

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.

- | | |
|---------|--|
| 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.

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.

EXERCISE 5-1

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

EXERCISE 5-2

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

EXERCISE 5-3

Sept. 6	Inventory (90 X \$22)	1,980	
	Cash.....		1,980
9	Inventory	90	
	Cash.....		90
10	Accounts Payable	69	
	Inventory		69
12	Accounts Receivable (26 X \$31).....	806	
	Sales Revenue		806
	Cost of Goods Sold (26 X \$23)	598	
	Inventory		598
14	Sales Returns and Allowances.....	31	
	Accounts Receivable.....		31
	Inventory	23	
	Cost of Goods Sold		23
20	Accounts Receivable (30 X \$32).....	960	
	Sales Revenue		960
	Cost of Goods Sold (30 X \$23)	690	
	Inventory		690

EXERCISE 5-9

(a)

KAILA COMPANY
Income Statement
For the Month Ended March 31, 2017

Sales revenues

Sales revenue		\$380,000
Less: Sales returns and allowances	\$13,000	
Sales discounts	8,000	21,000
Net sales		359,000
Cost of goods sold		215,000
Gross profit	144,000	
Operating expenses		
Salaries and wages expense	58,000	
Rent expense	30,000	
Freight-out	7,000	
Insurance expense	6,000	
Total operating expenses.....		101,000
Net income.....		\$ 43,000

(b) Gross profit rate = $\$144,000 \div \$359,000 = 40.11\%$.

PROBLEM 5-1A

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

PROBLEM 5-1A (Continued)

June 28	Accounts Receivable	1,600	
	Sales Revenue.....		1,600
	Cost of Goods Sold	970	
	Inventory.....		970
30	Sales Returns and Allowances.....	120	
	Accounts Receivable		120
	Inventory	72	
	Cost of Goods Sold		72