
| | | Cash | | 10,000 |

Appendix—Prob. 5–7A

1.

GLYCOL CO.
Work Sheet
For the Year Ended December 31, 2006

| Account Title | Trial Balance | | Adjustments | | Adjusted Trial Balance | | Income Statement | | Balance Sheet | | |
|----------------------------------|------------------|------------------|---------------|---------------|------------------------|------------------|------------------|----------------|----------------|----------------|----|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | |
| 1 Cash..... | 11,165 | | | | 11,165 | | | | 11,165 | | 1 |
| 2 Accounts Receivable..... | 86,100 | | | | 86,100 | | | | 86,100 | | 2 |
| 3 Merchandise Inventory..... | 235,000 | | (a) | 6,400 | 228,600 | | | | 228,600 | | 3 |
| 4 Prepaid Insurance..... | 10,600 | | (b) | 5,000 | 5,600 | | | | 5,600 | | 4 |
| 5 Store Supplies..... | 3,750 | | (c) | 2,550 | 1,200 | | | | 1,200 | | 5 |
| 6 Office Supplies..... | 1,700 | | (d) | 800 | 900 | | | | 900 | | 6 |
| 7 Store Equipment..... | 225,000 | | | | 225,000 | | | | 225,000 | | 7 |
| 8 Acc. Depr.—Store Equip.... | | 40,300 | (e) | 8,500 | | 48,800 | | | | 48,800 | 8 |
| 9 Office Equipment..... | 72,000 | | | | 72,000 | | | | 72,000 | | 9 |
| 10 Acc. Depr.—Office Equip... .. | | 17,200 | (f) | 4,500 | | 21,700 | | | | 21,700 | 10 |
| 11 Accounts Payable..... | | 56,700 | | | | 56,700 | | | | 56,700 | 11 |
| 12 Salaries Payable..... | | | (g) | 2,200 | | 2,200 | | | | 2,200 | 12 |
| 13 Unearned Rent..... | | 1,200 | (h) | 800 | | 400 | | | | 400 | 13 |
| 14 Note Payable (final | | | | | | | | | | | 14 |
| 15 payment due 2016)..... | | 185,000 | | | | 185,000 | | | | 185,000 | 15 |
| 16 Capital Stock..... | | 80,000 | | | | 80,000 | | | | 80,000 | 16 |
| 17 Retained Earnings..... | | 202,100 | | | | 202,100 | | | | 202,100 | 17 |
| 18 Dividends..... | 40,000 | | | | 40,000 | | | | 40,000 | | 18 |
| 19 Sales..... | | 847,500 | | | | 847,500 | | 847,500 | | | 19 |
| 20 Sales Returns and Allow.... | 15,500 | | | | 15,500 | | 15,500 | | | | 20 |
| 21 Sales Discounts..... | 6,000 | | | | 6,000 | | 6,000 | | | | 21 |
| 22 Cost of Merch. Sold..... | 501,200 | | (a) | 6,400 | 507,600 | | 507,600 | | | | 22 |
| 23 Sales Salaries Expense..... | 86,400 | | (g) | 1,450 | 87,850 | | 87,850 | | | | 23 |
| 24 Advertising Expense..... | 29,450 | | | | 29,450 | | 29,450 | | | | 24 |
| 25 Depr. Exp.—Store Equip.... | | | (e) | 8,500 | 8,500 | | 8,500 | | | | 25 |
| 26 Store Supplies Expense..... | | | (c) | 2,550 | 2,550 | | 2,550 | | | | 26 |
| 27 Misc. Selling Expense..... | 1,885 | | | | 1,885 | | 1,885 | | | | 27 |
| 28 Office Salaries Expense..... | 60,000 | | (g) | 750 | 60,750 | | 60,750 | | | | 28 |
| 29 Rent Expense..... | 30,000 | | | | 30,000 | | 30,000 | | | | 29 |
| 30 Insurance Expense..... | | | (b) | 5,000 | 5,000 | | 5,000 | | | | 30 |
| 31 Depr. Exp.—Office Equip... .. | | | (f) | 4,500 | 4,500 | | 4,500 | | | | 31 |
| 32 Office Supplies Expense.... | | | (d) | 800 | 800 | | 800 | | | | 32 |
| 33 Misc. Admin. Expense..... | 1,650 | | | | 1,650 | | 1,650 | | | | 33 |
| 34 Rent Revenue..... | | | (h) | 800 | | 800 | | 800 | | | 34 |
| 35 Interest Expense..... | 12,600 | | | | 12,600 | | 12,600 | | | | 35 |
| 36 | <u>1,430,000</u> | <u>1,430,000</u> | <u>30,750</u> | <u>30,750</u> | <u>1,445,200</u> | <u>1,445,200</u> | <u>774,635</u> | <u>848,300</u> | <u>670,565</u> | <u>596,900</u> | 36 |
| 37 Net income..... | | | | | | | <u>73,665</u> | | | <u>73,665</u> | 37 |

Appendix—Prob. 5–7A Continued

2.

GLYCOL CO.
Income Statement
For the Year Ended December 31, 2006

| | | | |
|--|---------------------|------------------------|-------------------------|
| Revenue from sales: | | | |
| Sales | | \$847,500 | |
| Less: Sales returns and allowances | \$15,500 | | |
| Sales discounts | <u>6,000</u> | <u>21,500</u> | |
| Net sales | | | \$826,000 |
| Cost of merchandise sold | | | <u>507,600</u> |
| Gross profit | | | \$318,400 |
| Operating expenses: | | | |
| Selling expenses: | | | |
| Sales salaries expense | \$87,850 | | |
| Advertising expense | 29,450 | | |
| Depreciation expense—store equip. .. | 8,500 | | |
| Store supplies expense | 2,550 | | |
| Miscellaneous selling expense | <u>1,885</u> | | |
| Total selling expenses | | \$130,235 | |
| Administrative expenses: | | | |
| Office salaries expense | \$60,750 | | |
| Rent expense | 30,000 | | |
| Insurance expense | 5,000 | | |
| Depreciation expense—office equip... | 4,500 | | |
| Office supplies expense | 800 | | |
| Miscellaneous admin. expense | <u>1,650</u> | | |
| Total administrative expenses | | <u>102,700</u> | |
| Total operating expenses | | | <u>232,935</u> |
| Income from operations | | | \$ 85,465 |
| Other income and expense: | | | |
| Rent revenue | | \$ 800 | |
| Interest expense | | <u>(12,600)</u> | <u>(11,800)</u> |
| Net income | | | <u>\$ 73,665</u> |

Appendix—Prob. 5–7A Continued

3.

**GLYCOL CO.
Retained Earnings Statement
For the Year Ended December 31, 2006**

| | | |
|---|----------------------|-------------------------|
| Retained earnings, January 1, 2006..... | | \$202,100 |
| Net income for the year | \$73,665 | |
| Less dividends | <u>40,000</u> | |
| Increase in retained earnings..... | | <u>33,665</u> |
| Retained earnings, December 31, 2006..... | | <u>\$235,765</u> |

Appendix—Prob. 5–7A Continued

4.

**GLYCOL CO.
Balance Sheet
December 31, 2006**

Assets

Current assets:

| | | |
|-----------------------------------|------------|------------------|
| Cash | \$ 11,165 | |
| Accounts receivable | 86,100 | |
| Merchandise inventory | 228,600 | |
| Prepaid insurance | 5,600 | |
| Store supplies | 1,200 | |
| Office supplies | <u>900</u> | |
| Total current assets | | \$333,565 |

Property, plant, and equipment:

| | | |
|---|---------------|-----------------------|
| Store equipment | \$225,000 | |
| Less accumulated depreciation | <u>48,800</u> | \$176,200 |
| Office equipment | \$ 72,000 | |
| Less accumulated depreciation | <u>21,700</u> | <u>50,300</u> |
| Total property, plant, and equipment | | <u>226,500</u> |

| | | |
|---------------------------|--|-------------------------|
| Total assets | | <u>\$560,065</u> |
|---------------------------|--|-------------------------|

Liabilities

Current liabilities:

| | | |
|--|------------|------------------|
| Accounts payable | \$ 56,700 | |
| Note payable (current portion) | 25,000 | |
| Salaries payable | 2,200 | |
| Unearned rent | <u>400</u> | |
| Total current liabilities | | \$ 84,300 |

Long-term liabilities:

| | | |
|---|--|----------------|
| Note payable (final payment due 2016).... | | <u>160,000</u> |
|---|--|----------------|

| | | |
|--------------------------------|--|------------------|
| Total liabilities | | \$244,300 |
|--------------------------------|--|------------------|

Stockholders' Equity

| | | |
|---|----------------|-------------------------|
| Capital stock | \$ 80,000 | |
| Retained earnings | <u>235,765</u> | <u>315,765</u> |
| Total liabilities and stockholders' equity | | <u>\$560,065</u> |

Appendix—Prob. 5–7A Continued

5.

| | | |
|--|--------------|--------------|
| Cost of Merchandise Sold | 6,400 | |
| Merchandise Inventory | | 6,400 |
| Insurance Expense..... | 5,000 | |
| Prepaid Insurance..... | | 5,000 |
| Store Supplies Expense | 2,550 | |
| Store Supplies..... | | 2,550 |
| Office Supplies Expense | 800 | |
| Office Supplies..... | | 800 |
| Depreciation Expense—Store Equipment | 8,500 | |
| Accum. Depreciation—Store Equipment | | 8,500 |
| Depreciation Expense—Office Equipment | 4,500 | |
| Accum. Depreciation—Office Equipment | | 4,500 |
| Sales Salaries Expense | 1,450 | |
| Office Salaries Expense | 750 | |
| Salaries Payable | | 2,200 |
| Unearned Rent..... | 800 | |
| Rent Revenue..... | | 800 |

Appendix—Prob. 5–7A Concluded

6.

| | | |
|---|---------|---------|
| Sales..... | 847,500 | |
| Rent Revenue | 800 | |
| Income Summary | | 848,300 |
| Income Summary..... | 774,635 | |
| Sales Returns and Allowances..... | | 15,500 |
| Sales Discounts | | 6,000 |
| Cost of Merchandise Sold..... | | 507,600 |
| Sales Salaries Expense..... | | 87,850 |
| Advertising Expense | | 29,450 |
| Depreciation Expense—Store Equipment | | 8,500 |
| Store Supplies Expense..... | | 2,550 |
| Miscellaneous Selling Expense..... | | 1,885 |
| Office Salaries Expense | | 60,750 |
| Rent Expense | | 30,000 |
| Insurance Expense | | 5,000 |
| Depreciation Expense—Office Equipment | | 4,500 |
| Office Supplies Expense..... | | 800 |
| Miscellaneous Administrative Expense..... | | 1,650 |
| Interest Expense | | 12,600 |
| Income Summary..... | 73,665 | |
| Retained Earnings | | 73,665 |
| Retained Earnings..... | 40,000 | |
| Dividends..... | | 40,000 |

Prob. 5–1B

1.

