Chapter 6

Accounting for Merchandising Businesses

Study Guide Solutions

Fill-in-the-Blank Equations

1. Cost of merchandise sold
2. Inventory shrinkage
3. Asset turnover ratio

Exercises

1. Determine whether each of the following characteristics relates to a merchandising or service business.
   - **a.** Merchandising
   - **b.** Service
   - **c.** Merchandising
2. Determine whether each of the following companies is a merchandising or service business.
   - **a.** Service
   - **b.** Service
   - **c.** Merchandising
3. Determine whether each of the following companies is a merchandising or service business.
   - **a.** Merchandising
   - **b.** Service
   - **c.** Merchandising

   Strategy: *Merchandising businesses will have costs associated with holding and selling the merchandise. Since service businesses do not hold merchandise for sale, they will not have any costs associated with merchandise or hold merchandise inventory.*
4. Jeff's Bikes had sales on account of $3,900 and cash sales of $1,200. If the company's cost of the merchandise was $1,100, what is the company's gross profit?

   $4,000; [($3,900 + $1,200) – $1,100]

5. A company had a gross profit of $4,500. If the cost of the merchandise was $2,150, what were the company's total sales?

$6,650; ($4,500 + $2,150)

6. Torti Co. had cash sales of $2,760 and sales on account of $8,200. The company's gross profit at the end of the year totaled $5,590. What was the cost of the merchandise for Torti Co.?

$5,370; [($2,760 + $8,200) – $5,590]

Strategy: *Gross profit, or the profit from selling merchandise, is calculated as sales revenue less the cost of the merchandise. Sales revenue includes all sales, regardless of the type of payment.*

7. A company's manager would like to know how many of a certain product is on hand in order to fulfill a large upcoming order. If the manager can pull up a report to show the inventory on hand at any time, what kind of inventory system does the business use?

Perpetual inventory system because the information is up to date

8. Before preparing the balance sheet at year-end, a company must count all inventory on hand. To find the cost of the merchandise sold, the accountants compare the inventory at the beginning of the year to the amount of inventory counted at the end of the year and purchases during the year. Does the company operate using a perpetual or periodic inventory system?

Periodic inventory system because the company must calculate the cost of merchandise sold

9. A company records the sales and purchases of merchandise as the transactions occur. The accountant also reviews the totals regularly to check the totals among journals. Does the company use a perpetual or periodic inventory system?

Perpetual inventory system because the information is updated as the transactions occur

Strategy: *Under a perpetual inventory system, inventory is continuously updated, so typically, all amounts are up to date at all times. Under a periodic inventory system, inventory is periodically updated when needed and expenses are calculated.*

10. Tools & More orders $40,000 of merchandise on account from Hammer Supply. Hammer Supply accepts the order by sending an invoice with the terms 2/10, n/30. Tools & More is considering taking the discount, but would have to borrow funds in order to pay within the discount period. The bank is charging a 5% annual interest rate. Assume a 360-day year.

a.

Discount (2% × $40,000)	$800
Interest ($39,200 × 5% × 20/360)	109
Savings from discount	$691

b. 36%; 2% × (360 days/20 days)

11. U.S. Anchors ordered $24,000 of merchandise on account. The company receives an invoice on March 3 with the credit terms 3/15, n/45. To pay the amount owed during the discount period, U.S. Anchors would need to borrow funds at a 6% annual interest rate. Assume a 360-day year.

a.

Discount (3% × $24,000)	$720
Interest ($23,280 × 6% × 30/360)	116
Savings from discount	$604

b. 36%; 3% × (360 days/30 days)

12. Bear Boards purchased $16,000 of merchandise on account. On June 1, the company receives an invoice from the supplier with the credit terms 4/10, n/60. To pay the amount before the end of the discount period, Bear Boards would need to borrow at a 3% annual interest rate. Assume a 360-day year.

a.

