

EXERCISES

Answer general questions about merchandisers.

(LO 1)

E5-1 Mr. McKenzie has prepared the following list of statements about service companies and merchandisers.

1. Measuring net income for a merchandiser is conceptually the same as for a service company.
2. For a merchandiser, sales less operating expenses is called gross profit.
3. For a merchandiser, the primary source of revenues is the sale of inventory.
4. Sales salaries and wages is an example of an operating expense.
5. The operating cycle of a merchandiser is the same as that of a service company.
6. In a perpetual inventory system, no detailed inventory records of goods on hand are maintained.
7. In a periodic inventory system, the cost of goods sold is determined only at the end of the accounting period.
8. A periodic inventory system provides better control over inventories than a perpetual system.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

Journalize purchase transactions.

(LO 2)

E5-2 Information related to Kerber Co. is presented below.

1. On April 5, purchased merchandise from Wilkes Company for \$23,000, terms 2/10, net/30, FOB shipping point.
2. On April 6, paid freight costs of \$900 on merchandise purchased from Wilkes.
3. On April 7, purchased equipment on account for \$26,000.
4. On April 8, returned damaged merchandise to Wilkes Company and was granted a \$3,000 credit for returned merchandise.
5. On April 15, paid the amount due to Wilkes Company in full.

Instructions

- (a) Prepare the journal entries to record these transactions on the books of Kerber Co. under a perpetual inventory system.
- (b) Assume that Kerber Co. paid the balance due to Wilkes Company on May 4 instead of April 15. Prepare the journal entry to record this payment.

Journalize perpetual inventory entries.

(LO 2, 3)

E5-3 On September 1, Nixa Office Supply had an inventory of 30 calculators at a cost of \$18 each. The company uses a perpetual inventory system. During September, the following transactions occurred.

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|---------|--|
| Sept. 6 | Purchased 90 calculators at \$22 each from York, terms net/30. |
| 9 | Paid freight of \$90 on calculators purchased from York Co. |
| 10 | Returned 3 calculators to York Co. for \$69 credit (including freight) because they did not meet specifications. |
| 12 | Sold 26 calculators costing \$23 (including freight) for \$31 each to Sura Book Store, terms n/30. |
| 14 | Granted credit of \$31 to Sura Book Store for the return of one calculator that was not ordered. |
| 20 | Sold 30 calculators costing \$23 for \$32 each to Davis Card Shop, terms n/30. |

Instructions

Journalize the September transactions.

E5-9 Presented below is information for Kaila Company for the month of March 2017.

Cost of goods sold	\$215,000	Rent expense	\$ 30,000
Freight-out	7,000	Sales discounts	8,000
Insurance expense	6,000	Sales returns and allowances	13,000
Salaries and wages expense	58,000	Sales revenue	380,000

Prepare multiple-step income statement.

(LO 5)

Instructions

- (a) Prepare a multiple-step income statement.
- (b) Compute the gross profit rate.

P5-1A Kern's Book Warehouse distributes hardcover books to retail stores and extends credit terms of 2/10, n/30 to all of its customers. At the end of May, Kern's inventory consisted of books purchased for \$1,800. During June, the following merchandising transactions occurred.

Journalize purchase and sales transactions under a perpetual inventory system.

(LO 2, 3)



- June 1 Purchased books on account for \$1,600 from Binsfeld Publishers, FOB destination, terms 2/10, n/30. The appropriate party also made a cash payment of \$50 for the freight on this date.
- 3 Sold books on account to Reading Rainbow for \$2,500. The cost of the books sold was \$1,440.
- 6 Received \$100 credit for books returned to Binsfeld Publishers.
- 9 Paid Binsfeld Publishers in full, less discount.
- 15 Received payment in full from Reading Rainbow.
- 17 Sold books on account to Rapp Books for \$1,800. The cost of the books sold was \$1,080.
- 20 Purchased books on account for \$1,800 from McGinn Publishers, FOB destination, terms 2/15, n/30. The appropriate party also made a cash payment of \$60 for the freight on this date.
- 24 Received payment in full from Rapp Books.
- 26 Paid McGinn Publishers in full, less discount.
- 28 Sold books on account to Baeten Bookstore for \$1,600. The cost of the books sold was \$970.
- 30 Granted Baeten Bookstore \$120 credit for books returned costing \$72.

Kern's Book Warehouse's chart of accounts includes the following: No. 101 Cash, No. 112 Accounts Receivable, No. 120 Inventory, No. 201 Accounts Payable, No. 401 Sales Revenue, No. 412 Sales Returns and Allowances, No. 414 Sales Discounts, and No. 505 Cost of Goods Sold.

Instructions

Journalize the transactions for the month of June for Kern's Book Warehouse using a perpetual inventory system.