SCIATIC CO.
Income Statement
For the Year Ended July 31, 2006

| | | | |
|--|---------------|--------------------|------------------|
| Revenue from sales: | | | |
| Sales | | \$1,028,000 | |
| Less: Sales returns and allowances | \$ 18,480 | | |
| Sales discounts | <u>17,520</u> | <u>36,000</u> | |
| Net sales | | | \$ 992,000 |
| Cost of merchandise sold | | | <u>620,000</u> |
| Gross profit | | | \$ 372,000 |
| Operating expenses: | | | |
| Selling expenses: | | | |
| Sales salaries expense | \$138,560 | | |
| Advertising expense | 35,040 | | |
| Depreciation expense—store equipment | 5,120 | | |
| Miscellaneous selling expense | <u>1,280</u> | | |
| Total selling expenses | | \$ 180,000 | |
| Administrative expenses: | | | |
| Office salaries expense | \$ 67,320 | | |
| Rent expense | 25,080 | | |
| Depreciation expense—office equipment | 10,160 | | |
| Insurance expense | 3,120 | | |
| Office supplies expense | 1,040 | | |
| Miscellaneous administrative expense | <u>1,280</u> | | |
| Total administrative expenses | | <u>108,000</u> | |
| Total operating expenses | | | <u>288,000</u> |
| Income from operations | | | \$ 84,000 |
| Other expense: | | | |
| Interest expense | | | <u>4,000</u> |
| Net income | | | <u>\$ 80,000</u> |

Prob. 5-1B Continued

2.

SCIATIC CO.
Retained Earnings Statement
For the Year Ended July 31, 2006

| | | |
|--|----------------------|-------------------------|
| Retained earnings, August 1, 2005..... | | \$301,600 |
| Net income for the year | \$80,000 | |
| Less dividends | <u>28,000</u> | |
| Increase in retained earnings..... | | <u>52,000</u> |
| Retained earnings, July 31, 2006 | | <u>\$353,600</u> |

Prob. 5-1B Continued

3.

**SCIATIC CO.
Balance Sheet
July 31, 2006**

Assets

Current assets:

| | | |
|-----------------------------------|--------------|------------------|
| Cash | \$123,000 | |
| Accounts receivable | 96,800 | |
| Merchandise inventory | 140,000 | |
| Office supplies | 4,480 | |
| Prepaid insurance | <u>2,720</u> | |
| Total current assets | | \$367,000 |

Property, plant, and equipment:

| | | |
|---|---------------|-----------------------|
| Office equipment | \$ 68,000 | |
| Less accumulated depreciation..... | <u>10,240</u> | \$ 57,760 |
| Store equipment..... | \$122,400 | |
| Less accumulated depreciation..... | <u>27,360</u> | <u>95,040</u> |
| Total property, plant, and equipment | | <u>152,800</u> |

| | | |
|---------------------------|--|-------------------------|
| Total assets | | <u>\$519,800</u> |
|---------------------------|--|-------------------------|

Liabilities

Current liabilities:

| | | |
|---------------------------------------|--------------|------------------|
| Accounts payable | \$ 44,480 | |
| Note payable (current portion) | 6,000 | |
| Salaries payable..... | <u>1,920</u> | |
| Total current liabilities..... | | \$ 52,400 |

Long-term liabilities:

| | | |
|---|--|---------------|
| Note payable (final payment due 2016).... | | <u>38,800</u> |
|---|--|---------------|

| | | |
|--------------------------------|--|------------------|
| Total liabilities | | \$ 91,200 |
|--------------------------------|--|------------------|

Stockholders' Equity

| | | |
|--|----------------|-------------------------|
| Capital stock..... | \$ 75,000 | |
| Retained earnings | <u>353,600</u> | <u>428,600</u> |
| Total liabilities and stockholders' equity..... | | <u>\$519,800</u> |

Prob. 5–1B Concluded

4. a. The multiple-step form of income statement contains various sections for revenues and expenses, with intermediate balances, and concludes with net income. In the single-step form, the total of all expenses is deducted from the total of all revenues. There are no intermediate balances.
- b. In the report form of balance sheet, the assets, liabilities, and stockholders' equity are presented in that order in a downward sequence. In the account form, the assets are listed on the left-hand side, and the liabilities and stockholders' equity are listed on the right-hand side.

Prob. 5-2B

1.

SCIATIC CO.
Income Statement
For the Year Ended July 31, 2006

| | | |
|--------------------------------|---------------------|-------------------------|
| Revenues: | | |
| Net sales | | \$992,000 |
| Expenses: | | |
| Cost of merchandise sold | \$620,000 | |
| Selling expenses | 180,000 | |
| Administrative expenses | 108,000 | |
| Interest expense | <u>4,000</u> | |
| Total expenses | | <u>912,000</u> |
| Net income | | <u>\$ 80,000</u> |

2.

SCIATIC CO.
Retained Earnings Statement
For the Year Ended July 31, 2006

| | | |
|---|----------------------|-------------------------|
| Retained earnings, August 1, 2005 | | \$301,600 |
| Net income for the year | \$80,000 | |
| Less dividends | <u>28,000</u> | |
| Increase in retained earnings | | <u>52,000</u> |
| Retained earnings, July 31, 2006 | | <u>\$353,600</u> |

Prob. 5–2B Concluded

3.

**SCIATIC CO.
Balance Sheet
July 31, 2006**

| <u>Assets</u> | | <u>Liabilities</u> | |
|--|-----------------------|-----------------------------------|-----------------------|
| Current assets: | | Current liabilities: | |
| Cash | \$123,000 | Accounts payable | \$44,480 |
| Accounts receivable | 96,800 | Note payable | |
| Merchandise inventory | 140,000 | (current portion) | 6,000 |
| Office supplies | 4,480 | Salaries payable..... | <u>1,920</u> |
| Prepaid insurance | <u>2,720</u> | Total current | |
| Total current assets | \$367,000 | liabilities | \$ 52,400 |
| Property, plant, and equipment: | | Long-term liabilities: | |
| Office equipment | \$ 68,000 | Note payable (final | |
| Less accumulated | | payment due 2016) | <u>38,800</u> |
| depreciation..... | <u>10,240</u> | Total liabilities | \$ 91,200 |
| Total property, plant, | \$ 57,760 | | |
| and equipment..... | | | |
| Store equipment..... | \$122,400 | | |
| Less accumulated | | | |
| depreciation | <u>27,360</u> | | |
| Total property, plant, | <u>95,040</u> | | |
| and equipment..... | | | |
| Total assets | <u>519,800</u> | | |
| | | <u>Stockholders' Equity</u> | |
| | | Capital stock | \$ 75,000 |
| | | Retained earnings..... | <u>353,600</u> |
| | | | <u>428,600</u> |
| | | Total liabilities and | |
| | | stockholders' equity | <u>519,800</u> |

Prob. 5–3B

| | | | | |
|------|----|--|--------|--------|
| Aug. | 2 | Accounts Receivable—Runyan Co..... | 12,800 | |
| | | Sales | | 12,800 |
| | 2 | Cost of Merchandise Sold..... | 7,600 | |
| | | Merchandise Inventory | | 7,600 |
| | 3 | Cash | 5,350 | |
| | | Sales | | 5,000 |
| | | Sales Tax Payable | | 350 |
| | 3 | Cost of Merchandise Sold..... | 3,000 | |
| | | Merchandise Inventory | | 3,000 |
| | 4 | Accounts Receivable—McNutt Co..... | 2,800 | |
| | | Sales | | 2,800 |
| | 4 | Cost of Merchandise Sold..... | 1,800 | |
| | | Merchandise Inventory | | 1,800 |
| | 5 | Cash | 4,708 | |
| | | Sales | | 4,400 |
| | | Sales Tax Payable | | 308 |
| | 5 | Cost of Merchandise Sold..... | 2,500 | |
| | | Merchandise Inventory | | 2,500 |
| | 12 | Cash | 12,544 | |
| | | Sales Discounts | 256 | |
| | | Accounts Receivable—Runyan Co. | | 12,800 |
| | 14 | Accounts Receivable—American Express | 15,000 | |
| | | Sales | | 15,000 |
| | 14 | Cost of Merchandise Sold..... | 9,200 | |
| | | Merchandise Inventory | | 9,200 |
| | 16 | Accounts Receivable—Westpark Co..... | 12,000 | |
| | | Sales | | 12,000 |
| | 16 | Cost of Merchandise Sold..... | 7,200 | |
| | | Merchandise Inventory | | 7,200 |
| | 18 | Sales Returns and Allowances | 3,000 | |
| | | Accounts Receivable—Westpark Co. | | 3,000 |
| | 18 | Merchandise Inventory | 1,800 | |
| | | Cost of Merchandise Sold..... | | 1,800 |