Discount (4% × $16,000)	$640
Interest ($15,360 × 3% × 50/360)	64
Savings from discount	$576

b. 29%; 4% × (360 days/50 days)

Strategy: *To calculate the savings from taking a discount, first calculate the discount by multiplying the discount percentage by the sale amount. Next, calculate the interest that the company would pay for the remainder of the credit period for the amount borrowed, which would be found by multiplying the borrowed amount by the interest rate. Since the time period is not usually a full year, the annual interest rate should be adjusted for the portion of the year the loan is outstanding. The difference between the discount taken and the interest expense incurred is the savings from taking the discount.*

13. Assume that Tools & More pays Hammer Supply during the discount period for the purchase in Exercise 10. Show the journal entry to record the receipt of the invoice (on August 2) and payment for the merchandise (on August 7).

Aug. 2	Merchandise Inventory	39,200	
	Accounts Payable—Hammer Supply		39,200

Aug. 7	Accounts Payable—Hammer Supply	39,200	
	Cash		39,200

14. Assume that U.S. Anchors pays for the invoice in Exercise 11 on March 12. Show the journal entry to record the receipt of the invoice and the payment made for the merchandise.

Mar. 3	Merchandise Inventory	23,280	
	Accounts Payable—U.S. Anchors		23,280

Mar. 12	Accounts Payable—U.S. Anchors	23,280	
	Cash		23,280

15. Give the journal entry for Bear Boards to record the receipt of the invoice in Exercise 12. Also, show the journal entry to record the payment of the invoice if the company pays on June 9.

June 1	Merchandise Inventory	15,360	
	Accounts Payable—Bear Boards		15,360

June 9	Accounts Payable—Bear Boards	15,360	
	Cash		15,360

Strategy: *First, determine the amount of the discount the company has the opportunity to receive, which is equal to the purchase price of the inventory multiplied by the discount rate. Record the purchase of the inventory by debiting Merchandise Inventory and crediting Accounts Payable for the inventory purchase price less the discount, which is the net purchase price. Record the payment of the payable for the discounted amount if paid within the discount period.*

16. If Tools & More returns $10,000 of the merchandise purchased from Hammer Supply (information in Exercise 10) on August 5, give the journal entry to record the return of the merchandise. Also, prepare a new journal entry to record the payment on August 7 after the company's return.

Aug. 5	Accounts Payable—Hammer Supply	9,800	
	Merchandise Inventory		9,800

Merchandise inventory = $10,000 – ($10,000 × 2%)

Aug. 7	Accounts Payable—Hammer Supply	29,400	
	Cash		29,400

Accounts payable—Hammer Supply = $39,200 – $9,800

17. On March 10, U.S. Anchors returns $5,000 of the merchandise from Exercise 11. Prepare the journal entries to record the return of the merchandise and the payment on the account on March 12 after the return.

Mar. 10	Accounts Payable—U.S. Anchors	4,850	
	Merchandise Inventory		4,850

Merchandise inventory = $5,000 – ($5,000 × 3%)

Mar. 12	Accounts Payable—U.S. Anchors	18,430	
	Cash		18,430

Accounts payable—U.S. Anchors = $23,280 – $4,850

18. Bear Boards returns $6,750 of damaged merchandise on June 6 that was included in the invoice from Exercise 12. Give the journal entries to record the return of the merchandise and the payment on June 9 after the return.

June 6	Accounts Payable—Bear Boards	6,480	
	Merchandise Inventory		6,480

Merchandise inventory = $6,750 – ($6,750 × 4%)

June 9	Accounts Payable—Bear Boards	8,880	
	Cash		8,880

Accounts payable—Bear Boards = $15,360 – $6,480

Strategy: *Since inventory is recorded at the net purchase price, returns occurring during the discount period should decrease the merchandise inventory account at the net purchase price of the inventory returned. To record the return of inventory, debit Accounts Payable and credit Merchandise Inventory for the net purchase price of the inventory being returned.*

19. TOL's Closet has sales of $15,700 on August 7 and received $9,900 in cash. The remaining customers put the sales on account. The company paid $7,750 for the merchandise. Prepare the journal entries required to record the sales using a perpetual inventory system.

