Problems: Set B

P5-1B  Krey Distributing Company completed these merchandising transactions in the month of April. At the beginning of April, the ledger of Krey showed Cash of $10,000 and Common Stock of $10,000.

Apr. 2  Purchased merchandise on account from Am-Bev Co. $8,700, terms 2/10, n/30.
   4  Sold merchandise on account $6,000, terms 2/10, n/30. The cost of the merchandise sold was $3,700.
   5  Paid $200 freight on April 4 sale.
   6  Received credit from Am-Bev Co. for merchandise returned $400.
   11 Paid Am-Bev Co. in full, less discount.
   13 Received collections in full, less discounts, from customers billed on April 4.
   14 Purchased merchandise for cash $4,700.
   16 Received refund from supplier for returned merchandise on cash purchase of April 14, $500.
   18 Purchased merchandise from Lohr Distributors $5,500, terms 2/10, n/30.
   20 Paid freight on April 18 purchase $180.
   23 Sold merchandise for cash $8,300. The cost of the merchandise sold was $5,580.
   26 Purchased merchandise for cash $2,300.
   27 Paid Lohr Distributors in full, less discount.
   29 Made refunds to cash customers for returned merchandise $180. The returned merchandise had a cost of $120.
   30 Sold merchandise on account $3,980, terms n/30. The cost of the merchandise sold was $2,500.

Krey Distributing Company's chart of accounts includes Cash, Accounts Receivable, Inventory, Accounts Payable, Common Stock, Sales Revenue, Sales Returns and Allowances, Sales Discounts, Cost of Goods Sold, and Freight-Out.

Instructions
(a) Journalize the transactions.
(b) Post the transactions to T-accounts. Be sure to enter the beginning cash and common stock balances.
(c) Prepare the income statement through gross profit for the month of April 2014.
(d) Calculate the profit margin and the gross profit rate. (Assume operating expenses were $3,000.)

P5-2B  Cosmotologist Warehouse distributes commercial hair care products in one-gallon bottles to hair salons and extends credit terms of 3/10, n/30 to all of its customers. During the month of April, the following merchandising transactions occurred.

Apr.  1  Purchased 190 bottles on account for $6 each (including freight) from Luminous Hair, terms 2/10, n/30.
   3  Sold 40 bottles on account to the Jane's Hair Salon for $10 each.
   6  Received $90 credit for 15 bottles returned to Luminous Hair.
   9  Paid Luminous Hair in full.
   12 Received payment in full from the Jane's Hair Salon.
   13 Sold 25 bottles on account to Luxury Salon for $12 each.
   20 Purchased 200 bottles on account for $6 each from Blond Beauty, terms 1/15, n/30.
   24 Received payment in full from Luxury Salon.
   26 Paid Blond Beauty in full.
   28 Sold 160 bottles on account to Beautiful Cuts salons for $10 each.
   30 Granted Beautiful Cuts $120 credit for 12 bottles returned costing $72.

Instructions
Journalize the transactions for the month of April for Cosmotologist Warehouse, using a perpetual inventory system. Assume the cost of each bottle sold was $6.

P5-3B  At the beginning of the current season, the ledger of Connors’ Tennis Shop showed Cash $3,500; Inventory $1,700; and Common Stock $5,200. The following transactions were completed during April 2014.

(c) Gross profit $6,320

Journalize, post, and prepare partial income statement, and calculate ratios.
Apr. 4 Purchased racquets and balls from Rawlings Co. $980, terms 2/10, n/30.
6 Paid freight on Rawlings Co. purchase $60.
8 Sold merchandise to members $750, terms n/30. The merchandise sold cost $480.
10 Received credit of $130 from Rawlings Co. for damaged racquets that were returned.
11 Purchased tennis shoes from Fast Feet for cash $300.
13 Paid Rawlings Co. in full.
14 Purchased tennis shirts and shorts from Armour Sportswear $1,300, terms 3/10, n/60.
15 Received cash refund of $50 from Fast Feet for damaged merchandise that was returned.
17 Paid freight on Armour Sportswear purchase $60.
18 Sold merchandise to members $660, terms n/30. The cost of the merchandise sold was $440.
20 Received $500 in cash from members in partial settlement of their accounts.
21 Paid Armour Sportswear in full.
27 Granted an allowance of $30 to members for tennis clothing that did not fit properly.
30 Received cash payments on account from members $550.

The chart of accounts for the tennis shop includes Cash, Accounts Receivable, Inventory, Accounts Payable, Common Stock, Sales Revenue, Sales Returns and Allowances, and Cost of Goods Sold.