Prob. 5–3B Continued

| | | | |
|----------------|--|--------------|--------------|
| Aug. 19 | Accounts Receivable—DeGroot Co. | 9,500 | |
| | Sales | | 9,500 |
| 19 | Accounts Receivable—DeGroot Co. | 200 | |
| | Cash | | 200 |
| 19 | Cost of Merchandise Sold | 5,700 | |
| | Merchandise Inventory | | 5,700 |
| 26 | Cash | 8,910 | |
| | Sales Discounts | 90 | |
| | Accounts Receivable—Westpark Co. | | 9,000 |
| 27 | Cash | 7,680 | |
| | Credit Card Expense..... | 320 | |
| | Accounts Receivable—American Express .. | | 8,000 |
| 28 | Cash | 9,605 | |
| | Sales Discounts | 95 | |
| | Accounts Receivable—DeGroot Co. | | 9,700 |
| 31 | Cash | 2,800 | |
| | Accounts Receivable—McNutt Co. | | 2,800 |
| 31 | Transportation Out | 1,050 | |
| | Cash..... | | 1,050 |
| Sept. 3 | Credit Card Expense..... | 850 | |
| | Cash..... | | 850 |
| 15 | Sales Tax Payable..... | 4,100 | |
| | Cash..... | | 4,100 |

Prob. 5–3B Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

HOLISTIC SUPPLY CO.
Trial Balance
September 15, 20—

| | | | |
|-----|---|------------------|------------------|
| 110 | Cash | 71,897 | |
| 112 | Accounts Receivable | 67,600 | |
| 115 | Merchandise Inventory | 64,800 | |
| 116 | Office Supplies | 2,600 | |
| 117 | Prepaid Insurance | 6,800 | |
| 120 | Office Equipment | 64,000 | |
| 121 | Accumulated Depreciation—Office Equipment ... | | 10,800 |
| 210 | Accounts Payable | | 27,000 |
| 212 | Salaries Payable | | 2,000 |
| 220 | Notes Payable | | 30,000 |
| 310 | Capital Stock | | 100,000 |
| 311 | Retained Earnings | | 49,258 |
| 312 | Retained Earnings | 25,000 | |
| 410 | Sales | | 1,561,500 |
| 411 | Sales Returns and Allowance | 24,000 | |
| 412 | Sales Discounts | 11,441 | |
| 510 | Cost of Merchandise Sold | 1,105,200 | |
| 520 | Sales Salaries Expense | 210,000 | |
| 521 | Advertising Expense | 28,300 | |
| 522 | Depreciation Expense—Store Equipment | 4,600 | |
| 523 | Credit Card Expense | 1,170 | |
| 524 | Transportation Out | 1,050 | |
| 529 | Miscellaneous Selling Expense | 1,100 | |
| 530 | Office Salaries Expense | 41,000 | |
| 531 | Rent Expense | 22,150 | |
| 532 | Insurance Expense | 12,750 | |
| 533 | Depreciation Expense—Office Equipment | 9,000 | |
| 534 | Office Supplies Expense | 900 | |
| 539 | Miscellaneous Administrative Expense | 1,200 | |
| 710 | Interest Expense | 4,000 | |
| | Totals | <u>1,780,558</u> | <u>1,780,558</u> |

Prob. 5–4B

| | | | | |
|------|----|-------------------------------------|--------|--------|
| Mar. | 1 | Merchandise Inventory | 16,000 | |
| | | Accounts Payable—Fastow Co. | | 16,000 |
| | 3 | Merchandise Inventory | 9,150 | |
| | | Accounts Payable—Moss Co. | | 9,150 |
| | 4 | Merchandise Inventory | 7,500 | |
| | | Accounts Payable—Picadilly Co. | | 7,500 |
| | 6 | Accounts Payable—Picadilly Co. | 1,000 | |
| | | Merchandise Inventory | | 1,000 |
| | 13 | Accounts Payable—Moss Co. | 9,150 | |
| | | Cash | | 8,970 |
| | | Merchandise Inventory | | 180 |
| | 14 | Accounts Payable—Picadilly Co. | 6,500 | |
| | | Cash | | 6,370 |
| | | Merchandise Inventory | | 130 |
| | 19 | Merchandise Inventory | 12,000 | |
| | | Accounts Payable—Reardon Co. | | 12,000 |
| | 19 | Merchandise Inventory | 500 | |
| | | Cash | | 500 |
| | 20 | Merchandise Inventory | 8,000 | |
| | | Accounts Payable—Hatcher Co. | | 8,000 |
| | 30 | Accounts Payable—Hatcher Co. | 8,000 | |
| | | Cash | | 7,920 |
| | | Merchandise Inventory | | 80 |
| | 31 | Accounts Payable—Fastow Co. | 16,000 | |
| | | Cash | | 16,000 |
| | 31 | Accounts Payable—Reardon Co. | 12,000 | |
| | | Cash | | 12,000 |

Prob. 5–4B Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

DAFFODIL COMPANY
Trial Balance
March 31, 20—

| | | | |
|-----|---|------------------|------------------|
| 110 | Cash | 34,740 | |
| 111 | Notes Receivable | 50,000 | |
| 112 | Accounts Receivable | 62,000 | |
| 115 | Merchandise Inventory | 151,760 | |
| 116 | Office Supplies | 2,600 | |
| 117 | Prepaid Insurance | 6,800 | |
| 120 | Office Equipment | 64,000 | |
| 121 | Accumulated Depreciation—Office Equipment ... | | 10,800 |
| 210 | Accounts Payable | | 27,000 |
| 212 | Salaries Payable | | 2,000 |
| 220 | Notes Payable | | 30,000 |
| 310 | Capital Stock | | 100,000 |
| 311 | Retained Earnings | | 164,100 |
| 312 | Dividends | 25,000 | |
| 410 | Sales | | 1,500,000 |
| 411 | Sales Returns and Allowance | 21,000 | |
| 412 | Sales Discounts | 11,000 | |
| 510 | Cost of Merchandise Sold | 1,070,000 | |
| 520 | Sales Salaries Expense | 210,000 | |
| 521 | Advertising Expense | 28,300 | |
| 522 | Depreciation Expense—Store Equipment | 4,600 | |
| 529 | Miscellaneous Selling Expense | 1,100 | |
| 530 | Office Salaries Expense | 41,000 | |
| 531 | Rent Expense | 22,150 | |
| 532 | Insurance Expense | 12,750 | |
| 533 | Depreciation Expense—Office Equipment | 9,000 | |
| 534 | Office Supplies Expense | 900 | |
| 539 | Miscellaneous Administrative Expense | 1,200 | |
| 710 | Interest Expense | 4,000 | |
| | Totals | <u>1,833,900</u> | <u>1,833,900</u> |

Prob. 5–5B

| | | | | |
|------|----|--|--------|--------|
| Nov. | 3 | Merchandise Inventory | 20,000 | |
| | | Accounts Payable—Whiting Co. | | 20,000 |
| | | [$\$25,000 - (\$25,000 \times 20\%) = \$20,000$] | | |
| | 4 | Cash | 7,100 | |
| | | Sales | | 7,100 |
| | 4 | Cost of Merchandise Sold | 4,150 | |
| | | Merchandise Inventory | | 4,150 |
| | 5 | Merchandise Inventory | 10,800 | |
| | | Accounts Payable—Alamosa Co..... | | 10,800 |
| | 6 | Accounts Payable—Whiting Co..... | 5,000 | |
| | | Merchandise Inventory | | 5,000 |
| | 11 | Accounts Receivable—Bowles Co. | 1,800 | |
| | | Sales | | 1,800 |
| | | [$\$2,250 - (\$2,250 \times 20\%) = \$1,800$] | | |
| | 11 | Cost of Merchandise Sold | 1,050 | |
| | | Merchandise Inventory | | 1,050 |
| | 13 | Accounts Payable—Whiting Co..... | 15,000 | |
| | | Cash | | 14,700 |
| | | Merchandise Inventory | | 300 |
| | 14 | Accounts Receivable—American Express | 9,850 | |
| | | Sales | | 9,850 |
| | 14 | Cost of Merchandise Sold | 5,900 | |
| | | Merchandise Inventory | | 5,900 |
| | 15 | Accounts Payable—Alamosa Co. | 10,800 | |
| | | Cash | | 10,590 |
| | | Merchandise Inventory | | 210 |
| | 21 | Cash | 1,782 | |
| | | Sales Discounts | 18 | |
| | | Accounts Receivable—Bowles Co..... | | 1,800 |
| | 24 | Accounts Receivable—Kapinos Co..... | 4,200 | |
| | | Sales | | 4,200 |

Prob. 5–5B Continued

| | | | |
|----------------|--|--------------|--------------|
| Nov. 24 | Cost of Merchandise Sold | 1,850 | |
| | Merchandise Inventory | | 1,850 |
| 28 | Cash | 9,410 | |
| | Credit Card Expense..... | 440 | |
| | Accounts Receivable—American Express .. | | 9,850 |
| 30 | Sales Returns and Allowances | 1,100 | |
| | Accounts Receivable—Kapinos Co. | | 1,100 |
| 30 | Merchandise Inventory | 600 | |
| | Cost of Merchandise Sold..... | | 600 |