Aug. 7	Cash	9,900	
	Accounts Receivable	5,800	
	Sales		15,700

Aug. 7	Cost of Merchandise Sold	7,750	
	Merchandise Inventory		7,750

20. Walden Movies receives $1,170 in cash for sales on September 3. Other customers put their amounts owed, totaling $900, on account during the day. The merchandise cost Walden Movies $500. Prepare the journal entries required to record the sales using a perpetual inventory system.

Sept. 3	Cash	1,170	
	Accounts Receivable	900	
	Sales		2,070

Sept. 3	Cost of Merchandise Sold	500	
	Merchandise Inventory		500

21. On September 4, Real Housewares has $16,500 in sales, with customers paying $10,750 in cash and the remainder on account. Real Housewares purchased the merchandise for $4,800. Prepare the journal entries required to record the sales using a perpetual inventory system.

Sept. 4	Cash	10,750	
	Accounts Receivable	5,750	
	Sales		16,500

Sept. 4	Cost of Merchandise Sold	4,800	
	Merchandise Inventory		4,800

Strategy: *Crediting sales revenue increases sales for the transaction. Since the merchandise sold needs to come out of inventory, the merchandise inventory account should be credited. Since the company incurred an expense (buying the merchandise) to make the sale, the corresponding account in the journal entry is Cost of Merchandise Sold.*

22. Modern Glassware sold $8,250 of merchandise to Kitchen Supply on account on October 10 with the terms 2/10, n/40. The company paid $2,100 for the merchandise. Kitchen Supply paid for the purchase on October 17 to take advantage of the discount. Record the sale of the merchandise and the receipt of the payment.

Oct. 10	Accounts Receivable—Kitchen Supply	8,085	
	Sales		8,085

Oct. 10	Cost of Merchandise Sold	2,100	
	Merchandise Inventory		2,100

Oct. 17	Cash	8,085	
	Accounts Receivable—Kitchen Supply		8,085

Sales = $8,250 – ($8,250 × 2%)

23. Assume that Real Housewares gives all customers that pay on account the credit terms 4/15, n/60. On September 1, the company makes sales of $8,000 of merchandise on account, which cost $3,500. If all customers pay by the end of the discount period, on September 15, prepare the journal entries to record the sale of goods and receipt of cash from the customers.

Sept. 1	Accounts Receivable	7,680	
	Sales		7,680

Sept. 1	Cost of Merchandise Sold	3,500	
	Merchandise Inventory		3,500

Sept. 15	Cash	7,680	
	Accounts Receivable		7,680

24. TOL's Closet gives customers that pay for purchases on account credit terms of 3/15, n/30. Prepare the journal entries to record the sales of goods and receipt of cash if all customers that paid on account from Exercise 19 pay on the last day of the discount period, August 22.

Aug. 7	Cash	9,900	
	Accounts Receivable	5,626	
	Sales		15,526

Accounts receivable = ($15,700 – $9,900) – ($5,800 × 3%)

Aug. 7	Cost of Merchandise Sold	7,750	
	Merchandise Inventory		7,750

Aug. 22	Cash	5,626	
	Accounts Receivable		5,626

Strategy: *If customers pay within a discount period in order to take advantage of a sales discount, the amount of cash received is the sales price less the discount. To record the payment, debit Cash and credit Accounts Receivable for the cash received. If the customers do not pay within the discount period, the amount of cash received will be equal to the total sales price (no discount taken).*

25. For the year ended December 31, 20Y5, Modern Glassware made total sales of $1,000,000, but expects to receive requests for refunds of returned or damaged merchandise that are 2% of total sales. The company also expects to receive returns of merchandise costing $12,000. Prepare the adjusting entries required at year-end if 20Y5 is the company's first year of operations.

Dec. 31	Sales	20,000	
	Customer Refunds Payable		20,000
	Estimated Returns Inventory	12,000	
	Cost of Merchandise Sold		12,000

26. Assume that the following year Modern Glassware (information in Exercise 25) paid a refund of $4,500 for inventory costing $2,500. Prepare the journal entry to record the payment and reduction in inventory, which occurred on January 22, 20Y6.

