CHAPTER 6
ACCOUNTING FOR MERCHANDISING BUSINESSES

DISCUSSION QUESTIONS

1. Merchandising businesses acquire merchandise for resale to customers. It is the selling of merchandise, instead of providing 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 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. The date of sale as shown by the date of the invoice or bill.

4. **a.** 1% discount allowed if paid within 15 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 with no discount.

c. Payment due by the end of the month in which the sale was made with no discount.

5. Sales to customers who use MasterCard or VISA cards are recorded as cash sales.

6. **a.** A credit memo 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 memo 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.

7. **a.** The buyer

b. The seller

8. Sales, Cost of Merchandise Sold, Merchandise Inventory, Estimated Returns Inventory

9. Cost of Merchandise Sold would be debited; Merchandise Inventory would be credited.

10. Loss from Merchandise Inventory Shrinkage would be debited.

PRACTICE EXERCISES

PE 6-1A

a. **$665,800 ($315,800 + $1,225,000 – $875,000)**

PE 6-1B

a. **$126,000 ($18,300 + $295,700 – $188,000)**

PE 6-2A

a. **$13,328. Purchase of $18,228 [$18,600 – ($18,600 × 2%)] less the return of $4,900 [$5,000 – ($5,000 × 2%)]**

b. **Merchandise Inventory**

PE 6-2B

a. **$56,925. Purchase of $64,350 [$65,000 – ($65,000 × 1%)] less the return of $7,425 [$7,500 – ($7,500 × 1%)]**

b. **Accounts Payable—Hoffman Company**

PE 6-3A

a.

Accounts Receivable [$72,500 – ($72,500 × 2%)]	71,050	
Sales		71,050
Cost of Merchandise Sold	43,500	
Merchandise Inventory		43,500

b.

Cash	71,050	
Accounts Receivable		71,050

c.

Customer Refunds Payable	2,300	
Accounts Receivable		2,300
Merchandise Inventory	1,600	
Estimated Returns Inventory		1,600

PE 6-3B

a.	Accounts Receivable [$92,500 – ($92,500 × 1%)]	91,575	
	Sales		91,575
	Cost of Merchandise Sold	55,500	
	Merchandise Inventory		55,500
b.	Cash	91,575	
	Accounts Receivable		91,575
c.	Customer Refunds Payable	10,400	
	Accounts Receivable		10,400
	Merchandise Inventory	6,500	
	Estimated Returns Inventory		6,500

PE 6-4A

a. **$75,250. Purchase of $89,100 [$90,000 – ($90,000 × 1%)] less return of $14,850 [($15,000 – ($15,000 × 1%)] plus $1,000 of shipping.**

b. **$99,470. Purchase of $107,800 [$110,000 – ($110,000 × 2%)] less return of $8,330 [$8,500 – ($8,500 × 2%)].**

PE 6-4B

a. **$31,680. Purchase of $35,640 [$36,000 – ($36,000 × 1%)] less return of $3,960 [$4,000 – ($4,000 × 1%)].**

b. **$42,025. Purchase of $44,002 [$44,900 – ($44,900 × 2%)] less return of $2,352 [$2,400 – ($2,400 × 2%)] plus $375 of shipping.**

PE 6-5A

Sather Co. journal entries:

Accounts Receivable—Boone Co.	31,164	
Sales		31,164
[$31,800 – ($31,800 × 2%)]		
Cost of Merchandise Sold	19,000	
Merchandise Inventory		19,000
Cash	31,164	
Accounts Receivable—Boone Co.		31,164

Boone Co. journal entries:

Merchandise Inventory [$31,800 – ($31,800 × 2%)]	31,164	
Accounts Payable—Sather Co.		31,164
Accounts Payable—Sather Co.	31,164	
Cash		31,164

PE 6-5B

Shore Co. journal entries:

Accounts Receivable—Blue Star Co.	109,760	
Sales		109,760
[$112,000 – ($112,000 × 2%)]		
Cost of Merchandise Sold	67,200	
Merchandise Inventory		67,200
Accounts Receivable—Blue Star Co.	1,800	
Cash		1,800
Cash	111,560	
Accounts Receivable—Blue Star Co.		111,560
($109,760 + $1,800)		

Blue Star Co. journal entries:

Merchandise Inventory	111,560	
Accounts Payable—Shore Co.		111,560
[$112,000 – ($112,000 × 2%)] + $1,800		
Accounts Payable—Shore Co.	111,560	
Cash ($109,760 + $1,800)		111,560

PE 6-6A

Nov.	30	Cost of Merchandise Sold	11,600	
		Merchandise Inventory		11,600
		Inventory shrinkage.		
		($675,400 – $663,800)		

PE 6-6B

Dec.	31	Cost of Merchandise Sold	23,250	
		Merchandise Inventory		23,250
		Inventory shrinkage.		
		($1,333,150 – $1,309,900)		

PE 6-7A

a.

Sales ($3,600,000 × 0.008)	28,800	
Customer Refunds Payable		28,800

b.

Estimated Returns Inventory	15,000	
Cost of Merchandise Sold		15,000

PE 6-7B

a.

Sales ($1,750,000 × 0.006)	10,500	
Customer Refunds Payable		10,500

b.

Estimated Returns Inventory	8,000	
Cost of Merchandise Sold		8,000

PE 6-8A

a.

	2019	2018
Asset turnover	3.4*	3.5**

* $1,734,000 ÷ [($480,000 + $540,000) ÷ 2]
** $1,645,000 ÷ [($460,000 + $480,000) ÷ 2]

b. The decrease from 3.5 to 3.4 indicates an unfavorable change in using assets to generate sales.

PE 6-8B

a.

	2019	2018
Asset turnover	2.4*	2.2**

* $1,884,000 ÷ [($770,000 + $800,000) ÷ 2]
** $1,562,000 ÷ [($650,000 + $770,000) ÷ 2]

b. The increase from 2.2 to 2.4 indicates a favorable change in using assets to generate sales.

EXERCISES

Ex. 6-1

a. $7,644,000 ($31,850,000 – $24,206,000)

b. 24% ($7,644,000 ÷ $31,850,000)

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. 6-2

$31,292 million ($40,339 million – $9,047 million)

Ex. 6-3

Balance Sheet Accounts

100 Assets
- **110 Cash**
- **112 Accounts Receivable**
- **114 Merchandise Inventory**
- **115 Estimated Returns Inventory**
- **116 Store Supplies**
- **117 Office Supplies**
- **118 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 Customer Refunds Payable**
- **212 Salaries Payable**
- **213 Notes Payable**

300 Owner's Equity
- **310 Kailey Garner, Capital**
- **311 Kailey Garner, Drawing**

Income Statement Accounts

400 Revenues
- **410 Sales**

500 Expenses
- **510 Cost of Merchandise Sold**
- **520 Sales Salaries Expense**
- **521 Advertising Expense**
- **522 Depreciation Expense—Store Equipment**
- **523 Store Supplies Expense**
- **524 Delivery Expense**
- **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 Administrative Expense**

600 Other Expense
- **610 Interest Expense**

***Note:* The order and number of some of the accounts within subclassifications is somewhat arbitrary, as in accounts 116–118, accounts 210–213, accounts 520–524, and accounts 530–534. For example, in a new business, the order of magnitude of expense account balances often cannot be determined in advance. The magnitude may also vary from period to period.**

Ex. 6-4

a. **$21,780. Purchase of $29,700 [$30,000 – ($30,000 × 1%)], less return of $7,920 [$8,000 – ($8,000 × 1%)]**

b. **Merchandise Inventory**

Ex. 6-5

The offer of Supplier Two is lower than the offer of Supplier One. Details are as follows:

	Supplier One	Supplier Two
List price	$20,000	$19,500
Discount	(200)	(390)
Price net of discount	$19,800	$19,110
Freight		500
Final price	$19,800	$19,610

Ex. 6-6

(1) **Purchased merchandise on account at a cost of $39,200, which is $40,000 less the 2% discount of $800.**

(2) **Paid freight, $450.**

(3) **An allowance or return of merchandise was granted by the creditor, $4,900, which is a $5,000 invoice amount less the 2% discount of $100.**

(4) **Paid the balance due within the discount period: debited Accounts Payable, $34,300, which is $39,200 less the return of $4,900.**

Ex. 6-7

a.

Merchandise Inventory [$75,000 – ($75,000 × 2%)]	73,500	
Accounts Payable		73,500

b.

Accounts Payable [$9,000 – ($9,000 × 2%)]	8,820	
Merchandise Inventory		8,820

c.

Accounts Payable	64,680	
Cash		64,680

Ex. 6-8

a.

Merchandise Inventory [$90,000 – ($90,000 × 2%)]	**88,200**	
Accounts Payable—Wright Co.		**88,200**

b.

Accounts Payable—Wright Co.	**88,200**	
Cash		**88,200**

c.

Accounts Payable*—Wright Co. [$18,000 – ($18,000 × 2%)]	**17,640**	
Merchandise Inventory		**17,640**

d.

Merchandise Inventory	**10,000**	
Accounts Payable—Wright Co.		**10,000**

e.

Cash	**7,640**	
Accounts Payable—Wright Co.		**7,640**

* ***Note:*** **The debit of $17,640 to Accounts Payable in entry (c) is the amount of cash refund due from Wright Co. It is computed as the amount that was paid for the returned merchandise, $18,000, less the purchase discount of $360 ($18,000 × 2%). The credit to Accounts Payable of $10,000 in entry (d) reduces the debit balance in the account to $7,640, which is the amount of the cash refund in entry (e). The alternative entries below yield the same final results.**

c.

Accounts Receivable—Wright Co.	**17,640**	
Merchandise Inventory		**17,640**

d.

Merchandise Inventory	**10,000**	
Accounts Payable—Wright Co.		**10,000**

e.

Cash	**7,640**	
Accounts Payable—Wright Co.	**10,000**	
Accounts Receivable—Wright Co.		**17,640**

Ex. 6-9

a.