Prob. 5–5B Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

GIRDER COMPANY
Trial Balance
November 30, 20—

| | | | |
|-----|--|----------------|----------------|
| 110 | Cash | 20,060 | |
| 111 | Accounts Receivable | 18,100 | |
| 115 | Merchandise Inventory | 95,082 | |
| 116 | Prepaid Insurance | 3,200 | |
| 117 | Office Supplies | 970 | |
| 210 | Accounts Payable | | 8,000 |
| 310 | Capital Stock | | 50,000 |
| 311 | Retained Earnings | | 52,660 |
| 312 | Dividends | 12,000 | |
| 410 | Sales | | 98,800 |
| 411 | Sales Returns and Allowance | 6,100 | |
| 412 | Sales Discounts | 718 | |
| 510 | Cost of Merchandise Sold | 25,630 | |
| 520 | Sales Salaries Expense | 10,000 | |
| 521 | Advertising Expense | 5,500 | |
| 522 | Credit Card Expense | 650 | |
| 529 | Miscellaneous Selling Expense | 250 | |
| 530 | Office Salaries Expense | 6,000 | |
| 531 | Rent Expense | 5,000 | |
| 539 | Miscellaneous Administrative Expense | 200 | |
| | Totals | <u>209,460</u> | <u>209,460</u> |

Prob. 5–6B

1.

| | | | | |
|------|----|-------------------------------------|--------|--------|
| Mar. | 1 | Accounts Receivable—Brooks Co. | 12,750 | |
| | | Sales | | 12,750 |
| | 1 | Cost of Merchandise Sold | 6,000 | |
| | | Merchandise Inventory | | 6,000 |
| | 2 | Transportation Out | 150 | |
| | | Cash | | 150 |
| | 5 | Accounts Receivable—Brooks Co. | 18,500 | |
| | | Sales | | 18,500 |
| | 5 | Cost of Merchandise Sold | 11,000 | |
| | | Merchandise Inventory | | 11,000 |
| | 6 | Sales Returns and Allowances | 2,000 | |
| | | Accounts Receivable—Brooks Co. | | 2,000 |
| | 6 | Merchandise Inventory | 1,200 | |
| | | Cost of Merchandise Sold..... | | 1,200 |
| | 15 | Accounts Receivable—Brooks Co. | 20,000 | |
| | | Sales | | 20,000 |
| | 15 | Accounts Receivable—Brooks Co. | 1,750 | |
| | | Cash | | 1,750 |
| | 15 | Cost of Merchandise Sold | 12,000 | |
| | | Merchandise Inventory | | 12,000 |
| | 16 | Cash | 10,535 | |
| | | Sales Discounts | 215 | |
| | | Accounts Receivable—Brooks Co. | | 10,750 |
| | 25 | Cash | 21,550 | |
| | | Sales Discounts | 200 | |
| | | Accounts Receivable—Brooks Co. | | 21,750 |
| | 31 | Cash | 18,500 | |
| | | Accounts Receivable—Brooks Co. | | 18,500 |

Prob. 5–6B Concluded

2.

| | | | | |
|-------------|-----------|--|---------------|---------------|
| Mar. | 1 | Merchandise Inventory | 12,750 | |
| | | Accounts Payable—Snyder Company | | 12,750 |
| | 5 | Merchandise Inventory | 18,500 | |
| | | Accounts Payable—Snyder Company | | 18,500 |
| | 6 | Accounts Payable—Snyder Company | 2,000 | |
| | | Merchandise Inventory | | 2,000 |
| | 9 | Merchandise Inventory | 180 | |
| | | Cash | | 180 |
| | 15 | Merchandise Inventory | 21,750 | |
| | | Accounts Payable—Snyder Company | | 21,750 |
| | | \$20,000 + \$1,750 = \$21,750 | | |
| | 16 | Accounts Payable—Snyder Company | 10,750 | |
| | | Cash | | 10,535 |
| | | Merchandise Inventory | | 215 |
| | 25 | Accounts Payable—Snyder Company | 21,750 | |
| | | Cash | | 21,550 |
| | | Merchandise Inventory | | 200 |
| | 31 | Accounts Payable—Snyder Company | 18,500 | |
| | | Cash | | 18,500 |

Appendix—Prob. 5–7B

1.

VIADUCT CO.
Work Sheet
For the Year Ended December 31, 2006

| Account Title | Trial Balance | | Adjustments | | Adjusted Trial Balance | | Income Statement | | Balance Sheet | | |
|---|------------------|------------------|---------------|---------------|------------------------|------------------|------------------|----------------|----------------|----------------|----|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | |
| 1 Cash..... | 18,000 | | | | 18,000 | | | | 18,000 | | 1 |
| 2 Accounts Receivable..... | 82,500 | | | | 82,500 | | | | 82,500 | | 2 |
| 3 Merchandise Inventory..... | 165,000 | | (a) | 7,500 | 157,500 | | | | 157,500 | | 3 |
| 4 Prepaid Insurance..... | 9,700 | | (b) | 4,000 | 5,700 | | | | 5,700 | | 4 |
| 5 Store Supplies..... | 4,250 | | (c) | 3,150 | 1,100 | | | | 1,100 | | 5 |
| 6 Office Supplies..... | 2,100 | | (d) | 1,500 | 600 | | | | 600 | | 6 |
| 7 Store Equipment..... | 157,000 | | | | 157,000 | | | | 157,000 | | 7 |
| 8 Acc. Depr.—Store Equip. | | 40,300 | (e) | 4,500 | | 44,800 | | | | 44,800 | 8 |
| 9 Office Equipment..... | 50,000 | | | | 50,000 | | | | 50,000 | | 9 |
| 10 Acc. Depr.—Office Equip. | | 17,200 | (f) | 2,800 | | 20,000 | | | | 20,000 | 10 |
| 11 Accounts Payable..... | | 66,700 | | | | 66,700 | | | | 66,700 | 11 |
| 12 Salaries Payable..... | | | (g) | 3,650 | | 3,650 | | | | 3,650 | 12 |
| 13 Unearned Rent..... | | 1,200 | (h) | 800 | | 400 | | | | 400 | 13 |
| 14 Note Payable (final 15 payment due 2016)..... | | 105,000 | | | | 105,000 | | | | 105,000 | 15 |
| 16 Capital Stock..... | | 50,000 | | | | 50,000 | | | | 50,000 | 16 |
| 17 Retained Earnings..... | | 84,600 | | | | 84,600 | | | | 84,600 | 17 |
| 18 Dividends..... | 30,000 | | | | 30,000 | | | | 30,000 | | 18 |
| 19 Sales..... | | 815,000 | | | | 815,000 | 815,000 | | | | 19 |
| 20 Sales Returns and Allow.... | 11,900 | | | | 11,900 | | 11,900 | | | | 20 |
| 21 Sales Discounts..... | 7,100 | | | | 7,100 | | 7,100 | | | | 21 |
| 22 Cost of Merch. Sold..... | 476,200 | | (a) | 7,500 | 483,700 | | 483,700 | | | | 22 |
| 23 Sales Salaries Expense..... | 76,400 | | (g) | 2,850 | 79,250 | | 79,250 | | | | 23 |
| 24 Advertising Expense..... | 25,000 | | | | 25,000 | | 25,000 | | | | 24 |
| 25 Depr. Exp.—Store Equip.... | | | (e) | 4,500 | 4,500 | | 4,500 | | | | 25 |
| 26 Store Supplies Expense..... | | | (c) | 3,150 | 3,150 | | 3,150 | | | | 26 |
| 27 Misc. Selling Expense..... | 1,600 | | | | 1,600 | | 1,600 | | | | 27 |
| 28 Office Salaries Expense..... | 34,000 | | (g) | 800 | 34,800 | | 34,800 | | | | 28 |
| 29 Rent Expense..... | 16,000 | | | | 16,000 | | 16,000 | | | | 29 |
| 30 Insurance Expense..... | | | (b) | 4,000 | 4,000 | | 4,000 | | | | 30 |
| 31 Depr. Exp.—Office Equip. | | | (f) | 2,800 | 2,800 | | 2,800 | | | | 31 |
| 32 Office Supplies Expense.... | | | (d) | 1,500 | 1,500 | | 1,500 | | | | 32 |
| 33 Misc. Admin. Expense..... | 1,650 | | | | 1,650 | | 1,650 | | | | 33 |
| 34 Rent Revenue..... | | | | (h) | 800 | 800 | | 800 | | | 34 |
| 35 Interest Expense..... | 11,600 | | | | 11,600 | | 11,600 | | | | 35 |
| 36 | <u>1,180,000</u> | <u>1,180,000</u> | <u>27,900</u> | <u>27,900</u> | <u>1,190,950</u> | <u>1,190,950</u> | <u>688,550</u> | <u>815,800</u> | <u>502,400</u> | <u>375,150</u> | 36 |
| 37 Net Income..... | | | | | | | <u>127,250</u> | | | <u>127,250</u> | 37 |
| 38 | | | | | | | <u>815,800</u> | <u>815,800</u> | <u>502,400</u> | <u>502,400</u> | 38 |

Appendix—Prob. 5–7B Continued

2.