Instructions
(a) Journalize the April transactions using a perpetual inventory system.
(b) Using T-accounts, enter the beginning balances in the ledger accounts and post the April transactions.
(c) Prepare a trial balance on April 30, 2014.
(d) Prepare an income statement through gross profit for the month of April 2014.

Prepare financial statements and calculate profitability ratios.

P5-4B Parker Department Store is located near the Mark Twain Shopping Mall. At the end of the company’s fiscal year on December 31, 2014, the following accounts appeared in its adjusted trial balance.

- Accounts Payable $73,300
- Accounts Receivable 43,500
- Accumulated Depreciation—Buildings 52,500
- Accumulated Depreciation—Equipment 42,600
- Buildings 140,000
- Cash 30,000
- Common Stock 140,000
- Cost of Goods Sold 412,000
- Depreciation Expense 23,400
- Dividends 15,000
- Equipment 100,000
- Gain on Disposal of Plant Assets 4,300
- Income Tax Expense 15,000
- Insurance Expense 8,400
- Interest Expense 7,000
- Interest Payable 2,000
- Inventory 43,000
- Land 50,000
- Mortgage Payable 62,500
- Prepaid Insurance 2,400
- Maintenance and Repairs Expense 6,200
- Retained Earnings 19,200
- Salaries and Wages Expense 111,000
- Sales Revenue 626,000
- Salaries and Wages Payable 3,500
- Sales Returns and Allowances 8,000
- Utilities Expense 11,000
Additional data: $20,000 of the mortgage payable is due for payment next year.

**Instructions**

(a) Prepare a multiple-step income statement, a retained earnings statement, and a classified balance sheet.

(b) Calculate the profit margin and the gross profit rate.

(c) The vice president of marketing and the director of human resources have developed a proposal whereby the company would compensate the sales force on a strictly commission basis. Given the increased incentive, they expect net sales to increase by 25%. As a result, they estimate that gross profit will increase by $50,500 and expenses by $27,800. Compute the expected new net income. (Hint: You do not need to prepare an income statement.) Then, compute the revised profit margin and gross profit rate. Comment on the effect that this plan would have on net income and the ratios, and evaluate the merit of this proposal.

**P5-5B** An inexperienced accountant prepared this condensed income statement for Wright Company, a retail firm that has been in business for a number of years.

**WRIGHT COMPANY**

**Income Statement**

For the Year Ended December 31, 2014

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$952,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$952,000</td>
</tr>
<tr>
<td>Other revenues</td>
<td>16,000</td>
</tr>
<tr>
<td>Total</td>
<td>968,000</td>
</tr>
</tbody>
</table>

| Cost of goods sold  | $548,000 |
| Gross profit        | 420,000  |
| Operating expenses  |          |
| Selling expenses    | 160,000  |
| Administrative expenses | 104,000 |
| Total               | 264,000  |

| Net earnings        | $156,000 |

As an experienced, knowledgeable accountant, you review the statement and determine the following facts.

1. Net sales consist of sales $972,000, less freight-out on merchandise sold $20,000.
2. Other revenues consist of sales discounts $12,000 and interest revenue $4,000.
3. Selling expenses consist of salespersons’ salaries $88,000; depreciation on equipment $4,000; sales returns and allowances $46,000; advertising $12,000; and sales commissions $10,000. All compensation should be recorded as Salaries and Wages Expense.
4. Administrative expenses consist of office salaries $54,000; dividends $14,000; utilities $13,000; interest expense $3,000; and rent expense $20,000, which includes prepayments totaling $2,000 for the first month of 2015. The utilities represent utilities paid. At December 31, utility expense of $3,000 has been incurred but not paid.

**Instructions**

Prepare a correct detailed multiple-step income statement.

**P5-6B** The trial balance of Buse’s Fashion Center contained the accounts below at November 30, the end of the company’s fiscal year.

(a) Net income $28,300
    Total assets $313,800

Prepare a correct multiple-step income statement.

Journalize, post, and prepare adjusted trial balance and financial statements.

Net income $145,000

(LO 4), AP
### BUSE’S FASHION CENTER

#### Trial Balance

November 30, 2014

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 37,700</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>33,700</td>
</tr>
<tr>
<td>Inventory</td>
<td>43,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>8,800</td>
</tr>
<tr>
<td>Equipment</td>
<td>143,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Equipment</td>
<td>$ 41,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>62,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>17,800</td>
</tr>
<tr>
<td>Common Stock</td>
<td>80,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>30,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>12,000</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>757,200</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>6,200</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>505,400</td>
</tr>
<tr>
<td>Salaries and Wages Expense</td>
<td>110,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>26,400</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>14,000</td>
</tr>
<tr>
<td>Maintenance and Repairs Expense</td>
<td>12,100</td>
</tr>
<tr>
<td>Freight-Out</td>
<td>11,700</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>24,000</td>
</tr>
</tbody>
</table>

$988,000 $988,000

### Adjustment data:

1. Store supplies on hand total $4,000.
2. Depreciation is $14,000 on the store equipment and $6,000 on the delivery equipment.
3. Interest of $4,400 is accrued on notes payable at November 30.
4. Income tax due and unpaid at November 30 is $3,000.