Cash	116,300	
Sales		116,300
Cost of Merchandise Sold	72,000	
Merchandise Inventory		72,000

b.

Accounts Receivable	755,000	
Sales		755,000
Cost of Merchandise Sold	400,000	
Merchandise Inventory		400,000

c.

Cash	1,950,000	
Sales		1,950,000
Cost of Merchandise Sold	1,250,000	
Merchandise Inventory		1,250,000

d.

Cash	330,000	
Sales		330,000
Cost of Merchandise Sold	230,000	
Merchandise Inventory		230,000

e.

Credit Card Expense	81,500	
Cash		81,500

Ex. 6-10

a. $27,440 [$28,000 – ($28,000 × 2%)]

b.

Customer Refunds Payable	27,440	
Cash		27,440

Merchandise Inventory	16,800	
Estimated Returns Inventory		16,800

Ex. 6-11

(1) Sold merchandise on account for $14,850, $15,000 less discount of 1%.

(2) Recorded the cost of the merchandise sold and reduced the merchandise inventory account, $8,800.

(3) Accepted a return of merchandise of $1,000 and issued a credit memo of $990, which is $1,000 less the 1% discount.

(4) Updated the merchandise inventory account for the cost of the merchandise returned, $575.

(5) Received the balance due within the discount period of $13,860; sale of $14,850 less the return of $990.

Ex. 6-12

a. $55,370 [$56,500 – ($56,500 × 2%)]
b. $57,470 ($55,370 + $2,100)
c. $57,470

Ex. 6-13

a. $10,750 ($14,000 – $3,250)
b. $17,236 [($21,200 – $4,000) – ($17,200 × 2%) + $380]
c. $15,345 [($16,400 – $900) – ($15,500 × 1%)]
d. $6,424 [($7,500 – $1,200) – ($6,300 × 2%) + $250]
e. $28,512 [$28,800 – ($28,800 × 1%)]

Ex. 6-14

a.

Accounts Receivable—Balboa Co.	254,500	
Sales		254,500
Cost of Merchandise Sold	152,700	
Merchandise Inventory		152,700

b.

Customer Refunds Payable	30,000	
Accounts Receivable—Balboa Co.		30,000
Merchandise Inventory	17,500	
Estimated Returns Inventory		17,500

c.

Cash	224,500	
Accounts Receivable—Balboa Co.		224,500

Ex. 6-15

a.

Merchandise Inventory	254,500	
Accounts Payable—Showcase Co.		254,500

b.

Accounts Payable—Showcase Co.	30,000	
Merchandise Inventory		30,000

c.

Accounts Payable—Showcase Co.	224,500	
Cash		224,500

Ex. 6-16

a. **At the time of sale**
b. **$36,000**
c. **$38,880 [$36,000 + ($36,000 × 8%)]**
d. **Sales Tax Payable**

Ex. 6-17

a.

Accounts Receivable	65,940	
Sales		62,800
Sales Tax Payable ($62,800 × 5%)		3,140
Cost of Merchandise Sold	37,500	
Merchandise Inventory		37,500

b.

Sales Tax Payable	39,650	
Cash		39,650

Ex. 6-18

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

Ex. 6-19

Cost of Merchandise Sold	45,200	
Merchandise Inventory		45,200
Inventory shrinkage ($2,780,000 – $2,734,800).		

Ex. 6-20

a.

Sales ($51,600,000 × 1.2%)	619,200	
Customer Refunds Payable		619,200

b.

Estimated Returns Inventory	400,000	
Cost of Merchandise Sold		400,000

Ex. 6-21

a.

2019				
Dec.	31	Sales ($1,800,000 × 1.5%)	27,000	
		Customer Refunds Payable		27,000
	31	Estimated Returns Inventory	16,000	
		Cost of Merchandise Sold		16,000

b.

2020				
Feb.	3	Customer Refunds Payable	5,000	
		Cash		5,000
	3	Merchandise Inventory	3,100	
		Estimated Returns Inventory		3,100

Ex. 6-22

a. Gross profit: $76,550,000 ($191,350,000 – $114,800,000)

b. No. There could be other revenue and expense items that affect the amount of net income.

c. Customer Refunds Payable is a liability account with a normal credit balance.

d. Estimated Returns Inventory is an asset account with a normal debit balance.

Ex. 6-23

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

Ex. 6-24

a. $379,900 ($463,400 – $83,500)

b. $687,500 ($277,500 + $410,000)

c. $1,020,000 ($1,295,000 – $275,000)

d. $1,500,000 ($900,000 + $600,000)

Ex. 6-25

a.

RACINE FURNISHINGS COMPANY
Income Statement
For the Year Ended March 31, 2019

Sales			$2,564,000
Cost of merchandise sold			1,520,000
Gross profit			$1,044,000
Expenses:			
Selling expenses		$286,000	
Administrative expenses		216,000	
Total expenses			502,000
Income from operations			$ 542,000
Other expense:			
Interest expense			4,000
Net income			$ 538,000

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. 6-26

1. **Deducting the cost of merchandise sold from sales yields gross profit (not income from operations).**
2. **Deducting the total expenses from gross profit yields income from operations (or operating income).**
3. **Interest revenue should be reported under the caption "Other revenue" and should be added to income from operations to arrive at net income.**
4. **The final amount on the income statement should be labeled net income, not gross profit.**

A correct income statement is as follows:

CURBSTONE COMPANY
Income Statement
For the Year Ended August 31, 2019

Sales			$8,595,000
Cost of merchandise sold			6,110,000
Gross profit			$2,485,000
Expenses:			
Selling expenses		$800,000	
Administrative expenses		575,000	
Delivery expense		425,000	
Total expenses			1,800,000
Income from operations			$ 685,000
Other revenue:			
Interest revenue			45,000
Net income			$ 730,000

Ex. 6-27

CUSTOM WIRE & TUBING COMPANY Income Statement For the Year Ended April 30, 2019		
Revenues:		
Sales		$9,332,500
Rent revenue		60,000
Total revenues		$9,392,500
Expenses:		
Cost of merchandise sold	$6,100,000	
Selling expenses	1,250,000	
Administrative expenses	740,000	
Interest expense	25,000	
Total expenses		8,115,000
Net income		$1,277,500

Ex. 6-28

(b) Cost of Merchandise Sold
(f) Sales
(h) Supplies Expense
(i) Tim Button, Drawing
(j) Wages Expense

Ex. 6-29

2019		Closing Entries		
Mar.	31	Sales	2,564,000	
		Cost of Merchandise Sold		1,520,000
		Selling Expenses		286,000
		Administrative Expenses		216,000
		Interest Expense		4,000
		Kathy Melman, Capital		538,000
	31	Kathy Melman, Capital	70,000	
		Kathy Melman, Drawing		70,000

Ex. 6-30

2019		Closing Entries		
July	31	Sales	1,437,000	
		Administrative Expenses		440,000
		Cost of Merchandise Sold		775,000
		Interest Expense		6,000
		Selling Expenses		160,000
		Store Supplies Expense		21,500
		Peter Bronsky, Capital		34,500
	31	Peter Bronsky, Capital	15,000	
		Peter Bronsky, Drawing		15,000

Ex. 6-31

a. Year 2: 2.07 {$83,176 ÷ [($39,946 + $40,518) ÷ 2]}
Year 1: 1.93 {$78,812 ÷ [($40,518 + $41,084) ÷ 2]}

b. These analyses indicate a slight increase in the effectiveness in the use of the assets to generate profits. 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. 6-32

a. 3.63 {$108,465 ÷ [($30,556 + $29,281) ÷ 2]}

b. Although Kroger and Tiffany are both retail stores, Tiffany sells jewelry using a much longer operating cycle than Kroger uses selling groceries. Thus, Kroger is able to generate $3.63 of sales for every dollar of assets. Tiffany, however, is only able to generate $0.86 in sales per dollar of assets. This difference is reasonable when one considers the sales rate for jewelry and the cost of holding jewelry inventory, relative to groceries. Fortunately, Tiffany is able to offset its longer operating cycle, relative to groceries, with higher gross profits, relative to groceries.

Note to Instructors: **For a recent year, Kroger's gross profit percentage (gross profit divided by revenues) was 21.2%, while Tiffany's gross profit percentage was 59.7%. Kroger's ratio of net income to revenues was 1.6%, while Tiffany's ratio of net income to revenues was 11.4%.**

Appendix Ex. 6-33

(a) credit
(b) debit
(c) debit
(d) credit
(e) debit
(f) credit
(g) credit

Appendix Ex. 6-34

Jan.	2	Purchases	18,200	
		Accounts Payable		18,200
	5	Freight In	190	
		Cash		190
	6	Accounts Payable	2,750	
		Purchases Returns and Allowances		2,750
	13	Accounts Receivable [$37,300 – ($37,300 × 1%)]	36,927	
		Sales		36,927
	15	Delivery Expense	215	
		Cash		215
	17	Accounts Payable	15,450	
		Purchases Discounts*		309
		Cash		15,141
	23	Cash	36,927	
		Accounts Receivable		36,927

* [($18,200 – $2,750) × 2%]

Appendix Ex. 6-35

a. Purchases discounts, purchases returns and allowances
b. Freight in
c. Merchandise available for sale
d. Merchandise inventory (ending)
e. Increase in estimated returns inventory

Appendix Ex. 6-36

a. Cost of merchandise sold:

Merchandise inventory, May 1, 2018		$ 380,000
Cost of merchandise purchased:		
Purchases	$3,800,000	
Purchases returns and allowances	(150,000)	
Purchases discounts	(80,000)	
Net purchases	$3,570,000	
Freight in	16,600	
Total cost of merchandise purchased		3,586,600
Merchandise available for sale		$3,966,600
Merchandise inventory, April 30, 2019		(415,000)
Cost of merchandise sold before estimated returns		$3,551,600
Increase in estimated returns inventory		(11,600)
Cost of merchandise sold		$3,540,000

b. $2,310,000 ($5,850,000 – $3,540,000)

c. No. Gross profit would be the same if the perpetual inventory system was used.