VIADUCT CO.
Income Statement
For the Year Ended December 31, 2006

| | | | |
|--|---------------------|------------------------|-------------------------|
| Revenue from sales: | | | |
| Sales | | \$815,000 | |
| Less: Sales returns and allowances | \$11,900 | | |
| Sales discounts | <u>7,100</u> | <u>19,000</u> | |
| Net sales | | | \$796,000 |
| Cost of merchandise sold | | | <u>483,700</u> |
| Gross profit | | | \$312,300 |
| Operating expenses: | | | |
| Selling expenses: | | | |
| Sales salaries expense | \$79,250 | | |
| Advertising expense | 25,000 | | |
| Depreciation expense—store equipment | 4,500 | | |
| Store supplies expense | 3,150 | | |
| Miscellaneous selling expense | <u>1,600</u> | | |
| Total selling expenses | | \$113,500 | |
| Administrative expenses: | | | |
| Office salaries expense | \$34,800 | | |
| Rent expense | 16,000 | | |
| Insurance expense | 4,000 | | |
| Depreciation expense—office equipment | 2,800 | | |
| Office supplies expense | 1,500 | | |
| Miscellaneous administrative expense | <u>1,650</u> | | |
| Total administrative expenses | | <u>60,750</u> | |
| Total operating expenses | | | <u>174,250</u> |
| Income from operations | | | \$138,050 |
| Other income and expense: | | | |
| Rent revenue | | \$ 800 | |
| Interest expense | | <u>(11,600)</u> | <u>(10,800)</u> |
| Net income | | | <u>\$127,250</u> |

Appendix—Prob. 5–7B Continued

3.

VIADUCT CO.
Retained Earnings Statement
For the Year Ended December 31, 2006

| | | |
|---|---------------|------------------|
| Retained earnings, January 1, 2006..... | | \$ 84,600 |
| Net income for the year | \$127,250 | |
| Less dividends | <u>30,000</u> | |
| Increase in retained earnings..... | | <u>97,250</u> |
| Retained earnings, December 31, 2006..... | | <u>\$181,850</u> |

Appendix—Prob. 5–7B Continued

4.

**VIADUCT CO.
Balance Sheet
December 31, 2006**

Assets

Current assets:

| | | |
|-----------------------------------|------------|------------------|
| Cash | \$ 18,000 | |
| Accounts receivable | 82,500 | |
| Merchandise inventory | 157,500 | |
| Prepaid insurance | 5,700 | |
| Store supplies | 1,100 | |
| Office supplies | <u>600</u> | |
| Total current assets | | \$265,400 |

Property, plant, and equipment:

| | | |
|---|---------------|-----------------------|
| Store equipment..... | \$157,000 | |
| Less accumulated depreciation..... | <u>44,800</u> | \$112,200 |
| Office equipment | \$ 50,000 | |
| Less accumulated depreciation..... | <u>20,000</u> | <u>30,000</u> |
| Total property, plant, and equipment | | <u>142,200</u> |

| | | |
|--------------------|--|-------------------------|
| Total assets | | <u>\$407,600</u> |
|--------------------|--|-------------------------|

Liabilities

Current liabilities:

| | | |
|---------------------------------------|------------|------------------|
| Accounts payable | \$ 66,700 | |
| Note payable (current portion) | 15,000 | |
| Salaries payable..... | 3,650 | |
| Unearned rent..... | <u>400</u> | |
| Total current liabilities..... | | \$ 85,750 |

Long-term liabilities:

| | | |
|---|--|---------------|
| Note payable (final payment due 2016).... | | <u>90,000</u> |
|---|--|---------------|

| | | |
|-------------------------|--|------------------|
| Total liabilities | | \$175,750 |
|-------------------------|--|------------------|

Stockholders' Equity

| | | |
|--|----------------|-------------------------|
| Capital stock..... | \$ 50,000 | |
| Retained earnings | <u>181,850</u> | <u>231,850</u> |
| Total liabilities and stockholders' equity..... | | <u>\$407,600</u> |

Appendix—Prob. 5–7B Continued

5.

| | | |
|--|--------------|--------------|
| Cost of Merchandise Sold | 7,500 | |
| Merchandise Inventory | | 7,500 |
| Insurance Expense..... | 4,000 | |
| Prepaid Insurance..... | | 4,000 |
| Store Supplies Expense | 3,150 | |
| Store Supplies..... | | 3,150 |
| Office Supplies Expense | 1,500 | |
| Office Supplies..... | | 1,500 |
| Depreciation Expense—Store Equipment | 4,500 | |
| Accum. Depreciation—Store Equipment | | 4,500 |
| Depreciation Expense—Office Equipment | 2,800 | |
| Accum. Depreciation—Office Equipment | | 2,800 |
| Sales Salaries Expense | 2,850 | |
| Office Salaries Expense | 800 | |
| Salaries Payable | | 3,650 |
| Unearned Rent..... | 800 | |
| Rent Revenue..... | | 800 |

Appendix—Prob. 5–7B Concluded

6.

| | | |
|---|----------------|----------------|
| Sales..... | 815,000 | |
| Rent Revenue | 800 | |
| Income Summary | | 815,800 |
| Income Summary..... | 688,550 | |
| Sales Returns and Allowances..... | | 11,900 |
| Sales Discounts | | 7,100 |
| Cost of Merchandise Sold..... | | 483,700 |
| Sales Salaries Expense..... | | 79,250 |
| Advertising Expense | | 25,000 |
| Depreciation Expense—Store Equipment | | 4,500 |
| Store Supplies Expense..... | | 3,150 |
| Miscellaneous Selling Expense..... | | 1,600 |
| Office Salaries Expense | | 34,800 |
| Rent Expense | | 16,000 |
| Insurance Expense | | 4,000 |
| Depreciation Expense—Office Equipment | | 2,800 |
| Office Supplies Expense..... | | 1,500 |
| Miscellaneous Administrative Expense..... | | 1,650 |
| Interest Expense | | 11,600 |
| Income Summary..... | 127,250 | |
| Retained Earnings | | 127,250 |
| Retained Earnings..... | 30,000 | |
| Dividends..... | | 30,000 |

COMPREHENSIVE PROBLEM 2

1., alt. 1, 3., alt. 3., 4., 6., alt. 6., and alt. 7.

| Cash | | | | | 110 | |
|-------------|---------------|---------------|--------|--------|---------|-------|
| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 14,160 | ..... |
| 1 | | 20 | ..... | 1,600 | ..... | ..... |
| 4 | | 20 | ..... | 400 | ..... | ..... |
| 7 | | 20 | 7,500 | ..... | ..... | ..... |
| 10 | | 20 | 18,300 | ..... | ..... | ..... |
| 13 | | 20 | ..... | 14,700 | ..... | ..... |
| 15 | | 20 | ..... | 1,500 | ..... | ..... |
| 16 | | 20 | 6,860 | ..... | ..... | ..... |
| 19 | | 20 | ..... | 8,100 | ..... | ..... |
| 19 | | 20 | ..... | 6,100 | ..... | ..... |
| 21 | | 21 | ..... | 600 | ..... | ..... |
| 21 | | 21 | 11,750 | ..... | ..... | ..... |
| 26 | | 21 | ..... | 720 | ..... | ..... |
| 28 | | 21 | ..... | 2,700 | ..... | ..... |
| 29 | | 21 | ..... | 550 | ..... | ..... |
| 30 | | 21 | 16,440 | ..... | ..... | ..... |
| 31 | | 21 | ..... | 11,385 | 26,655 | ..... |

| Accounts Receivable | | | | | 112 | |
|---------------------|---------------|----|--------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 34,220 | ..... |
| 6 | ..... | 20 | 8,500 | ..... | ..... | ..... |
| 7 | ..... | 20 | ..... | 7,500 | ..... | ..... |
| 14 | ..... | 20 | ..... | 1,500 | ..... | ..... |
| 16 | ..... | 20 | ..... | 7,000 | ..... | ..... |
| 20 | ..... | 21 | 16,000 | ..... | ..... | ..... |
| 21 | ..... | 21 | 600 | ..... | ..... | ..... |
| 21 | ..... | 21 | ..... | 11,750 | ..... | ..... |
| 30 | ..... | 21 | 18,750 | ..... | ..... | ..... |
| 30 | ..... | 21 | ..... | 16,600 | 33,720 | ..... |

Comp. Prob. 2 Continued

Merchandise Inventory

115

| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
|-------------|----------------|---------------|--------|--------|---------|-------|
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 133,900 | ..... |
| 3 | | 20 | 15,000 | ..... | ..... | ..... |
| 4 | | 20 | 400 | ..... | ..... | ..... |
| 6 | | 20 | ..... | 5,000 | ..... | ..... |
| 10 | | 20 | ..... | 11,000 | ..... | ..... |
| 13 | | 20 | ..... | 300 | ..... | ..... |
| 14 | | 20 | 900 | ..... | ..... | ..... |
| 19 | | 20 | 8,100 | ..... | ..... | ..... |
| 20 | | 21 | ..... | 9,600 | ..... | ..... |
| 21 | | 21 | 15,000 | ..... | ..... | ..... |
| 24 | | 21 | ..... | 3,500 | ..... | ..... |
| 26 | | 21 | 380 | ..... | ..... | ..... |
| 30 | | 21 | ..... | 11,250 | ..... | ..... |
| 31 | | 21 | ..... | 115 | 132,915 | ..... |
| 31 | Adjusting..... | 22 | ..... | 8,800 | 124,115 | ..... |

Prepaid Insurance

116

| | | | | | | |
|-------------|----------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 3,750 | ..... |
| 31 | Adjusting..... | 22 | ..... | 1,250 | 2,500 | ..... |

Store Supplies

117

| | | | | | | |
|-------------|----------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 2,550 | ..... |
| 29 | ..... | 21 | 550 | ..... | 3,100 | ..... |
| 31 | Adjusting..... | 22 | ..... | 2,125 | 975 | ..... |