Jan. 22	Customer Refunds Payable	4,500	
	Cash		4,500
	Merchandise Inventory	2,500	
	Estimated Returns Inventory		2,500

27. During 20Y5, its first year of operations, Purple Sun made total sales of $2,500,000 for merchandise costing $100,000. The company refunds all customers for returned or damaged merchandise. The company expects to receive requests for refunds that are 3% of total sales. The company also expects to receive returns of merchandise costing $50,000.

a. Prepare the journal entry required at year-end (assume a calendar year-end).

Dec. 31	Sales	75,000	
	Customer Refunds Payable		75,000
	Estimated Returns Inventory	50,000	
	Cost of Merchandise Sold		50,000

b. The company refunds customers for $21,000 for merchandise costing $15,000 on January 31 of the following year. Prepare the journal entry required for the refund and return of merchandise.

Jan. 31	Customer Refunds Payable	21,000	
	Cash		21,000
	Merchandise Inventory	15,000	
	Estimated Returns Inventory		15,000

Strategy: *Debit Sales and credit Customer Refunds Payable for the estimated amount of refunds expected to record the liability and decrease in sales, which ensures that sales are fairly presented for the year. Debit Estimated Returns Inventory and credit Cost of Merchandise Sold for the estimated cost of merchandise that will be returned. Since the company will not actually sell the merchandise if it receives a return, it should not record the associated expense. When the company pays the customers for a refund, debit Customer Refunds Payable and credit Cash for the amount of refund paid to the customer. Also, record the increase in inventory by debiting Merchandise Inventory and crediting Estimated Returns Inventory for the cost of merchandise returned.*

28. Bird & Bottle purchases merchandise from Bottle Co. Delivery expenses are to be paid when the balance is due. Is this purchase considered to be FOB destination or FOB shipping? Who has title to the merchandise during shipping?

FOB shipping, since Bird & Bottle will pay for shipping; Bird & Bottle owns title during shipping.

29. When making a large purchase, the seller of merchandise agrees to pay the delivery expenses. Would the transaction be considered FOB destination or FOB shipping? Who has title to the merchandise during shipping?

FOB destination, since the seller will pay for shipping; the seller will still have title to the merchandise during shipping.

30. Jake's Diamonds purchases merchandise from a supplier on account. They do not discuss who will pay for shipping, but the supplier states that Jake's Diamonds will hold title during shipping. Is this a FOB destination or FOB shipping transaction? Who pays for the shipping expenses?

FOB shipping, since Jake's Diamonds will own title during shipping; Jake's Diamonds will also pay shipping expenses.

Strategy: *If a transaction is FOB shipping, title changes at the shipping point, meaning the buyer now owns the merchandise, even before receiving the items. If a transaction is FOB destination, title changes at the destination point, meaning the seller owns the merchandise up until the items are delivered. Whoever owns the merchandise during shipping determines who will pay for the shipping.*

31. Saxon Inc. sold and shipped merchandise to Baxon Co. for $8,850 on January 1. Baxon Co. paid for the merchandise on account. Saxon Inc. purchased the inventory for $2,300. Prepare the journal entries to record the sales transaction for both Saxon Inc. and Baxon Co.

	Saxon Inc.			**Baxon Co.**		
Jan. 1	Accounts Receivable—Baxon Co.	8,850		Merchandise Inventory	8,850	
	Sales		8,850	Accounts Payable—Saxon Inc.		8,850
	Cost of Merchandise Sold	2,300				
	Merchandise Inventory		2,300			

32. The transaction from Exercise 31 is made with FOB destination shipping terms. Shipping expenses were paid the following day, which totaled $320. Prepare the journal entry, if any, for Saxon Inc. and Baxon Co.

	Saxon Inc.			Baxon Co.
Jan. 2	Shipping Expenses	320		None
	Cash		320	

33. Saxon Inc. sold the merchandise in Exercise 31 on the credit terms 4/10, n/30. Prepare the journal entry for both companies if Baxon Co. pays the balance due on January 7.