Appendix Ex. 6-37

Cost of merchandise sold:

Merchandise inventory, November 1		$ 28,000
Cost of merchandise purchased:		
Purchases	$475,000	
Purchases returns and allowances	(15,000)	
Purchases discounts	(9,000)	
Net purchases	$451,000	
Freight in	7,000	
Total cost of merchandise purchased		458,000
Merchandise available for sale		$486,000
Merchandise inventory, November 30		(31,500)
Cost of merchandise before estimated returns		$454,500
Increase in estimated returns inventory		(14,500)
Cost of merchandise sold		$440,000

Appendix Ex. 6-38

Cost of merchandise sold:

Merchandise inventory, July 1		$ 190,850
Cost of merchandise purchased:		
Purchases	$1,126,000	
Purchases returns and allowances	(46,000)	
Purchases discounts	(23,000)	
Net purchases	$1,057,000	
Freight in	17,500	
Total cost of merchandise purchased		1,074,500
Merchandise inventory available for sale		$1,265,350
Merchandise inventory, July 31		(160,450)
Cost of merchandise sold before estimated returns		$1,104,900
Increase in estimated returns inventory		(34,900)
Cost of merchandise sold		$1,070,000

Appendix Ex. 6-39

1. The schedule should begin with the June 1, 2017, not the May 31, 2018, merchandise inventory.
2. Purchases returns and allowances and purchases discounts should be deducted from (not added to) purchases.
3. Freight in should be added to (not deducted from) purchases.
4. The merchandise inventory at May 31, 2018, should be deducted from inventory available for sale to yield cost of merchandise sold before estimated returns.
5. The estimated returns for the year of $43,300 should be deducted from cost of merchandise sold before estimated returns to yield cost of merchandise sold.

   A correct cost of merchandise sold section is as follows:

Cost of merchandise sold:

Merchandise inventory, June 1, 2017		$ 91,300
Cost of merchandise purchased:		
Purchases	$1,110,000	
Purchases returns and allowances	(55,000)	
Purchases discounts	(30,000)	
Net purchases	$1,025,000	
Freight in	22,000	
Cost of merchandise purchased		1,047,000
Merchandise available for sale		$1,138,300
Merchandise inventory, May 31, 2018		(105,000)
Cost of merchandise sold before estimated returns		$1,033,300
Increase in estimated returns inventory		(43,300)
Cost of merchandise sold		$ 990,000

Appendix Ex. 6-40

		Closing Entries		
Dec.	31	Merchandise Inventory (December 31)	460,000	
		Estimated Returns Inventory	20,000	
		Sales	2,220,000	
		Purchases Discounts	35,000	
		Purchases Returns and Allowances	45,000	
		Merchandise Inventory (January 1)		375,000
		Purchases		1,760,000
		Freight In		17,000
		Salaries Expense		375,000
		Advertising Expense		36,000
		Depreciation Expense		13,000
		Miscellaneous Expense		9,000
		Pat Kirwan, Capital		195,000
	31	Pat Kirwan, Capital	65,000	
		Pat Kirwan, Drawing		65,000

PROBLEMS

Prob. 6-1A

Oct.	1	Merchandise Inventory	14,448	
		Accounts Payable—UK Imports Co.		14,448
	3	Merchandise Inventory	9,971	
		Accounts Payable—Hoagie Co.		9,971
		[$9,950 – ($9,950 × 2%)] + $220		
	4	Merchandise Inventory	13,377	
		Accounts Payable—Taco Co.		13,377
		[$13,650 – ($13,650 × 2%)]		
	6	Accounts Payable—Taco Co.	4,459	
		Merchandise Inventory		4,459
		[$4,550 – ($4,550 × 2%)]		
	13	Accounts Payable—Hoagie Co.	9,971	
		Cash		9,971
	14	Accounts Payable—Taco Co.	8,918	
		Cash		8,918
		($13,377 – $4,459)		
	19	Merchandise Inventory	27,300	
		Accounts Payable—Veggie Co.		27,300
	19	Merchandise Inventory	400	
		Cash		400
	20	Merchandise Inventory	21,780	
		Accounts Payable—Caesar Salad Co.		21,780
		[$22,000 – ($22,000 × 1%)]		
	30	Accounts Payable—Caesar Salad Co.	21,780	
		Cash		21,780
	31	Accounts Payable—UK Imports Co.	14,448	
		Cash		14,448
	31	Accounts Payable—Veggie Co.	27,300	
		Cash		27,300

Prob. 6-2A

Mar.	2	Accounts Receivable—Equinox Co.	18,711	
		Sales		18,711
		[$18,900 – ($18,900 × 1%)]		
	2	Cost of Merchandise Sold	13,300	
		Merchandise Inventory		13,300
	3	Cash	12,031	
		Sales		11,350
		Sales Tax Payable		681
	3	Cost of Merchandise Sold	7,000	
		Merchandise Inventory		7,000
	4	Accounts Receivable—Empire Co.	55,400	
		Sales		55,400
	4	Cost of Merchandise Sold	33,200	
		Merchandise Inventory		33,200
	5	Cash	31,800	
		Sales		30,000
		Sales Tax Payable		1,800
	5	Cost of Merchandise Sold	19,400	
		Merchandise Inventory		19,400
	12	Cash	18,711	
		Accounts Receivable—Equinox Co.		18,711
	14	Cash	13,700	
		Sales		13,700
	14	Cost of Merchandise Sold	8,350	
		Merchandise Inventory		8,350
	16	Accounts Receivable—Targhee Co.	27,225	
		Sales		27,225
		[$27,500 – ($27,500 × 1%)]		
	16	Cost of Merchandise Sold	16,000	
		Merchandise Inventory		16,000

Prob. 6-2A (Concluded)

Mar.	18	Customer Refunds Payable	4,752	
		Accounts Receivable—Targhee Co.		4,752
		[$4,800 – ($4,800 × 1%)]		
	18	Merchandise Inventory	2,900	
		Estimated Returns Inventory		2,900
	19	Accounts Receivable—Vista Co.	8,085	
		Sales		8,085
		[$8,250 – ($8,250 × 2%)]		
	19	Accounts Receivable—Vista Co.	75	
		Cash		75
	19	Cost of Merchandise Sold	5,000	
		Merchandise Inventory		5,000
	26	Cash ($27,225 – $4,752)	22,473	
		Accounts Receivable—Targhee Co.		22,473
	28	Cash ($8,085 + $75)	8,160	
		Accounts Receivable—Vista Co.		8,160
	31	Cash	55,400	
		Accounts Receivable—Empire Co.		55,400
	31	Delivery Expense	5,600	
		Cash		5,600
Apr.	3	Credit Card Expense	940	
		Cash		940
	15	Sales Tax Payable	6,544	
		Cash		6,544

Prob. 6-3A

Nov.	3	Merchandise Inventory	62,475	
		Accounts Payable—Moonlight Co.		62,475
		[$85,000 – ($85,000 × 25%)] = $63,750		
		[$63,750 – ($63,750 × 2%)]		
	4	Cash	37,680	
		Sales		37,680
	4	Cost of Merchandise Sold	22,600	
		Merchandise Inventory		22,600
	5	Merchandise Inventory	47,360	
		Accounts Payable—Papoose Creek Co.		47,360
		[$47,500 – ($47,500 × 2%) + $810]		
	6	Accounts Payable—Moonlight Co.	13,230	
		Merchandise Inventory		13,230
		[$13,500 – ($13,500 × 2%)]		
	8	Accounts Receivable—Quinn Co.	15,600	
		Sales		15,600
	8	Cost of Merchandise Sold	9,400	
		Merchandise Inventory		9,400
	13	Accounts Payable—Moonlight Co.	49,245	
		Cash		49,245
		($62,475 – $13,230)		
	14	Cash	236,000	
		Sales		236,000
	14	Cost of Merchandise Sold	140,000	
		Merchandise Inventory		140,000
	15	Accounts Payable—Papoose Creek Co.	47,360	
		Cash		47,360
	23	Cash	15,600	
		Accounts Receivable—Quinn Co.		15,600

Prob. 6-3A (Concluded)

Nov.	24	Accounts Receivable—Rabel Co.	56,331	
		Sales		56,331
		[$56,900 – ($56,900 × 1%)]		
	24	Cost of Merchandise Sold	34,000	
		Merchandise Inventory		34,000
	28	Credit Card Expense	3,540	
		Cash		3,540
	30	Customer Refunds Payable	6,000	
		Cash		6,000
	30	Merchandise Inventory	3,300	
		Estimated Returns Inventory		3,300

Prob. 6-4A

1.

Aug.	1	Accounts Receivable—Beartooth Co.	47,040	
		Sales		47,040
		[$48,000 – ($48,000 × 2%)]		
	1	Cost of Merchandise Sold	28,800	
		Merchandise Inventory		28,800
	2	Delivery Expense	1,150	
		Cash		1,150
	5	Accounts Receivable—Beartooth Co.	66,000	
		Sales		66,000
	5	Cost of Merchandise Sold	40,000	
		Merchandise Inventory		40,000
	15	Accounts Receivable—Beartooth Co.	58,113	
		Sales		58,113
		[$58,700 – ($58,700 × 1%)]		
	15	Accounts Receivable—Beartooth Co.	1,675	
		Cash		1,675
	15	Cost of Merchandise Sold	35,000	
		Merchandise Inventory		35,000
	16	Cash	47,040	
		Accounts Receivable—Beartooth Co.		47,040
	20	Customer Refunds Payable	1,800	
		Cash		1,800
	25	Cash ($58,113 + $1,675)	59,788	
		Accounts Receivable—Beartooth Co.		59,788
	31	Customer Refunds Payable		
		[$6,000 – ($6,000 × 2%)]	5,880	
		Accounts Receivable—Beartooth Co.		5,880
	31	Merchandise Inventory	3,200	
		Estimated Returns Inventory		3,200

Prob. 6-4A (Concluded)

2.