Store Equipment

123

| | | | | | | |
|-------------|---------------|---|-------|-------|---------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 104,300 | ..... |

Comp. Prob. 2 Continued

| Accumulated Depreciation—Store Equipment | | | | | 124 | |
|--|----------------|---------------|--------|---------|---------|---------|
| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | ..... | 12,600 |
| 31 | Adjusting..... | 22 | ..... | 7,400 | ..... | 20,000 |
| | | | | | | |
| Accounts Payable | | | | | 210 | |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | ..... | 21,450 |
| 3 | ..... | 20 | ..... | 15,000 | ..... | ..... |
| 13 | ..... | 20 | 15,000 | ..... | ..... | ..... |
| 19 | ..... | 20 | 6,100 | ..... | ..... | ..... |
| 21 | ..... | 21 | ..... | 15,000 | ..... | ..... |
| 24 | ..... | 21 | 3,500 | ..... | ..... | ..... |
| 31 | ..... | 21 | 11,500 | ..... | ..... | 15,350 |
| | | | | | | |
| Salaries Payable | | | | | 211 | |
| 2006 | | | | | | |
| Aug. 31 | Adjusting..... | 22 | ..... | 530 | ..... | 530 |
| | | | | | | |
| Capital Stock | | | | | 310 | |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | ..... | 40,000 |
| | | | | | | |
| Retained Earnings | | | | | 311 | |
| 2005 | | | | | | |
| Sept. 1 | Balance ..... | ✓ | ..... | ..... | ..... | 63,280 |
| 2006 | | | | | | |
| Aug. 31 | Closing..... | 23 | ..... | 163,105 | ..... | ..... |
| 31 | Closing..... | 23 | 10,000 | ..... | ..... | 216,385 |
| | | | | | | |
| Dividends | | | | | 312 | |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 10,000 | ..... |
| 31 | Closing..... | 23 | ..... | 10,000 | — | — |

Comp. Prob. 2 Continued

Income Summary

313

| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
|-------------|--------------|---------------|---------|---------|---------|-------|
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 31 | Closing..... | 23 | ..... | 777,350 | ..... | ..... |
| 31 | Closing..... | 23 | 614,245 | ..... | ..... | ..... |
| 31 | Closing..... | 23 | 163,105 | ..... | — | — |

Sales

410

| | | | | | | |
|-------------|---------------|----|---------|--------|-------|---------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | ..... | 715,800 |
| 6 | ..... | 20 | ..... | 8,500 | ..... | ..... |
| 10 | ..... | 20 | ..... | 18,300 | ..... | ..... |
| 20 | ..... | 21 | ..... | 16,000 | ..... | ..... |
| 30 | ..... | 21 | ..... | 18,750 | ..... | 777,350 |
| 31 | Closing..... | 23 | 777,350 | ..... | — | — |

Sales Returns and Allowances

411

| | | | | | | |
|-------------|---------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 20,600 | ..... |
| 14 | ..... | 20 | 1,500 | ..... | ..... | ..... |
| 26 | ..... | 21 | 720 | ..... | 22,820 | ..... |
| 31 | Closing..... | 23 | ..... | 22,820 | — | — |

Sales Discounts

412

| | | | | | | |
|-------------|---------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 13,200 | ..... |
| 16 | ..... | 20 | 140 | ..... | ..... | ..... |
| 30 | ..... | 21 | 160 | ..... | 13,500 | ..... |
| 31 | Closing..... | 23 | ..... | 13,500 | — | — |

Comp. Prob. 2 Continued

Cost of Merchandise Sold 510

| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
|-------------|----------------|---------------|--------|---------|---------|-------|
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 360,500 | ..... |
| 6 | ..... | 20 | 5,000 | ..... | ..... | ..... |
| 10 | ..... | 20 | 11,000 | ..... | ..... | ..... |
| 14 | ..... | 20 | ..... | 900 | ..... | ..... |
| 20 | ..... | 21 | 9,600 | ..... | ..... | ..... |
| 26 | ..... | 21 | ..... | 380 | ..... | ..... |
| 30 | ..... | 21 | 11,250 | ..... | 396,070 | ..... |
| 31 | Adjusting..... | 22 | 8,800 | ..... | 404,870 | ..... |
| 31 | Closing..... | 23 | ..... | 404,870 | — | — |

Sales Salaries Expense 520

| | | | | | | |
|-------------|----------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 74,400 | ..... |
| 28 | ..... | 21 | 1,750 | ..... | 76,150 | ..... |
| 31 | Adjusting..... | 22 | 350 | ..... | 76,500 | ..... |
| 31 | Closing..... | 23 | ..... | 76,500 | — | — |

Advertising Expense 521

| | | | | | | |
|-------------|---------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 18,000 | ..... |
| 15 | ..... | 20 | 1,500 | ..... | 19,500 | ..... |
| 31 | Closing..... | 23 | ..... | 19,500 | — | — |

Depreciation Expense 522

| | | | | | | |
|-------------|----------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 31 | Adjusting..... | 22 | 7,400 | ..... | 7,400 | ..... |
| 31 | Closing..... | 23 | ..... | 7,400 | — | — |

Store Supplies Expense 523

| | | | | | | |
|-------------|----------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 31 | Adjusting..... | 22 | 2,125 | ..... | 2,125 | ..... |
| 31 | Closing..... | 23 | ..... | 2,125 | — | — |

Comp. Prob. 2 Continued

Miscellaneous Selling Expense

529

| Date | Item | Post. Ref. | Dr. | Cr. | Balance | |
|-------------|---------------|------------|-------|-------|---------|-------|
| | | | | | Dr. | Cr. |
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 2,800 | ..... |
| 31 | Closing..... | 23 | ..... | 2,800 | — | — |

Office Salaries Expense

530

| | | | | | | |
|-------------|----------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 40,500 | ..... |
| 28 | ..... | 21 | 950 | ..... | 41,450 | ..... |
| 31 | Adjusting..... | 22 | 180 | ..... | 41,630 | ..... |
| 31 | Closing..... | 23 | ..... | 41,630 | — | — |

Rent Expense

531

| | | | | | | |
|-------------|---------------|----|-------|--------|--------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance ..... | ✓ | ..... | ..... | 18,600 | ..... |
| 1 | ..... | 20 | 1,600 | ..... | 20,200 | ..... |
| 31 | Closing..... | 23 | ..... | 20,200 | — | — |

Insurance Expense

532

| | | | | | | |
|-------------|----------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 31 | Adjusting..... | 22 | 1,250 | ..... | 1,250 | ..... |
| 31 | Closing..... | 23 | ..... | 1,250 | — | — |

Miscellaneous Administrative Expense

539

| | | | | | | |
|-------------|---------------|----|-------|-------|-------|-------|
| 2006 | | | | | | |
| Aug. 1 | Balance | ✓ | | | 1,650 | |
| 31 | Closing..... | 23 | | 1,650 | — | — |

Comp. Prob. 2 Continued

2., alt 2.

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| Date | Description | Post. Ref. | Debit | Credit |
|-------------|---------------------------------------|---------------|--------|--------|
| 2006 | | | | |
| Aug. 1 | Rent Expense..... | 531 | 1,600 | |
| | Cash | 110 | | 1,600 |
| 3 | Merchandise Inventory..... | 115 | 15,000 | |
| | Accounts Payable—Biathlon Co..... | 210 | | 15,000 |
| 4 | Merchandise Inventory..... | 115 | 400 | |
| | Cash | 110 | | 400 |
| 6 | Accounts Receivable—Hillcrest Co..... | 112 | 8,500 | |
| | Sales..... | 410 | | 8,500 |
| 6 | Cost of Merchandise Sold | 510 | 5,000 | |
| | Merchandise Inventory | 115 | | 5,000 |
| 7 | Cash..... | 110 | 7,500 | |
| | Accounts Receivable—Aaberg Co. .. | 112 | | 7,500 |
| 10 | Cash..... | 110 | 18,300 | |
| | Sales..... | 410 | | 18,300 |
| 10 | Cost of Merchandise Sold | 510 | 11,000 | |
| | Merchandise Inventory | 115 | | 11,000 |
| 13 | Accounts Payable—Biathlon Co..... | 210 | 15,000 | |
| | Cash | 110 | | 14,700 |
| | Merchandise Inventory | 115 | | 300 |
| 14 | Sales Returns and Allowances..... | 411 | 1,500 | |
| | Accounts Receivable—Hillcrest Co.. | 112 | | 1,500 |
| 14 | Merchandise Inventory..... | 115 | 900 | |
| | Cost of Merchandise Sold | 510 | | 900 |
| 15 | Advertising Expense | 521 | 1,500 | |
| | Cash | 110 | | 1,500 |
| 16 | Cash..... | 110 | 6,860 | |
| | Sales Discounts..... | 412 | 140 | |
| | Accounts Receivable—Hillcrest Co.. | 112 | | 7,000 |
| 19 | Merchandise Inventory..... | 115 | 8,100 | |
| | Cash | 110 | | 8,100 |
| 19 | Accounts Payable—Ramler Co. | 210 | 6,100 | |
| | Cash | 110 | | 6,100 |