Other data: $24,000 of notes payable are due for payment next year.

### Instructions

(a) Journalize the adjusting entries.
(b) Prepare T-accounts for all accounts used in part (a). Enter the trial balance amounts into the T-accounts and post the adjusting entries.
(c) Prepare an adjusted trial balance.
(d) Prepare a multiple-step income statement and a retained earnings statement for the year, and a classified balance sheet at November 30, 2014.

---

### At the end of Alma’s Department Store’s fiscal year on December 31, 2014, these accounts appeared in its adjusted trial balance.

| Freight-In | $ 7,200 |
| Inventory (beginning) | 40,500 |
| Purchases | 456,000 |
| Purchase Discounts | 12,000 |
| Purchase Returns and Allowances | 6,400 |
| Sales Revenue | 702,000 |
| Sales Returns and Allowances | 8,000 |

**Gross profit $257,000**

### Instructions

Prepare an income statement through gross profit for the year ended December 31, 2014.

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### Sandy Melon operates a clothing retail operation. She purchases all inventory on credit and uses a periodic inventory system. The Accounts Payable account is used for recording inventory purchases only; all other current liabilities are accrued in separate accounts. You are provided with the following selected information for the fiscal years...
Problems: Set B


<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory (ending)</td>
<td>$16,000</td>
<td>$11,300</td>
<td>$16,400</td>
<td>$14,200</td>
</tr>
<tr>
<td>Accounts payable (ending)</td>
<td>17,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>229,700</td>
<td>227,600</td>
<td>220,000</td>
<td></td>
</tr>
<tr>
<td>Purchases of inventory on account</td>
<td>146,900</td>
<td>155,700</td>
<td>139,200</td>
<td></td>
</tr>
<tr>
<td>Cash payments to suppliers</td>
<td>135,900</td>
<td>159,000</td>
<td>127,000</td>
<td></td>
</tr>
</tbody>
</table>

Instructions
(a) Calculate cost of goods sold for each of the 2013, 2014, and 2015 fiscal years.
(b) Calculate the gross profit for each of the 2013, 2014, and 2015 fiscal years.
(c) Calculate the ending balance of accounts payable for each of the 2013, 2014, and 2015 fiscal years.
(d) The vice presidents of sales, marketing, production, and finance are discussing the company's results with the CEO. They note that sales declined in fiscal 2015. They wonder whether that means that profitability, as measured by the gross profit rate, necessarily also declined. Explain, calculating the gross profit rate for each fiscal year to help support your answer.

*P5-9B* At the beginning of the current season on November 1, the ledger of Winona Sports showed Cash $3,300, Inventory $4,700, and Common Stock $8,000. The following transactions occurred during November 2014.

Nov. 5  Purchased hockey sticks and pucks on account from Hi-Stick Co. $1,600, terms 2/10, n/60.
       7    Paid freight on Hi-Stick Co. purchases $90.
       9    Received credit from Hi-Stick Co. for merchandise returned $350.
      10    Sold merchandise on account for $1,000, terms n/30.
      12    Purchased gloves, socks, and other accessories on account from Twin City Sportswear $945, terms 1/10, n/30.
      14    Paid Hi-Stick Co. in full.
      17    Received credit from Twin City Sportswear for merchandise returned $45.
      20    Made sales on account for $1,330, terms n/30.
      21    Paid Twin City Sportswear in full.
      27    Granted credit to customers for clothing that did not fit properly $150.
      30    Received payments on account for $1,900.

The chart of accounts for Winona Sports includes Cash, Accounts Receivable, Inventory, Accounts Payable, Common Stock, Sales Revenue, Sales Returns and Allowances, Purchases, Purchase Returns and Allowances, Purchase Discounts, and Freight-In.

Instructions
(a) Journalize the November transactions using a periodic inventory system.
(b) Using T-accounts, enter the beginning balances in the ledger accounts and post the November transactions.
(c) Prepare a trial balance on November 30, 2014.
(d) Prepare an income statement through Gross profit, assuming inventory on hand at November 30 is $5,196.