Aug.	1	Merchandise Inventory	47,040	
		Accounts Payable—Summit Company		47,040
	5	Merchandise Inventory	66,000	
		Accounts Payable—Summit Company		66,000
	9	Merchandise Inventory	2,300	
		Cash		2,300
	15	Merchandise Inventory	59,788	
		Accounts Payable—Summit Company		59,788
		{[$58,700 – ($58,700 × 1%)] + $1,675}		
	16	Accounts Payable—Summit Company	47,040	
		Cash		47,040
	20	Cash	1,800	
		Merchandise Inventory		1,800
	25	Accounts Payable—Summit Company	59,788	
		Cash		59,788
	31	Accounts Payable—Summit Company	5,880	
		Merchandise Inventory		5,880
		[$6,000 – ($6,000 × 2%)]		

Prob. 6-5A

1.

CLAIREMONT CO. Income Statement For the Year Ended May 31, 2019			
Sales			$11,343,000
Cost of merchandise sold			7,850,000
Gross profit			$ 3,493,000
Expenses:			
Selling expenses:			
Sales salaries expense	$916,000		
Advertising expense	550,000		
Depreciation expense—store			
equipment	140,000		
Miscellaneous selling expense	38,000		
Total selling expenses		$1,644,000	
Administrative expenses:			
Office salaries expense	$650,000		
Rent expense	94,000		
Depreciation expense—office			
equipment	50,000		
Insurance expense	48,000		
Office supplies expense	28,100		
Miscellaneous administrative			
expense	14,500		
Total administrative expenses		884,600	
Total operating expenses			2,528,600
Income from operations			$ 964,400
Other expense:			
Interest expense			21,000
Net income			$ 943,400

Prob. 6-5A (Continued)

2.

CLAIREMONT CO. Statement of Owner's Equity For the Year Ended May 31, 2019		
Kristina Marble, capital, June 1, 2018		$3,449,100
Net income for the year	$ 943,400	
Withdrawals	(100,000)	
Increase in owner's equity		843,400
Kristina Marble, capital, May 31, 2019		$4,292,500

Prob. 6-5A (Continued)

3.

CLAIREMONT CO. Balance Sheet May 31, 2019			
Assets			
Current assets:			
Cash		$ 240,000	
Accounts receivable		966,000	
Merchandise inventory		1,690,000	
Estimated returns inventory		22,500	
Office supplies		13,500	
Prepaid insurance		8,000	
Total current assets			$2,940,000
Property, plant, and equipment:			
Office equipment	$ 830,000		
Less accumulated depreciation	550,000	$ 280,000	
Store equipment	$3,600,000		
Less accumulated depreciation	1,820,000	1,780,000	
Total property, plant, and equipment			2,060,000
Total assets			$5,000,000
Liabilities			
Current liabilities:			
Accounts payable		$ 326,000	
Customer refunds payable		40,000	
Salaries payable		41,500	
Note payable (current portion)		50,000	
Total current liabilities			$ 457,500
Long-term liabilities:			
Note payable (final payment due 2022)			250,000
Total liabilities			$ 707,500
Owner's Equity			
Kristina Marble, capital			4,292,500
Total liabilities and owner's equity			$5,000,000

Prob. 6-5A (Concluded)

4. **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.**

Appendix Prob. 6-6A

1.

CLAIREMONT CO. Income Statement For the Year Ended May 31, 2019		
Sales		$11,343,000
Expenses:		
Cost of merchandise sold	$7,850,000	
Selling expenses	1,644,000	
Administrative expenses	884,600	
Interest expense	21,000	
Total expenses		10,399,600
Net income		$ 943,400

2.

2019		Closing Entries		
May	31	Sales	11,343,000	
		Cost of Merchandise Sold		7,850,000
		Sales Salaries Expense		916,000
		Advertising Expense		550,000
		Depreciation Expense—Store Equipment		140,000
		Miscellaneous Selling Expense		38,000
		Office Salaries Expense		650,000
		Rent Expense		94,000
		Depreciation Expense—Office Equipment		50,000
		Insurance Expense		48,000
		Office Supplies Expense		28,100
		Miscellaneous Administrative Expense		14,500
		Interest Expense		21,000
		Kristina Marble, Capital		943,400
	31	Kristina Marble, Capital	100,000	
		Kristina Marble, Drawing		100,000

Appendix Prob. 6-7A

Oct.	1	Purchases	14,448	
		Accounts Payable—UK Imports Co.		14,448
	3	Purchases	9,950	
		Freight In	220	
		Accounts Payable—Hoagie Co.		10,170
	4	Purchases	13,650	
		Accounts Payable—Taco Co.		13,650
	6	Accounts Payable—Taco Co.	4,550	
		Purchases Returns and Allowances		4,550
	13	Accounts Payable—Hoagie Co.	10,170	
		Cash		9,971
		Purchases Discounts ($9,950 × 2%)		199
	14	Accounts Payable—Taco Co.	9,100	
		Cash		8,918
		Purchases Discounts		182
	19	Purchases	27,300	
		Accounts Payable—Veggie Co.		27,300
	19	Freight In	400	
		Cash		400
	20	Purchases	22,000	
		Accounts Payable—Caesar Salad Co.		22,000
	30	Accounts Payable—Caesar Salad Co.	22,000	
		Cash		21,780
		Purchases Discounts		220
	31	Accounts Payable—UK Imports Co.	14,448	
		Cash		14,448
	31	Accounts Payable—Veggie Co.	27,300	
		Cash		27,300

Appendix Prob. 6-8A

Nov.	3	Purchases	63,750	
		Accounts Payable—Moonlight Co.		63,750
		[$85,000 – ($85,000 × 25%)]		
	4	Cash	37,680	
		Sales		37,680
	5	Purchases	47,500	
		Freight In	810	
		Accounts Payable—Papoose Creek Co.		48,310
	6	Accounts Payable—Moonlight Co.	13,500	
		Purchases Returns and Allowances		13,500
	8	Accounts Receivable—Quinn Co.	15,600	
		Sales		15,600
	13	Accounts Payable—Moonlight Co.	50,250	
		Cash		49,245
		Purchases Discounts		1,005
	14	Cash	236,000	
		Sales		236,000
	15	Accounts Payable—Papoose Creek Co.	48,310	
		Cash		47,360
		Purchases Discounts		950
	23	Cash	15,600	
		Accounts Receivable—Quinn Co.		15,600
	24	Accounts Receivable—Rabel Co.	56,331	
		Sales		56,331
		[$56,900 – ($56,900 × 1%)]		
	28	Credit Card Expense	3,540	
		Cash		3,540
	30	Customer Refunds Payable	6,000	
		Cash		6,000

Appendix Prob. 6-9A

1. **Wyman Company uses a periodic inventory system because it maintains accounts for purchases, purchases returns and allowances, purchases discounts, and freight in.**

2. **See page 6-38.**

Appendix Prob. 6-9A (Continued)

2.

WYMAN COMPANY
Income Statement
For the Year Ended December 31, 2019

Sales			$3,280,000
Cost of merchandise sold:			
Merchandise inventory, January 1, 2019		$ 257,000	
Cost of merchandise purchased:			
Purchases	$2,650,000		
Purchases returns and allowances	(93,000)		
Purchases discounts	(37,000)		
Net purchases	$2,520,000		
Freight in	48,000		
Total cost of merchandise purchased		2,568,000	
Merchandise available for sale		$2,825,000	
Merchandise inventory, December 31, 2019		(305,000)	
Cost of merchandise sold before estimated returns		$2,520,000	
Increase in estimated returns inventory		(30,000)	
Cost of merchandise sold			2,490,000
Gross profit			$ 790,000
Expenses:			
Selling expenses:			
Sales salaries expense	$ 300,000		
Advertising expense	45,000		
Delivery expense	9,000		
Depreciation expense—store equipment	6,000		
Miscellaneous selling expense	12,000		
Total selling expenses		$ 372,000	
Administrative expenses:			
Office salaries expense	$ 175,000		
Rent expense	28,000		
Insurance expense	3,000		
Office supplies expense	2,000		
Depreciation expense—office equipment	1,500		
Miscellaneous administrative expense	3,500		
Total administrative expenses		213,000	
Total operating expenses			585,000
Income from operations			$ 205,000
Other revenue and expense:			
Rent revenue		$ 7,000	
Interest expense		(2,000)	5,000
Net income			$ 210,000

Appendix Prob. 6-9A (Concluded)

3.

		Closing Entries		
Dec.	31	Merchandise Inventory (December 31)	305,000	
		Estimated Returns Inventory	30,000	
		Sales	3,280,000	
		Purchases Returns and Allowances	93,000	
		Purchases Discounts	37,000	
		Rent Revenue	7,000	
		Merchandise Inventory (January 1)		257,000
		Purchases		2,650,000
		Freight In		48,000
		Sales Salaries Expense		300,000
		Advertising Expense		45,000
		Delivery Expense		9,000
		Depreciation Expense—Store Equipment		6,000
		Miscellaneous Selling Expense		12,000
		Office Salaries Expense		175,000
		Rent Expense		28,000
		Insurance Expense		3,000
		Office Supplies Expense		2,000
		Depreciation Expense—Office Equipment		1,500
		Miscellaneous Administrative Expense		3,500
		Interest Expense		2,000
		Shirley Wyman, Capital		210,000
		Shirley Wyman, Capital	25,000	
		Shirley Wyman, Drawing		25,000