Comp. Prob. 2 Continued

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| Date | Description | Post. Ref. | Debit | Credit |
|-------------|--|---------------|--------|--------|
| 2006 | | | | |
| Aug. 20 | Accounts Receivable—Petroski Co. | 112 | 16,000 | |
| | Sales..... | 410 | | 16,000 |
| 20 | Cost of Merchandise Sold | 510 | 9,600 | |
| | Merchandise Inventory | 115 | | 9,600 |
| 21 | Accounts Receivable—Petroski Co. | 112 | 600 | |
| | Cash | 110 | | 600 |
| 21 | Cash..... | 110 | 11,750 | |
| | Accounts Receivable—Phillips Co. | 112 | | 11,750 |
| 21 | Merchandise Inventory..... | 115 | 15,000 | |
| | Accounts Payable—Walden Co. | 210 | | 15,000 |
| 24 | Accounts Payable—Walden Co. | 210 | 3,500 | |
| | Merchandise Inventory | 115 | | 3,500 |
| 26 | Sales Returns and Allowances..... | 411 | 720 | |
| | Cash | 110 | | 720 |
| 26 | Merchandise Inventory..... | 115 | 380 | |
| | Cost of Merchandise Sold | 510 | | 380 |
| 28 | Sales Salaries Expense..... | 520 | 1,750 | |
| | Office Salaries Expense..... | 530 | 950 | |
| | Cash | 110 | | 2,700 |
| 29 | Store Supplies | 117 | 550 | |
| | Cash | 110 | | 550 |
| 30 | Accounts Receivable—Whitetail Co. | 112 | 18,750 | |
| | Sales..... | 410 | | 18,750 |
| 30 | Cost of Merchandise Sold | 510 | 11,250 | |
| | Merchandise Inventory | 115 | | 11,250 |
| 30 | Cash..... | 110 | 16,440 | |
| | Sales Discounts..... | 412 | 160 | |
| | Accounts Receivable—Petroski Co. | 112 | | 16,600 |
| 31 | Accounts Payable—Walden Co. | 210 | 11,500 | |
| | Cash | 110 | | 11,385 |
| | Merchandise Inventory | 115 | | 115 |

Comp. Prob. 2 Continued

4. and alt. 6.

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| Date | Description | Post. Ref. | Debit | Credit |
|---------------------------------|--|---------------|-------|--------|
| <u>Adjusting Entries</u> | | | | |
| 2006 | | | | |
| Aug. 31 | Cost of Merchandise Sold | 510 | 8,800 | |
| | Merchandise Inventory | 115 | | 8,800 |
| 31 | Insurance Expense | 532 | 1,250 | |
| | Prepaid Insurance | 116 | | 1,250 |
| 31 | Store Supplies Expense..... | 523 | 2,125 | |
| | Store Supplies | 117 | | 2,125 |
| 31 | Depreciation Expense | 522 | 7,400 | |
| | Accumulated Depreciation—Store Equipment..... | 124 | | 7,400 |
| 31 | Sales Salaries Expense..... | 520 | 350 | |
| | Office Salaries Expense..... | 530 | 180 | |
| | Salaries Payable..... | 211 | | 530 |

Comp. Prob. 2 Continued

6. and alt. 7.

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| Date | Description | Post. Ref. | Debit | Credit |
|------------------------|-------------------------------------|---------------|---------|---------|
| <u>Closing Entries</u> | | | | |
| 2006 | | | | |
| Aug. 31 | Sales | 410 | 777,350 | |
| | Income Summary | 313 | | 777,350 |
| 31 | Income Summary | 313 | 614,245 | |
| | Sales Returns and Allowances | 411 | | 22,820 |
| | Sales Discounts | 412 | | 13,500 |
| | Cost of Merchandise Sold | 510 | | 404,870 |
| | Sales Salaries Expense | 520 | | 76,500 |
| | Advertising Expense..... | 521 | | 19,500 |
| | Depreciation Expense..... | 522 | | 7,400 |
| | Store Supplies Expense | 523 | | 2,125 |
| | Miscellaneous Selling Expense | 529 | | 2,800 |
| | Office Salaries Expense | 530 | | 41,630 |
| | Rent Expense | 531 | | 20,200 |
| | Insurance Expense..... | 532 | | 1,250 |
| | Miscellaneous Administrative Exp. | 539 | | 1,650 |
| 31 | Income Summary..... | 313 | 163,105 | |
| | Retained Earnings..... | 311 | | 163,105 |
| 31 | Retained Earnings | 311 | 10,000 | |
| | Dividends | 312 | | 10,000 |

Comp. Prob. 2 Continued

5., alt. 5

LYRE CO.
Income Statement
For the Year Ended August 31, 2006

| | | |
|--|---------------|------------------|
| Revenue from sales: | | |
| Sales | | \$777,350 |
| Less: Sales returns and allowances | \$22,820 | |
| Sales discounts | <u>13,500</u> | <u>36,320</u> |
| Net sales | | \$741,030 |
| Cost of merchandise sold | | <u>404,870</u> |
| Gross profit | | \$336,160 |
| Operating expenses: | | |
| Selling expenses: | | |
| Sales salaries expense | \$76,500 | |
| Advertising expense | 19,500 | |
| Depreciation expense | 7,400 | |
| Store supplies expense | 2,125 | |
| Miscellaneous selling expense | <u>2,800</u> | |
| Total selling expenses | | \$108,325 |
| Administrative expenses: | | |
| Office salaries expense | \$41,630 | |
| Rent expense | 20,200 | |
| Insurance expense | 1,250 | |
| Miscellaneous administrative expense | <u>1,650</u> | |
| Total administrative expenses | | <u>64,730</u> |
| Total operating expenses | | <u>173,055</u> |
| Net income | | <u>\$163,105</u> |

LYRE CO.
Retained Earnings Statement
For the Year Ended August 31, 2006

| | | |
|--|---------------|------------------|
| Retained earnings, September 1, 2005 | | \$ 63,280 |
| Net income for the year | \$163,105 | |
| Less dividends | <u>10,000</u> | |
| Increase in retained earnings | | <u>153,105</u> |
| Retained earnings, August 31, 2006 | | <u>\$216,385</u> |

Comp. Prob. 2 Continued

**LYRE CO.
Balance Sheet
August 31, 2006**

Assets

Current assets:

| | | |
|-----------------------------------|------------|------------------|
| Cash | \$ 26,655 | |
| Accounts receivable | 33,720 | |
| Merchandise inventory | 124,115 | |
| Prepaid insurance | 2,500 | |
| Store supplies | <u>975</u> | |
| Total current assets | | \$187,965 |

Property, plant, and equipment:

| | | |
|---|---------------|----------------------|
| Store equipment | \$104,300 | |
| Less accumulated depreciation | <u>20,000</u> | |
| Total property, plant, and equipment | | <u>84,300</u> |

| | | |
|--------------------|--|-------------------------|
| Total assets | | <u>\$272,265</u> |
|--------------------|--|-------------------------|

Liabilities

Current liabilities:

| | | |
|--------------------------------|------------|------------------|
| Accounts payable | \$ 15,350 | |
| Salaries payable | <u>530</u> | |
| Total liabilities | | \$ 15,880 |

Stockholders' Equity

| | | |
|---|----------------|-------------------------|
| Capital stock | \$ 40,000 | |
| Retained earnings | <u>216,385</u> | <u>256,385</u> |
| Total liabilities and stockholders' equity | | <u>\$272,265</u> |

Comp. Prob. 2 Continued

7. and alt. 8.

**LYRE CO.
Post-Closing Trial Balance
August 31, 2006**

| | | |
|--------------------------------|-----------------------|-----------------------|
| Cash | 26,655 | |
| Accounts Receivable | 33,720 | |
| Merchandise Inventory | 124,115 | |
| Prepaid Insurance | 2,500 | |
| Store Supplies | 975 | |
| Store Equipment..... | 104,300 | |
| Accumulated Depreciation | | 20,000 |
| Accounts Payable | | 15,350 |
| Salaries Payable..... | | 530 |
| Capital Stock | | 40,000 |
| Retained Earnings..... | | <u>216,385</u> |
| Total | <u>292,265</u> | <u>292,265</u> |

Comp. Prob. 2 Concluded

This solution is applicable only if the work sheet is used.

alt. 4.