	Saxon Inc.			Baxon Co.		
Jan. 7	Cash	8,496		Accounts Payable—Saxon Inc.	8,850	
	Sales	354		Merchandise Inventory		354
	Accounts Receivable—Baxon Co.		8,850	Cash		8,496

Strategy: *The correct journal entry depends on whether the company is the buyer or seller. If the company is the buyer, the company should show the applicable expenses (shipping expenses, etc.) with the purchase. If the company is the seller, the company should show the applicable expenses with the sale (cost of merchandise sold, shipping, etc.).*

34. On July 3, Sally's Station sells merchandise to Bill's Buildings for $13,000 on account. The transaction is subject to a 6.5% sales tax. Prepare the journal entry to show the sale, including sales taxes. Also, prepare the journal entry to record Sally's Station's payment of sales taxes, which totaled $3,250 for the previous month on July 15.

July 3	Accounts Receivable—Bill's Buildings	13,845	
	Sales		13,000
	Sales Taxes Payable		845

July 15	Sales Taxes Payable	3,250	
	Cash		3,250

35. Bolton Inc. purchased $12,000 of merchandise from Sutton Co. on August 3. The purchase is subject to a 5.7% sales tax. Sutton Co. also pays the sales taxes it collected from the previous month on August 5, which totaled $8,350. Prepare the journal entries to record the sale of merchandise and the payment of sales taxes.

Aug. 3	Accounts Receivable—Bolton Inc.	12,684	
	Sales		12,000
	Sales Taxes Payable		684

Aug. 5	Sales Taxes Payable	8,350	
	Cash		8,350

36. Hilo Co. had sales of $21,000 on September 6, of which $7,000 was paid for with cash, and the remainder was put on the customer's account. All sales are subject to a 5.3% sales tax. On September 10, the company also pays the sales taxes owed for the previous month, which totaled $9,900. Prepare the journal entries to record the sale of the merchandise and the payment of the sales taxes owed.

Sept. 6	Accounts Receivable	14,742	
	Cash	7,371	
	Sales		21,000
	Sales Taxes Payable		1,113

Sept. 10	Sales Taxes Payable	9,900	
	Cash		9,900

Strategy: *Sales taxes are recorded as a percentage of sales, regardless of the type of payment. The customer pays for the sales tax when buying the merchandise from the seller. The seller collects the sales taxes from the customers and pays the correct authority when due. The accounts receivable accounts should include the totals due (including the sales and sales tax). The amount of sales taxes collected from customers creates a liability for the seller.*

37. TortiTops' has an ending account balance of $4,950 for merchandise inventory on December 31, 20Y5. After performing a physical inventory count, the merchandise inventory on hand is actually $4,690. Calculate the inventory shrinkage for the year and prepare the journal entry to record the loss in merchandise inventory.
$260; $4,950 – $4,690

Dec. 31	Cost of Merchandise Sold	260	
	Merchandise Inventory		260

38. At the beginning of 20Y5, Myers Supplies had a merchandise inventory balance of $7,950. The company's purchases totaled $9,700, and cost of merchandise sold was $5,200. At the end of 20Y5, the physical count of merchandise inventory showed a balance of $11,900. Calculate the inventory shrinkage for the year and prepare the journal entry to record the costs of the shrinkage for the fiscal year ended March 31.
$550; ($7,950 + $9,700 – $5,200) – $11,900

Mar. 31	Cost of Merchandise Sold	550	
	Merchandise Inventory		550

39. Lakelands Shop had a beginning balance in merchandise inventory of $2,600. Purchases for the year totaled $1,200, and cost of goods sold totaled $1,700. If the physical count of merchandise inventory at the end of the year indicated that $1,990 of inventory was on hand, how much was inventory shrinkage for the year? Prepare the journal entry to record the inventory shrinkage for the fiscal year ended September 30, 20Y5.
$110; ($2,600 + $1,200 – $1,700) – $1,990

Sept. 30	Cost of Merchandise Sold	110	
	Merchandise Inventory		110

Strategy: *Inventory shrinkage is calculated by subtracting the physical count of inventory from the ending balance of merchandise inventory. To record the loss of the inventory, credit Merchandise Inventory for the amount of the shrinkage. The company must also book the expense associated with the inventory. To do this, debit Cost of Merchandise Sold for the amount of the inventory shrinkage.*

40. Sugar Bakeshop had sales totaling $9,000 of merchandise costing $800 during its first year. The company also had the following selling expenses: depreciation on store equipment, $500; advertising expense, $490; sales salaries expense, $1,700; and store rental expense, $2,200. Administrative expenses included office salaries expense, $1,900; insurance expense, $790; and office rental expense, $990. Prepare a multi-step income statement for the calendar year, if Sugar began operations in October 20Y5.