4. $210,000, the same net income as under the periodic inventory system

Prob. 6-1B

Mar.	1	Merchandise Inventory	43,035	
		Accounts Payable—Haas Co.		43,035
		[$43,250 – ($43,250 × 2%)] + $650		
	5	Merchandise Inventory	19,175	
		Accounts Payable—Whitman Co.		19,175
	10	Accounts Payable—Haas Co.	43,035	
		Cash		43,035
	13	Merchandise Inventory	15,239	
		Accounts Payable—Jost Co.		15,239
		[$15,550 – ($15,550 × 2%)]		
	14	Accounts Payable—Jost Co.	3,675	
		Merchandise Inventory		3,675
		[$3,750 – ($3,750 × 2%)]		
	18	Merchandise Inventory	13,560	
		Accounts Payable—Fairhurst Company		13,560
	18	Merchandise Inventory	140	
		Cash		140
	19	Merchandise Inventory	6,370	
		Accounts Payable—Bickle Co.		6,370
		[$6,500 – ($6,500 × 2%)]		
	23	Accounts Payable—Jost Co. ($15,239 – $3,675)	11,564	
		Cash		11,564
	29	Accounts Payable—Bickle Co.	6,370	
		Cash		6,370
	31	Accounts Payable—Fairhurst Company	13,560	
		Cash		13,560
	31	Accounts Payable—Whitman Co.	19,175	
		Cash		19,175

Prob. 6-2B

July	1	Accounts Receivable—Landscapes Co.	33,450	
		Sales		33,450
	1	Cost of Merchandise Sold	20,000	
		Merchandise Inventory		20,000
	2	Cash	92,880	
		Sales		86,000
		Sales Tax Payable		6,880
	2	Cost of Merchandise Sold	51,600	
		Merchandise Inventory		51,600
	5	Accounts Receivable—Peacock Company	17,325	
		Sales		17,325
		[$17,500 – ($17,500 × 1%)]		
	5	Cost of Merchandise Sold	10,000	
		Merchandise Inventory		10,000
	8	Cash	120,960	
		Sales		112,000
		Sales Tax Payable		8,960
	8	Cost of Merchandise Sold	67,200	
		Merchandise Inventory		67,200
	13	Cash	96,000	
		Sales		96,000
	13	Cost of Merchandise Sold	57,600	
		Merchandise Inventory		57,600
	14	Accounts Receivable—Loeb Co.	15,840	
		Sales		15,840
		[$16,000 – ($16,000 × 1%)]		
	14	Cost of Merchandise Sold	9,000	
		Merchandise Inventory		9,000
	15	Cash	17,325	
		Accounts Receivable—Peacock Company		17,325

Prob. 6-2B (Concluded)

July	16	Customer Refunds Payable	2,970	
		Accounts Receivable—Loeb Co.		2,970
		[$3,000 – ($3,000 × 1%)]		
	16	Merchandise Inventory	1,800	
		Estimated Returns Inventory		1,800
	18	Accounts Receivable—Jennings Company	11,123	
		Sales		11,123
		[$11,350 – ($11,350 × 2%)]		
	18	Accounts Receivable—Jennings Company	475	
		Cash		475
	18	Cost of Merchandise Sold	6,800	
		Merchandise Inventory		6,800
	24	Cash ($15,840 – $2,970)	12,870	
		Accounts Receivable—Loeb Co.		12,870
	28	Cash ($11,123 + $475)	11,598	
		Accounts Receivable—Jennings Company		11,598
	31	Delivery Expense	8,550	
		Cash		8,550
	31	Cash	33,450	
		Accounts Receivable—Landscapes Co.		33,450
Aug.	3	Credit Card Expense	3,770	
		Cash		3,770
	10	Sales Tax Payable	41,260	
		Cash		41,260

Prob. 6-3B

July	3	Merchandise Inventory	61,426	
		Accounts Payable—Hamling Co.		61,426
		[$72,000 – ($72,000 × 15%)] = $61,200		
		[$61,200 – ($61,200 × 2%)] + $1,450		
	5	Merchandise Inventory	32,781	
		Accounts Payable—Kester Co.		32,781
		[$33,450 – ($33,450 × 2%)]		
	6	Accounts Receivable—Parsley Co.	36,000	
		Sales		36,000
	6	Cost of Merchandise Sold	25,000	
		Merchandise Inventory		25,000
	7	Accounts Payable—Kester Co.	6,713	
		Merchandise Inventory		6,713
		[$6,850 – ($6,850 × 2%)]		
	13	Accounts Payable—Hamling Co.	61,426	
		Cash		61,426
	15	Accounts Payable—Kester Co.	26,068	
		Cash		26,068
		($32,781 – $6,713)		
	21	Cash	36,000	
		Accounts Receivable—Parsley Co.		36,000
	21	Cash	108,000	
		Sales		108,000
	21	Cost of Merchandise Sold	64,800	
		Merchandise Inventory		64,800
	22	Accounts Receivable—Tabor Co.	16,317	
		Sales		16,317
		[$16,650 – ($16,650 × 2%)]		
	22	Cost of Merchandise Sold	10,000	
		Merchandise Inventory		10,000

Prob. 6-3B (Concluded)

July	23	Cash	91,200	
		Sales		91,200
	23	Cost of Merchandise Sold	55,000	
		Merchandise Inventory		55,000
	28	Customer Refunds Payable	7,150	
		Cash		7,150
	28	Merchandise Inventory	4,250	
		Estimated Returns Inventory		4,250
	31	Credit Card Expense	1,650	
		Cash		1,650

Prob. 6-4B

1.

Apr.	2	Accounts Receivable—Bird Company	31,360	
		Sales		31,360
		[$32,000 – ($32,000 × 2%)]		
	2	Accounts Receivable—Bird Company	330	
		Cash		330
	2	Cost of Merchandise Sold	19,200	
		Merchandise Inventory		19,200
	8	Accounts Receivable—Bird Company	49,005	
		Sales		49,005
		[$49,500 – ($49,500 × 1%)]		
	8	Cost of Merchandise Sold	29,700	
		Merchandise Inventory		29,700
	8	Delivery Expense	710	
		Cash		710
	12	Cash ($31,360 + $330)	31,690	
		Accounts Receivable—Bird Company		31,690
	18	Customer Refunds Payable	2,000	
		Cash		2,000
	23	Cash	49,005	
		Accounts Receivable—Bird Company		49,005
	24	Accounts Receivable—Bird Company	67,350	
		Sales		67,350
	24	Cost of Merchandise Sold	40,400	
		Merchandise Inventory		40,400
	30	Customer Refunds Payable	11,300	
		Accounts Receivable—Bird Company		11,300
	30	Merchandise Inventory	6,500	
		Estimated Returns Inventory		6,500

Prob. 6-4B (Concluded)

2.

Apr.	2	Merchandise Inventory ($31,360 + $330)	31,690	
		Accounts Payable—Swan Company		31,690
	8	Merchandise Inventory	49,005	
		Accounts Payable—Swan Company		49,005
		[$49,500 – ($49,500 × 1%)]		
	12	Accounts Payable—Swan Company	31,690	
		Cash		31,690
	18	Cash	2,000	
		Merchandise Inventory		2,000
	23	Accounts Payable—Swan Company	49,005	
		Cash		49,005
	24	Merchandise Inventory	67,350	
		Accounts Payable—Swan Company		67,350
	26	Merchandise Inventory	875	
		Cash		875
	30	Accounts Payable—Swan Company	11,300	
		Merchandise Inventory		11,300

Prob. 6-5B

1.

KANPUR CO. **Income Statement** **For the Year Ended June 30, 2019**			
Sales			$8,925,000
Cost of merchandise sold			5,620,000
Gross profit			$3,305,000
Expenses:			
Selling expenses:			
Sales salaries expense	$850,000		
Advertising expense	420,000		
Depreciation expense—store			
equipment	33,000		
Miscellaneous selling expense	18,000		
Total selling expenses		$1,321,000	
Administrative expenses:			
Office salaries expense	$540,000		
Rent expense	48,000		
Insurance expense	24,000		
Depreciation expense—office			
equipment	10,000		
Office supplies expense	4,000		
Miscellaneous administrative expense	6,000		
Total administrative expenses		632,000	
Total operating expenses			1,953,000
Income from operations			$1,352,000
Other expense:			
Interest expense			12,000
Net income			$1,340,000

Prob. 6-5B (Continued)

2.

KANPUR CO. Statement of Owner's Equity For the Year Ended June 30, 2019		
Gerri Faber, capital, July 1, 2018		$ 431,000
Net income for the year	$1,340,000	
Withdrawals	(300,000)	
Increase in owner's equity		1,040,000
Gerri Faber, capital, June 30, 2019		$1,471,000

Prob. 6-5B (Continued)

3.

KANPUR CO. Balance Sheet June 30, 2019			
Assets			
Current assets:			
Cash		$ 92,000	
Accounts receivable		450,000	
Merchandise inventory		370,000	
Estimated returns inventory		5,000	
Office supplies		10,000	
Prepaid insurance		12,000	
Total current assets			$ 939,000
Property, plant, and equipment:			
Office equipment	$220,000		
Less accumulated depreciation	58,000	$162,000	
Store equipment	$650,000		
Less accumulated depreciation	87,500	562,500	
Total property, plant, and equipment			724,500
Total assets			$1,663,500
Liabilities			
Current liabilities:			
Accounts payable		$ 38,500	
Customer refunds payable		10,000	
Salaries payable		4,000	
Note payable (current portion)		7,000	
Total current liabilities			$ 59,500
Long-term liabilities:			
Note payable (final payment due 2032)			133,000
Total liabilities			$ 192,500
Owner's Equity			
Gerri Faber, capital			1,471,000
Total liabilities and owner's equity			$1,663,500

4. 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.

Prob. 6-6B

1.

KANPUR CO. Income Statement For the Year Ended June 30, 2019		
Sales		$8,925,000
Expenses:		
Cost of merchandise sold	$5,620,000	
Selling expenses	1,321,000	
Administrative expenses	632,000	
Interest expense	12,000	
Total expenses		7,585,000
Net income		$1,340,000

2.