LYRE CO.
Work Sheet
For the Year Ended August 31, 2006

| Account Title | Trial Balance | | Adjustments | | Adjusted Trial Balance | | Income Statement | | Balance Sheet | | |
|---------------------------------|----------------|----------------|---------------|---------------|------------------------|----------------|------------------|----------------|----------------|----------------|----|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | |
| 1 Cash..... | 26,655 | | | | 26,655 | | | | 26,655 | | 1 |
| 2 Accounts Receivable..... | 33,720 | | | | 33,720 | | | | 33,720 | | 2 |
| 3 Merchandise Inventory..... | 132,915 | | | (a) 8,800 | 124,115 | | | | 124,115 | | 3 |
| 4 Prepaid Insurance..... | 3,750 | | | (b) 1,250 | 2,500 | | | | 2,500 | | 4 |
| 5 Store Supplies..... | 3,100 | | | (c) 2,125 | 975 | | | | 975 | | 5 |
| 6 Store Equipment..... | 104,300 | | | | 104,300 | | | | 104,300 | | 6 |
| 7 Accum. Depreciation— | | | | | | | | | | | 7 |
| 8 Store Equipment..... | | 12,600 | | (d) 7,400 | | 20,000 | | | | 20,000 | 8 |
| 9 Accounts Payable..... | | 15,350 | | | | 15,350 | | | | 15,350 | 9 |
| 10 Salaries Payable..... | | | | (e) 530 | | 530 | | | | 530 | 10 |
| 11 Capital Stock..... | | 40,000 | | | | 40,000 | | | | 40,000 | 11 |
| 12 Retained Earnings..... | | 63,280 | | | | 63,280 | | | | 63,280 | 12 |
| 13 Dividends..... | 10,000 | | | | 10,000 | | | | 10,000 | | 13 |
| 14 Sales..... | | 777,350 | | | | 777,350 | | 777,350 | | | 14 |
| 15 Sales Returns and Allow.... | 22,820 | | | | 22,820 | | 22,820 | | | | 15 |
| 16 Sales Discounts..... | 13,500 | | | | 13,500 | | 13,500 | | | | 16 |
| 17 Cost of Merch. Sold..... | 396,070 | | (a) 8,800 | | 404,870 | | 404,870 | | | | 17 |
| 18 Sales Salaries Expense..... | 76,150 | | (e) 350 | | 76,500 | | 76,500 | | | | 18 |
| 19 Advertising Expense..... | 19,500 | | | | 19,500 | | 19,500 | | | | 19 |
| 20 Depreciation Expense..... | | | (d) 7,400 | | 7,400 | | 7,400 | | | | 20 |
| 21 Store Supplies Expense..... | | | (c) 2,125 | | 2,125 | | 2,125 | | | | 21 |
| 22 Misc. Selling Expense..... | 2,800 | | | | 2,800 | | 2,800 | | | | 22 |
| 23 Office Salaries Expense..... | 41,450 | | (e) 180 | | 41,630 | | 41,630 | | | | 23 |
| 24 Rent Expense..... | 20,200 | | | | 20,200 | | 20,200 | | | | 24 |
| 25 Insurance Expense..... | | | (b) 1,250 | | 1,250 | | 1,250 | | | | 25 |
| 26 Misc. Admin. Expense..... | 1,650 | | | | 1,650 | | 1,650 | | | | 26 |
| 27 | <u>908,580</u> | <u>908,580</u> | <u>20,105</u> | <u>20,105</u> | <u>916,510</u> | <u>916,510</u> | <u>614,245</u> | <u>777,350</u> | <u>302,265</u> | <u>139,160</u> | 27 |
| 28 Net income..... | | | | | | | <u>163,105</u> | | | <u>163,105</u> | 28 |
| 29 | | | | | | | <u>777,350</u> | <u>777,350</u> | <u>302,265</u> | <u>302,265</u> | 29 |

SPECIAL ACTIVITIES

Activity 5–1

Standards of Ethical Conduct for Management Accountants requires management accountants to perform in a competent manner and to comply with relevant laws, regulations, and technical standards. If Sandi Kurtz intentionally subtracted the discount with knowledge that the discount period had expired, she would have behaved in an unprofessional manner. Such behavior could eventually jeopardize Cardinal Company's buyer/supplier relationship with Iowa Farm Co.

Activity 5–2

Todd Shovic is correct. The accounts payable due suppliers could be included on the balance sheet at an amount of \$88,200. This is the amount that will be expected to be paid to satisfy the obligation (liability) to suppliers. However, this is proper only if The Video Store Co. has a history of taking all purchases discounts, has a properly designed accounting system to identify available discounts, and has sufficient liquidity (cash) to pay the accounts payable within the discount period. In this case, The Video Store Co. apparently meets these criteria, since it has a history of taking all available discounts, as indicated by Susan Mastin. Thus, The Video Store Co. could report total accounts payable of \$108,200 ($\$88,200 + \$20,000$) on its balance sheet. Merchandise Inventory would also need to be reduced by the discount of \$1,800 in order to maintain consistency in approach.

Activity 5–3

1. If Brad doesn't need the stereo immediately (by the next day), Audio Pro Electronics offers the best buy, as shown below.

Audio Pro Electronics:

| | |
|--|-----------------|
| List price | \$399.99 |
| Shipping and handling (not including next-day air) | <u>12.50</u> |
| Total..... | <u>\$412.49</u> |

Radiant Sound:

| | |
|----------------------|-----------------|
| List price | \$395.00 |
| Sales tax (6%) | <u>23.70</u> |
| Total..... | <u>\$418.70</u> |

Even if the 1% cash discount offered by Radiant Sound is considered, Audio Pro Electronics still offers the best buy, as shown below.

| | |
|-----------------------------|-----------------|
| List price | \$395.00 |
| Less 1% cash discount | <u>3.95</u> |
| Subtotal | \$391.05 |
| Sales tax (6%) | <u>23.46</u> |
| Total..... | <u>\$414.51</u> |

If Brad needs the stereo immediately (the next day), then Radiant Sound has the best price. This is because a shipping and handling charge of \$25 would be added to the Audio Pro Electronics price, as shown below.

| | |
|--|-----------------|
| Audio Pro Electronics list price | \$399.99 |
| Next-day freight charge | <u>25.00</u> |
| Total..... | <u>\$424.99</u> |

Since both Audio Pro Electronics and Radiant Sound will accept Brad's MasterCard, the ability to use a credit card would not affect the buying decision. Radiant Sound will, however, allow Brad to pay his bill in three installments (the first due immediately). This would allow Brad to save some interest charges on his MasterCard for two months. If we assume that Brad would have otherwise used his MasterCard and that Brad's MasterCard carries an interest of 1.5% per month on the unpaid balance, the potential interest savings would be calculated as follows:

Activity 5–3 Concluded

| | |
|--|-----------------|
| Radiant Sound price (see previous page)..... | \$418.70 |
| Less first installment (down payment) | <u>139.57</u> |
| Remaining balance..... | <u>\$279.13</u> |
| Interest for first month at 1.5%..... | <u>\$ 4.19</u> |
| (\$279.13 × 1.5%) | |
| Remaining balance (\$279.13 + \$4.19) | \$283.32 |
| Less second installment | <u>139.57</u> |
| Remaining balance..... | <u>\$143.75</u> |
| Interest for second month at 1.5%..... | <u>\$ 2.16</u> |
| (\$143.75 × 1.5%) | |

The total interest savings would be \$6.35 (\$4.19 + \$2.16). This interest savings would be enough to just offset the price advantage of Audio Pro Electronics, as shown below, resulting in a \$0.14 price advantage (\$412.49 – \$412.35) to Radiant Sound.

| | |
|--------------------------------------|-----------------|
| Radiant Sound price (see above)..... | \$418.70 |
| Less interest savings | <u>6.35</u> |
| Total..... | <u>\$412.35</u> |

2. Other considerations in buying the stereo include the ability to have the stereo repaired locally by Radiant Sound. In addition, Radiant Sound employees would presumably be available to answer questions on the operation and installation of the stereo. In addition, if Brad purchased the stereo from Radiant Sound, he would have the stereo the same day rather than the next day, which is the earliest that Audio Pro Electronics could deliver the stereo.

Activity 5–4

1.

CALLENDER PARTS COMPANY
Projected Income Statement
For the Year Ended March 31, 2007

| | | |
|-----------------------------------|---------------|--------------------------|
| Revenues: | | |
| Net sales (a)..... | | \$1,056,000 |
| Interest revenue..... | | <u>8,000</u> |
| Total revenues | | \$1,064,000 |
| Expenses: | | |
| Cost of merchandise sold (b)..... | \$739,200 | |
| Selling expenses (c)..... | 74,480 | |
| Administrative expenses (d) | 54,848 | |
| Interest expense | <u>16,000</u> | |
| Total expenses | | <u>884,528</u> |
| Net income | | <u>\$ 179,472</u> |

Notes:

| | | |
|--|------------|-------------------------|
| (a) Projected net sales | | |
| [\$960,000 + (10% × \$960,000)] | | \$1,056,000 |
| (b) Projected cost of merchandise sold | | |
| (\$1,056,000 × 70%)..... | | \$ 739,200 |
| (c) Total selling expenses for year ended | | |
| March 31, 2006 | | \$ 105,600 |
| Add: Increase in store supplies expense | | |
| (\$8,000 × 10%) | \$800 | |
| Increase in miscellaneous selling expense | | |
| (\$3,200 × 10%) | <u>320</u> | 1,120 |
| Less transportation-out expenses | | <u>(32,240)</u> |
| Projected total selling expenses | | <u>\$ 74,480</u> |
| (d) Total administrative expenses for year ended | | |
| March 31, 2006 | | \$ 54,400 |
| Add: Increase in office supplies expense | | |
| (\$1,600 × 10%) | \$160 | |
| Increase in miscellaneous administrative | | |
| expense (\$2,880 × 10%) | <u>288</u> | 448 |
| Projected total administrative expenses | | <u>\$ 54,848</u> |

Activity 5–4 Concluded

2. a. Yes. The proposed change will increase net income from \$120,000 to \$179,472, a change of \$59,472.
- b. Possible concerns related to the proposed changes include the following:

The primary concern is with the accuracy of the estimates used for projecting the effects of the proposed changes. If the increase in sales does not materialize, Callender Parts Company could incur significant costs of carrying excess inventory stocked in anticipation of increasing sales. At the same time it is incurring these additional inventory costs, cash collections from customers will be reduced by the amount of the discounts. This could create a liquidity problem for Callender Parts Company.

Another concern arises from the proposed change in shipping terms so as to eliminate all shipments of merchandise FOB destination, thereby eliminating transportation-out expenses. Callender Parts Company assumes that this change will have no effect on sales. However, some (perhaps a significant number) customers may object to this change and may seek other vendors with more favorable shipping terms. Hence, an unanticipated decline in sales could occur because of this change.

As with any business decision, risks (concerns) such as those mentioned above must be thoroughly considered before final action is taken.

Activity 5–5

Note to Instructors: The purpose of this activity is to familiarize students with the variety of possible purchase prices for a fairly common household item. Students should report several alternative prices when they consider the source of the purchase and the other factors that affect the purchase, e.g., delivery, financing, warranties, etc.