Sugar Bakeshop
Income Statement
For the Three Months Ended December 31, 20Y5

Sales			$9,000
Cost of merchandise sold			800
Gross profit			$8,200
Operating expenses:			
Selling expenses:			
Store rental expense	$2,200		
Sales salaries expense	1,700		
Depr. expense—store equipment	500		
Advertising expense	490		
Total selling expenses		$4,890	
Administrative expenses:			
Office salaries expense	$1,900		
Office rental expense	990		
Insurance expense	790		
Total administrative expenses		3,680	
Total operating expenses			8,570
Net income (loss)			$ (370)

41. Party Place made sales of merchandise inventory of $10,000 in 20Y5. The cost of sales for the year was $1,200. Administrative expenses included depreciation on office equipment, $850; insurance expense, $690; and utilities at office, $750. Selling expenses included sales salaries, $2,200; advertising expense, $890; depreciation on store equipment, $1,200; and store rental expense, $3,570. The company also had interest revenue of $3,250. Prepare a multi-step income statement for the company's fiscal year, which ends September 30.

Party Place
Income Statement
For the Year Ended September 30, 20Y5

Sales			$10,000
Cost of merchandise sold			1,200
Gross profit			$ 8,800
Operating expenses:			
Selling expenses:			
Store rental expense	$3,570		
Sales salaries expense	2,200		
Depr. expense—store equipment	1,200		
Advertising expense	890		
Total selling expenses		$ 7,860	
Administrative expenses:			
Depreciation expense—office equipment	$ 850		
Office utilities expense	750		
Insurance expense	690		
Total administrative expenses		2,290	
Total operating expenses			10,150
Income (loss) from operations			$ (1,350)
Interest revenue			3,250
Net income			$ 1,900

42. Fabulous Finds sold $17,790 of merchandise in 20Y5, with the cost of the merchandise totaling $2,250. Fabulous Finds had the following expenses: sales salaries, $2,100; office salaries, $3,000; advertising expense, $1,200; office supplies, $700; office utilities, $1,400; depreciation on store equipment, $1,070; depreciation on office equipment, $1,800; delivery expense, $950; and insurance expense, $1,200. The company also had interest revenue of $2,200 and investment expense of $900. Prepare the company's income statement for the fiscal year ended March 31.

Fabulous Finds
Income Statement
For the Year Ended March 31, 20Y5

Sales			$17,790
Cost of merchandise sold			2,250
Gross profit			$15,540
Operating expenses:			
Selling expenses:			
Sales salaries expense	$2,100		
Advertising expense	1,200		
Depr. expense—store equipment	1,070		
Delivery expense	950		
Total selling expenses		$ 5,320	
Administrative expenses:			
Office salaries expense	$3,000		
Depreciation expense—office equipment	1,800		
Office utilities expense	1,400		
Insurance expense	1,200		
Office supplies expense	700		
Total administrative expenses		8,100	
Total operating expenses			13,420
Income from operations			$ 2,120
Other revenue and expense:			
Interest revenue		$ 2,200	
Investment expense		(900)	1,300
Net income			$ 3,420

Strategy: *A multi-step income statement calculates net income by categorizing expenses. Cost of merchandise sold is subtracted from sales revenue to calculate gross profit. After calculating gross profit, separate operating expenses as selling or administrative expenses. The total operating expenses are subtracted from gross profit to determine income from operations, which is the income from the sale of merchandise. If the company has revenues or expenses from sources other than selling merchandise, these are listed last and added or subtracted from the income from operations to find the net income.*