2019		Closing Entries		
June	30	Sales	8,925,000	
		Cost of Merchandise Sold		5,620,000
		Sales Salaries Expense		850,000
		Advertising Expense		420,000
		Depreciation Expense—Store Equipment		33,000
		Miscellaneous Selling Expense		18,000
		Office Salaries Expense		540,000
		Rent Expense		48,000
		Insurance Expense		24,000
		Depreciation Expense—Office Equipment		10,000
		Office Supplies Expense		4,000
		Miscellaneous Administrative Expense		6,000
		Interest Expense		12,000
		Gerri Faber, Capital		1,340,000
	30	Gerri Faber, Capital	300,000	
		Gerri Faber, Drawing		300,000

Appendix Prob. 6-7B

Mar.	1	Purchases	43,250	
		Freight In	650	
		Accounts Payable—Haas Co.		43,900
	5	Purchases	19,175	
		Accounts Payable—Whitman Co.		19,175
	10	Accounts Payable—Haas Co.	43,900	
		Cash		43,035
		Purchases Discounts ($43,250 × 0.02)		865
	13	Purchases	15,550	
		Accounts Payable—Jost Co.		15,550
	14	Accounts Payable—Jost Co.	3,750	
		Purchases Returns and Allowances		3,750
	18	Purchases	13,560	
		Accounts Payable—Fairhurst Company		13,560
	18	Freight In	140	
		Cash		140
	19	Purchases	6,500	
		Accounts Payable—Bickle Co.		6,500
	23	Accounts Payable—Jost Co.	11,800	
		Cash		11,564
		Purchases Discounts		236
	29	Accounts Payable—Bickle Co.	6,500	
		Cash		6,370
		Purchases Discounts		130
	31	Accounts Payable—Fairhurst Company	13,560	
		Cash		13,560
	31	Accounts Payable—Whitman Co.	19,175	
		Cash		19,175

Appendix Prob. 6-8B

July	3	Purchases	61,200	
		Freight In	1,450	
		Accounts Payable—Hamling Co.		62,650
		[$72,000 – ($72,000 × 15%)]		
	5	Purchases	33,450	
		Accounts Payable—Kester Co.		33,450
	6	Accounts Receivable—Parsley Co.	36,000	
		Sales		36,000
	7	Accounts Payable—Kester Co.	6,850	
		Purchases Returns and Allowances		6,850
	13	Accounts Payable—Hamling Co.	62,650	
		Cash		61,426
		Purchases Discounts		1,224
	15	Accounts Payable—Kester Co.	26,600	
		Cash		26,068
		Purchases Discounts		532
	21	Cash	36,000	
		Accounts Receivable—Parsley Co.		36,000
	21	Cash	108,000	
		Sales		108,000
	22	Accounts Receivable—Tabor Co.	16,317	
		Sales		16,317
		[$16,650 – ($16,650 × 2%)]		
	23	Cash	91,200	
		Sales		91,200
	28	Customer Refunds Payable	7,150	
		Cash		7,150
	31	Credit Card Expense	1,650	
		Cash		1,650

Appendix Prob. 6-9B

1. **Simkins Company uses a periodic inventory system because it maintains accounts for purchases, purchases returns and allowances, purchases discounts, and freight in.**

Appendix Prob. 6-9B (Continued)

2.

SIMKINS COMPANY Income Statement For the Year Ended June 30, 2019			
Sales			$6,590,000
Cost of merchandise sold:			
Merchandise inventory, July 1, 2018		$ 415,000	
Cost of merchandise purchased:			
Purchases	$4,100,000		
Purchases returns and allowances	(32,000)		
Purchases discounts	(13,000)		
Net purchases	$4,055,000		
Freight in	45,000		
Total cost of merchandise purchased		4,100,000	
Merchandise available for sale		$4,515,000	
Merchandise inventory, June 30, 2019		(508,000)	
Cost of merchandise sold before estimated returns		$4,007,000	
Increase in estimated returns inventory		(33,000)	
Cost of merchandise sold			3,974,000
Gross profit			$2,616,000
Expenses:			
Selling expenses:			
Sales salaries expense	$ 580,000		
Advertising expense	315,000		
Delivery expense	18,000		
Depreciation expense—store equipment	12,000		
Miscellaneous selling expense	28,000		
Total selling expenses		$ 953,000	
Administrative expenses:			
Office salaries expense	$ 375,000		
Rent expense	43,000		
Insurance expense	17,000		
Office supplies expense	5,000		
Depreciation expense—office equipment	4,000		
Miscellaneous administrative expense	16,000		
Total administrative expenses		460,000	
Total operating expenses			1,413,000
Income from operations			$1,203,000
Other revenue and expense:			
Rent revenue		$ 32,500	
Interest expense		(2,500)	30,000
Net income			$1,233,000

Prob. 6-9B (Concluded)

3.

2019		Closing Entries		
June	30	Merchandise Inventory (June 30, 2019)	508,000	
		Estimated Returns Inventory	33,000	
		Sales	6,590,000	
		Purchases Returns and Allowances	32,000	
		Purchases Discounts	13,000	
		Rent Revenue	32,500	
		Merchandise Inventory (July 1, 2018)		415,000
		Purchases		4,100,000
		Freight In		45,000
		Sales Salaries Expense		580,000
		Advertising Expense		315,000
		Delivery Expense		18,000
		Depreciation Expense—Store Equipment		12,000
		Miscellaneous Selling Expense		28,000
		Office Salaries Expense		375,000
		Rent Expense		43,000
		Insurance Expense		17,000
		Office Supplies Expense		5,000
		Depreciation Expense—Office Equipment		4,000
		Interest Expense		2,500
		Miscellaneous Administrative Expense		16,000
		Amy Gant, Capital		1,233,000
		Amy Gant, Capital	275,000	
		Amy Gant, Drawing		275,000

4. $1,233,000, the same net income as under the periodic inventory system

COMPREHENSIVE PROBLEM 2

1., 2., 6., and 9.

Account: Cash **Account No.** 110

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			83,600	
	1		20		5,000		
	4		20		600		
	7		20	22,300			
	10		20	54,000			
	13		20		35,280		
	15		20		11,000		
	16		20	67,130			
	19		20		18,700		
	19		20		33,450		
	20		20		13,230		
	21		21		2,300		
	21		21	42,900			
	26		21		7,500		
	28		21		85,000		
	29		21		2,400		
	30		21	111,200			
	31		21		82,170	84,500	

Account: Accounts Receivable **Account No.** 112

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			233,900	
	6		20	67,130			
	7		20		22,300		
	16		20		67,130		
	20		21	108,900			
	21		21	2,300			
	21		21		42,900		
	30		21	77,175			
	30		21		111,200	245,875	

Comp. Problem 2 (Continued)

Account: **Merchandise Inventory** Account No. **115**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			624,400	
	3		20	35,280			
	4		20	600			
	6		20		41,000		
	10		20		32,000		
	19		20	18,700			
	20		20	8,000			
	20		21		70,000		
	21		21	87,120			
	24		21		4,950		
	26		21	4,800			
	30		21		47,000	583,950	
	31	Adjusting	22		13,950	570,000	

Account: **Estimated Returns Inventory** Account No. **116**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			28,000	
	20		20		8,000		
	26		21		4,800	15,200	
	31	Adjusting	22	35,000		50,200	

Account: **Prepaid Insurance** Account No. **117**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			16,800	
	31	Adjusting	22		12,000	4,800	

Account: **Store Supplies** Account No. **118**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			11,400	
	29		21	2,400		13,800	
	31	Adjusting	22		9,800	4,000	

Comp. Problem 2 (Continued)

Account: **Store Equipment** **Account No.** **123**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			569,500	

Account: **Accumulated Depreciation—Store Equipment** **Account No.** **124**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓				56,700
	31	Adjusting	22		14,000		70,700

Account: **Accounts Payable** **Account No.** **210**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓				96,600
	3		20		35,280		
	13		20	35,280			
	19		20	33,450			
	21		21		87,120		
	24		21	4,950			
	31		21	82,170			63,150

Account: **Customer Refunds Payable** **Account No.** **211**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓				50,000
	20		20	13,230			
	26		21	7,500			29,270
	31	Adjusting	22		60,000		89,270

Account: **Salaries Payable** **Account No.** **212**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	31	Adjusting	22		13,600		13,600

Comp. Problem 2 (Continued)

Account: Lynn Tolley, Capital **Account No.** 310

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
June	1	Balance	✓				685,300
2019							
May	31	Closing	23		741,855		
	31	Closing	23	135,000			1,292,155

Account: Lynn Tolley, Drawing **Account No.** 311

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			135,000	
	31	Closing	23		135,000	—	—

Account: Sales **Account No.** 410

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓				5,069,000
	6		20		67,130		
	10		20		54,000		
	20		21		108,900		
	30		21		77,175		5,376,205
	31	Adjusting	22	60,000			5,316,205
	31	Closing	23	5,316,205		—	—

Comp. Problem 2 (Continued)

Account: **Cost of Merchandise Sold** **Account No.** **510**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			2,823,000	
	6		20	41,000			
	10		20	32,000			
	20		21	70,000			
	30		21	47,000		3,013,000	
	31	Adjusting	22	13,950			
	31	Adjusting	22		35,000	2,991,950	
	31	Closing	23		2,991,950	—	—

Account: **Sales Salaries Expense** **Account No.** **520**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			664,800	
	28		21	56,000		720,800	
	31	Adjusting	22	7,000		727,800	
	31	Closing	23		727,800	—	—

Account: **Advertising Expense** **Account No.** **521**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			281,000	
	15		20	11,000		292,000	
	31	Closing	23		292,000	—	—

Account: **Depreciation Expense** **Account No.** **522**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	31	Adjusting	22	14,000		14,000	
	31	Closing	23		14,000	—	—

Comp. Problem 2 (Continued)

Account: Stores Supplies Expense **Account No.** 523

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	31	Adjusting	22	9,800		9,800	
	31	Closing	23		9,800	—	—

Account: Miscellaneous Selling Expense **Account No.** 529

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			12,600	
	31	Closing	23		12,600	—	—

Account: Office Salaries Expense **Account No.** 530

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			382,100	
	28		21	29,000		411,100	
	31	Adjusting	22	6,600		417,700	
	31	Closing	23		417,700	—	—

Account: Rent Expense **Account No.** 531

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	1	Balance	✓			83,700	
	1		20	5,000		88,700	
	31	Closing	23		88,700	—	—

Account: Insurance Expense **Account No.** 532

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
May	31	Adjusting	22	12,000		12,000	
	31	Closing	23		12,000	—	—

Comp. Problem 2 (Continued)

Account: **Miscellaneous Administrative Expense** **Account No.** **539**

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
May	1	Balance	✓			7,800	
	31	Closing	23		7,800	—	—

Comp. Problem 2 (Continued)

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Date			Post. Ref.	Debit	Credit
2019					
May	1	Rent Expense	531	5,000	
		Cash	110		5,000
	3	Merchandise Inventory	115	35,280	
		Accounts Payable—Martin Co.	210		35,280
		[$36,000 – ($36,000 × 2%)]			
	4	Merchandise Inventory	115	600	
		Cash	110		600
	6	Accounts Receivable—Korman Co.	112	67,130	
		Sales	410		67,130
		[$68,500 – ($68,500 × 2%)]			
	6	Cost of Merchandise Sold	510	41,000	
		Merchandise Inventory	115		41,000
	7	Cash	110	22,300	
		Accounts Receivable—Halstad Co.	112		22,300
	10	Cash	110	54,000	
		Sales	410		54,000
	10	Cost of Merchandise Sold	510	32,000	
		Merchandise Inventory	115		32,000
	13	Accounts Payable—Martin Co.	210	35,280	
		Cash	110		35,280
	15	Advertising Expense	521	11,000	
		Cash	110		11,000
	16	Cash	110	67,130	
		Accounts Receivable—Korman Co.	112		67,130
	19	Merchandise Inventory	115	18,700	
		Cash	110		18,700
	19	Accounts Payable—Buttons Co.	210	33,450	
		Cash	110		33,450
	20	Customer Refunds Payable	211	13,230	
		Cash	110		13,230
		[$13,500 – ($13,500 × 2%)]			
	20	Merchandise Inventory	115	8,000	
		Estimated Returns Inventory	116		8,000

Comp. Problem 2 (Continued)

Page 21

			Post. Ref.	Debit	Credit
2019					
May	20	Accounts Receivable—Crescent Co.	112	108,900	
		Sales	410		108,900
		[$110,000 – ($110,000 × 1%)]			
	20	Cost of Merchandise Sold	510	70,000	
		Merchandise Inventory	115		70,000
	21	Accounts Receivable—Crescent Co.	112	2,300	
		Cash	110		2,300
	21	Cash	110	42,900	
		Accounts Receivable—Gee Co.	112		42,900
	21	Merchandise Inventory	115	87,120	
		Accounts Payable—Osterman Co.	210		87,120
		[$88,000 – ($88,000 × 1%)]			
	24	Accounts Payable—Osterman Co.	210	4,950	
		Merchandise Inventory	115		4,950
	26	Customer Refunds Payable	211	7,500	
		Cash	110		7,500
	26	Merchandise Inventory	115	4,800	
		Estimated Returns Inventory	116		4,800
	28	Sales Salaries Expense	520	56,000	
		Office Salaries Expense	530	29,000	
		Cash	110		85,000
	29	Store Supplies	118	2,400	
		Cash	110		2,400
	30	Accounts Receivable—Turner Co.	112	77,175	
		Sales	410		77,175
		[$78,750 – ($78,750 × 2%)]			
	30	Cost of Merchandise Sold	510	47,000	
		Merchandise Inventory	115		47,000
	30	Cash	110	111,200	
		Accounts Receivable—Crescent Co.	112		111,200
	31	Accounts Payable—Osterman Co.	210	82,170	
		Cash	110		82,170
		($87,120 – $4,950)			

Comp. Problem 2 (Continued)

3.

PALISADE CREEK CO.
Unadjusted Trial Balance
May 31, 2019

	Account No.	Debit Balances	Credit Balances
Cash	110	84,500	
Accounts Receivable	112	245,875	
Merchandise Inventory	115	583,950	
Estimated Returns Inventory	116	15,200	
Prepaid Insurance	117	16,800	
Store Supplies	118	13,800	
Store Equipment	123	569,500	
Accumulated Depreciation—Store Equipment	124		56,700
Accounts Payable	210		63,150
Customer Refunds Payable	211		29,270
Salaries Payable	212		—
Lynn Tolley, Capital	310		685,300
Lynn Tolley, Drawing	311	135,000	
Sales	410		5,376,205
Cost of Merchandise Sold	510	3,013,000	
Sales Salaries Expense	520	720,800	
Advertising Expense	521	292,000	
Depreciation Expense	522	—	
Store Supplies Expense	523	—	
Miscellaneous Selling Expense	529	12,600	
Office Salaries Expense	530	411,100	
Rent Expense	531	88,700	
Insurance Expense	532	—	
Miscellaneous Administrative Expense	539	7,800	
		6,210,625	6,210,625

Comp. Problem 2 (Continued)

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Date			Post. Ref.	Debit	Credit
2019		Adjusting Entries			
May	31	Cost of Merchandise Sold	510	13,950	
		Merchandise Inventory	115		13,950
		Inventory shrinkage			
		($583,950 – $570,000).			
	31	Insurance Expense	532	12,000	
		Prepaid Insurance	117		12,000
		Insurance expired.			
	31	Store Supplies Expense	523	9,800	
		Store Supplies	118		9,800
		Supplies used ($13,800 – $4,000).			
	31	Depreciation Expense	522	14,000	
		Accum. Depr.—Store Equipment	124		14,000
		Store equipment depreciation.			
	31	Sales Salaries Expense	520	7,000	
		Office Salaries Expense	530	6,600	
		Salaries Payable	212		13,600
		Accrued salaries.			
	31	Sales	410	60,000	
		Customer Refunds Payable	211		60,000
	31	Estimated Returns Inventory	116	35,000	
		Cost of Merchandise Sold	510		35,000

Comp. Problem 2 (Continued)

7.

PALISADE CREEK CO.
Adjusted Trial Balance
May 31, 2019

	Account No.	Debit Balances	Credit Balances
Cash	110	84,500	
Accounts Receivable	112	245,875	
Merchandise Inventory	115	570,000	
Estimated Returns Inventory	116	50,200	
Prepaid Insurance	117	4,800	
Store Supplies	118	4,000	
Store Equipment	123	569,500	
Accumulated Depreciation—Store Equipment	124		70,700
Accounts Payable	210		63,150
Customer Refunds Payable	211		89,270
Salaries Payable	212		13,600
Lynn Tolley, Capital	310		685,300
Lynn Tolley, Drawing	311	135,000	
Sales	410		5,316,205
Cost of Merchandise Sold	510	2,991,950	
Sales Salaries Expense	520	727,800	
Advertising Expense	521	292,000	
Depreciation Expense	522	14,000	
Store Supplies Expense	523	9,800	
Miscellaneous Selling Expense	529	12,600	
Office Salaries Expense	530	417,700	
Rent Expense	531	88,700	
Insurance Expense	532	12,000	
Miscellaneous Administrative Expense	539	7,800	
		6,238,225	6,238,225

Comp. Problem 2 (Continued)

8.

PALISADE CREEK CO. Income Statement For the Year Ended May 31, 2019			
Sales			$5,316,205
Cost of merchandise sold			2,991,950
Gross profit			$2,324,255
Expenses:			
Selling expenses:			
Sales salaries expense	$727,800		
Advertising expense	292,000		
Depreciation expense	14,000		
Store supplies expense	9,800		
Miscellaneous selling expense	12,600		
Total selling expenses		$1,056,200	
Administrative expenses:			
Office salaries expense	$417,700		
Rent expense	88,700		
Insurance expense	12,000		
Miscellaneous administrative			
expense	7,800		
Total administrative expenses		526,200	
Total expenses			1,582,400
Net income			$ 741,855

PALISADE CREEK CO. Statement of Owner's Equity For the Year Ended May 31, 2019		
Lynn Tolley, capital, June 1, 2018		$ 685,300
Net income for the year	$ 741,855	
Withdrawals	(135,000)	
Increase in owner's equity		606,855
Lynn Tolley, capital, May 31, 2019		$1,292,155

Comp. Problem 2 (Continued)

PALISADE CREEK CO. Balance Sheet May 31, 2019		
Assets		
Current assets:		
Cash	$ 84,500	
Accounts receivable	245,875	
Merchandise inventory	570,000	
Estimated returns inventory	50,200	
Prepaid insurance	4,800	
Store supplies	4,000	
Total current assets		$ 959,375
Property, plant, and equipment:		
Store equipment	$569,500	
Less accumulated depreciation	70,700	
Total property, plant, and equipment		498,800
Total assets		$1,458,175
Liabilities		
Current liabilities:		
Accounts payable	$ 63,150	
Customer refunds payable	89,270	
Salaries payable	13,600	
Total liabilities		$ 166,020
Owner's Equity		
Lynn Tolley, capital		1,292,155
Total liabilities and owner's equity		$1,458,175

Comp. Problem 2 (Continued)

9. **JOURNAL** Page 23

Date			Post. Ref.	Debit	Credit
2019		Closing Entries			
May	31	Sales	410	5,316,205	
		Cost of Merchandise Sold	510		2,991,950
		Sales Salaries Expense	520		727,800
		Advertising Expense	521		292,000
		Depreciation Expense	522		14,000
		Store Supplies Expense	523		9,800
		Miscellaneous Selling Expense	529		12,600
		Office Salaries Expense	530		417,700
		Rent Expense	531		88,700
		Insurance Expense	532		12,000
		Miscellaneous Administrative Exp.	539		7,800
		Lynn Tolley, Capital	310		741,855
	31	Lynn Tolley, Capital	310	135,000	
		Lynn Tolley, Drawing	311		135,000

Comp. Problem 2 (Continued)

10.