43. Using Sugar Bakeshop's information in Exercise 40, prepare a single-step income statement for the company.

Sugar Bakeshop
Income Statement
For the Three Months Ended December 31, 20Y5

Sales		$9,000
Expenses:		
Cost of merchandise sold	$ 800	
Store rental expense	2,200	
Office salaries expense	1,900	
Sales salaries expense	1,700	
Office rental expense	990	
Insurance expense	790	
Depr. expense—store equipment	500	
Advertising expense	490	
Total expenses		9,370
Net income (loss)		$ (370)

44. Using Party Place's information in Exercise 41, prepare a single-step income statement for the company.

Party Place
Income Statement
For the Year Ended September 30, 20Y5

Revenues:		
Sales		$10,000
Interest revenue		3,250
Total revenues		$13,250
Expenses:		
Cost of merchandise sold	$1,200	
Store rental expense	3,570	
Sales salaries expense	2,200	
Depr. expense—store equipment	1,200	
Advertising expense	890	
Depr. expense—office equipment	850	
Office utilities expense	750	
Insurance expense	690	
Total expenses		11,350
Net income (loss)		$ 1,900

45. Prepare a single-step income statement for Fabulous Finds using the information in Exercise 42 for the 20Y5 fiscal year.

Fabulous Finds
Income Statement
For the Year Ended March 31, 20Y5

Revenues:		
Sales		$17,790
Interest revenue		2,200
Total revenues		$19,990
Expenses:		
Cost of merchandise sold	$2,250	
Office salaries expense	3,000	
Sales salaries expense	2,100	
Depr. expense—office equipment	1,800	
Office utilities expense	1,400	
Advertising expense	1,200	
Insurance expense	1,200	
Depr. expense—store equipment	1,070	
Delivery expense	950	
Investment expense	900	
Office supplies expense	700	
Total expenses		16,570
Net income (loss)		$ 3,420

Strategy: *A single-step income statement is much simpler than a multi-step income statement. All expenses are listed and added to calculate the total expenses. Subtract total expenses from the total revenue to calculate the company's net income. Net income will equal the same amount regardless of the type of income statement used.*

46. Using the following information, calculate the asset turnover ratio for 20Y5 and 20Y6. Does the change in the ratios indicate a favorable or unfavorable trend? Round answers to two decimal places.

	20Y6	**20Y5**
Total sales revenues	$16,050	$15,300
Total assets:		
Beginning of year	6,300	7,050
End of year	6,160	6,300

	20Y6	**20Y5**
Asset turnover ratio	2.58	2.29
	$16,050/[($6,300 + $6,160)/2]	$15,300/[($7,050 + $6,300)/2]

Favorable because the ratio increased

47. Calculate the asset turnover ratio for 20Y5 and 20Y6 for Sunny Patch with the information shown below. Does the change in ratios indicate a favorable or unfavorable trend? Round answers to two decimal places.

	20Y6	**20Y5**
Total sales revenues	$7,250	$8,800
Total assets:		
Beginning of year	1,690	1,350
End of year	1,700	1,690

	20Y6	**20Y5**
Asset turnover ratio	4.28	5.79
	$7,250/[($1,690 + $1,700)/2]	$8,800/[($1,350 + $1,690)/2]

Unfavorable because the ratio decreased

48. Zinnia's Blueberries had total sales revenues of $12,200 for 20Y5 and $16,700 for 20Y6. Using the account balances below, calculate the company's asset turnover ratio for the years. Does the change in ratios indicate a favorable or unfavorable trend? Round answers to two decimal places.

	20Y6	**20Y5**
Beginning of year:		
Current assets	$2,950	$3,450
Fixed assets	9,250	8,900
End of year:		
Current assets	3,150	2,950
Fixed assets	9,500	9,250

	20Y6	**20Y5**
Asset turnover ratio	1.34	0.99
	$16,700/[($2,950 + $9,250) + ($3,150 + $9,500)/2]	$12,200/[($3,450 + $8,900) + ($2,950 + $9,250)/2]

Favorable because the ratio increased

Strategy: *The asset turnover ratio indicates if a company is using its assets efficiently to create sales revenue. If the ratio increases, the increase indicates that the company is generating more revenue per assets held.*