PALISADE CREEK CO.
Post-Closing Trial Balance
May 31, 2019

	Account No.	Debit Balances	Credit Balances
Cash	110	84,500	
Accounts Receivable	112	245,875	
Merchandise Inventory	115	570,000	
Estimated Returns Inventory	116	50,200	
Prepaid Insurance	117	4,800	
Store Supplies	118	4,000	
Store Equipment	123	569,500	
Accumulated Depreciation—Store Equipment	124		70,700
Accounts Payable	210		63,150
Customer Refunds Payable	211		89,270
Salaries Payable	212		13,600
Lynn Tolley, Capital	310		1,292,155
		1,528,875	1,528,875

Comp. Problem 2 (Concluded)

5. (Optional)*

PALISADE CREEK CO.
End-of-Period Spreadsheet (Work Sheet)
For the Year Ended May 31, 2019

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Title	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	84,500				84,500				84,500	
Accounts Receivable	245,875				245,875				245,875	
Merchandise Inventory	583,950			(a) 13,950	570,000				570,000	
Estimated Returns Inventory	15,200		(g) 35,000		50,200				50,200	
Prepaid Insurance	16,800			(b) 12,000	4,800				4,800	
Store Supplies	13,800			(c) 9,800	4,000				4,000	
Store Equipment	569,500				569,500				569,500	
Accum. Depr.—Store Equip.		56,700		(d) 14,000		70,700				70,700
Accounts Payable		63,150				63,150				63,150
Customer Refunds Payable		29,270		(f) 60,000		89,270				89,270
Salaries Payable				(e) 13,600		13,600				13,600
Lynn Tolley, Capital		685,300				685,300				685,300
Lynn Tolley, Drawing	135,000				135,000				135,000	
Sales		5,376,205	(f) 60,000			5,316,205		5,316,205		
Cost of Merchandise Sold	3,013,000		(a) 13,950	(g) 35,000	2,991,950		2,991,950			
Sales Salaries Expense	720,800		(e) 7,000		727,800		727,800			
Advertising Expense	292,000				292,000		292,000			
Depreciation Expense			(d) 14,000		14,000		14,000			
Store Supplies Expense			(c) 9,800		9,800		9,800			
Miscellaneous Selling Expense	12,600				12,600		12,600			
Office Salaries Expense	411,100		(e) 6,600		417,700		417,700			
Rent Expense	88,700				88,700		88,700			
Insurance Expense			(b) 12,000		12,000		12,000			
Miscellaneous Admin. Expense	7,800				7,800		7,800			
	6,210,625	6,210,625	158,350	158,350	6,238,225	6,238,225	4,574,350	5,316,205	1,663,875	922,020
Net income							741,855			741,855
							5,316,205	5,316,205	1,663,875	1,663,875

*This solution is applicable only if the end-of-period spreadsheet (work sheet) is used.

CASES & PROJECTS

CP 6-1

Margie has been placed in a very difficult position. Someone she trusts and respects has asked her to do something that is clearly unethical. If Margie makes the adjusting entry, her boss could very well be terminated. Yet, Margie's primary responsibility has to be on preparing relevant and representationally faithful financial information that is useful for decision making. Margie should, therefore, make the appropriate adjusting entry. Being right, however, doesn't always make a decision easy. Margie's actions could result in the termination of her boss and mentor.

For financial information to be representationally faithful, it must be free of bias. The company president is clearly trying to pressure the accounting department to create biased financial statements, which is inappropriate. While Margie should not bend on the issue of making the adjusting entry, she should bring this issue to the attention of the internal audit department or the board of directors.

CP 6-2

***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 Shelby Davey intentionally subtracted the discount knowing that the discount period had expired, he would have behaved in an unprofessional manner. Such behavior could eventually jeopardize Bontanica Company's buyer/supplier relationship with Whitetail Seed Co.**

CP 6-3

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2015, follows:

1. a. **$14,067 million in 2015; $12,446 million in 2014; $11,034 million in 2013**
   b. **46.0% ($14,067 million/$30,601 million) in 2015; 44.8% ($12,446 million/$27,799 million) in 2014; 43.6% ($11,034 million/$25,313 million) in 2013**
   c. **$4,175 ($14,067 – $9,892) million in 2015; $3,680 ($12,446 – $8,766) million in 2014; $3,238 ($11,034 – $7,796) million in 2013**
   d. **13.7% increase in 2015 ($505 million/$3,680 million); 13.3% increase in 2014 $432 million/$3,238 million)**
   e. **$3,273 million in 2015; $2,693 million in 2014; $2,451 million in 2013**
   f. **21.5% increase in 2015 ($580 million/$2,693 million); 9.9% increase in 2014 ($242 million/$2,451 million)**
2. **The company's financial performance has improved between 2013 and 2014 and again between 2014 and 2015. All of the above measures have improved during this period.**

CP 6-4

To: Suzi Nomro
President, Watercraft Supply Company
From: A+ student
Re: Proposal to Increase Net Income

If the proposed changes in credit terms increase sales by 10% as expected, and if the ratio of cost of merchandise sold to sales remails at 60%, this proposal has the potential to increase net income by $64,200, from $321,000 to $385,200. This increase will be driven by a $135,000 increase in sales. Cost of merchandise sold is also expected to increase by 60% of the sales increase, or $81,000. While store supplies and miscellaneous selling expenses will increase proportionally to sales, total selling expenses will decrease by $10,200 because of the change in freight terms. By shipping goods FOB shipping point rather than FOB destination, the company will save $12,000 in freight costs. This will result in an increase in net income of $64,200.

There are several potential risks associated with this type of proposal. First, the accuracy of the estimates used to project the effects of the proposed changes are not certain. If the increase in sales does not materialize, Watercraft Supply 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 Watercraft Supply.

Another potential risk arises from the proposed change in shipping terms. Watercraft Supply assumes that this change will have no effect on sales. However, customers may object to this change and seek other vendors with more favorable terms. Hence, an unanticipated decline in sales could occur because of this change.

While the anticipated outcomes indicate that the company should pursue the proposal, financial projections are inherently uncertain, and there is no guarantee that the actual results will match those in the projections. Management should test the proposed changes with the company's customer base before proceeding. As with any business decision, risks such as those mentioned above must be considered thoroughly before final action is taken. Supporting projections are provided on the following page.

CP 6-4 (Concluded)

1.

WATERCRAFT SUPPLY COMPANY Projected Income Statement For the Year Ended October 31, 2020		
Revenues:		
Sales		$1,485,000
Interest revenue		15,000
Total revenues		$1,500,000
Expenses:		
Cost of merchandise sold	$891,000	
Selling expenses	129,800	
Administrative expenses	90,000	
Interest expense	4,000	
Total expenses		1,114,800
Net income		$ 385,200

Notes:

a. Projected sales [$1,350,000 + (10% × $1,350,000)]……		$1,485,000
b. Projected cost of merchandise sold ($1,485,000 × 60%)……		$ 891,000
c. Total selling expenses for year ended October 31, 2020..		$ 140,000
Increase in store supplies expense ($12,000 × 10%)……	$1,200	
Increase in miscellaneous selling expense ($6,000 × 10%)……	600	1,800
Less delivery expenses……		(12,000)
Projected total selling expenses……		$ 129,800

CP 6-5

Cam Pfeifer is correct. The accounts payable due to suppliers could be included on the balance sheet at an amount of $314,500 ($269,500 + $45,000). This is the amount that will be expected to be paid to satisfy the obligation (liability) to suppliers. However, this is proper only if Rustic Furniture 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, Rustic Furniture Co. apparently meets these criteria, since it has a history of taking all available discounts, as indicated by Mitzi Wheeler. Thus, Rustic Furniture Co. could report total accounts payable of $314,500 on its balance sheet. Merchandise inventory would also need to be reduced by the discount of $5,500 in order to maintain consistency in approach.

CP 6-6

1. **If Mark doesn't need the stereo immediately (by the next day), Wholesale Stereo offers the best buy, as shown below.**

Wholesale Stereo:

List price	$1,200.00
Shipping and handling (not including next-day air)	49.99
Total	$1,249.99

Tru-Sound Systems:

List price	$1,175.00
Sales tax (9%)	105.75
Total	$1,280.75

Even if the 2% cash discount offered by Tru-Sound Systems is considered, Wholesale Stereo still offers the best buy, as shown below.

List price	$1,175.00
Less 2% cash discount	23.50
Subtotal	$1,151.50
Sales tax (9%)	103.64
Total	$1,255.14

If Mark needs the stereo immediately (the next day), then Tru-Sound Systems has the best price. This is because a shipping and handling charge of $89.99 would be added to the Wholesale Stereo, as shown below.

Wholesale Stereo list price	$1,200.00
Next-day freight charge	89.99
Total	$1,289.99

CP 6-6 (Concluded)

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

Tru-Sound Systems price (see previous page)	**$1,280.75**
Less first installment (down payment)	**426.92**
Remaining balance	**$ 853.83**
Interest for first month at 1.5% ($853.83 × 1.5%)	**$ 12.81**
Remaining balance ($853.83 + $12.81)	**$ 866.64**
Less second installment	**426.92**
Remaining balance	**$ 439.72**
Interest for second month at 1.5% ($439.72 × 1.5%)	**$ 6.60**

The total interest savings would be $19.41 ($12.81 + $6.60). This interest savings still would not be enough to offset the price advantage of Wholesale Stereo, as shown below.

Tru-Sound Systems price (see above)	**$1,280.75**
Less interest savings	**19.41**
Total	**$1,261.34**

2. Other considerations in buying the stereo include the ability to have the stereo repaired locally. In addition, Tru-Sound Systems' employees would presumably be available to answer questions on the operation and installation of the stereo. Also, if Mark purchased the stereo from Tru-Sound Systems, he would have the stereo the same day rather than the next day, which is the earliest Wholesale Stereo could deliver the stereo.

CP 6-7

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, and warranties).**

Consider going to www.cnet.com and entering a search for "55 inch LED, LCD TV." Pick one TV model that offers a range of prices from different stores and compare shipping and payment differences among companies. For example, the Samsung UNJS8500 TV has a range of prices of $1,619.95 to $1,799.99. Some stores offer free shipping. You might consider offering the student group(s) that comes up with the lowest price extra credit points for homework.