CHAPTER 5

PROBLEMS: SET B

P5-1B Urdan Co. distributes suitcases to retail stores and extends credit terms of 1/10, n/30 to all of its customers. At the end of June, Urdan’s inventory consisted of suitcases costing $1,200. During the month of July, the following merchandising transactions occurred.

July  
1 Purchased suitcases on account for $1,800 from Hostad Manufacturers, FOB destination, terms 2/10, n/30. The appropriate party also made a cash payment of $100 for freight on this date.
3 Sold suitcases on account to Kaye Satchels for $2,000. The cost of suitcases sold is $1,200.
9 Paid Hostad Manufacturers in full.
12 Received payment in full from Kaye Satchels.
17 Sold suitcases on account to The Going Concern for $1,800. The cost of the suitcases sold was $1,080.
18 Purchased suitcases on account for $1,900 from Nelson Manufacturers, FOB shipping point, terms 1/10, n/30. The appropriate party also made a cash payment of $125 for freight on this date.
20 Received $300 credit (including freight) for suitcases returned to Nelson Manufacturers.
21 Received payment in full from The Going Concern.
22 Sold suitcases on account to Wopat’s for $2,250. The cost of suitcases sold was $1,350.
30 Paid Nelson Manufacturers in full.
31 Granted Wopat’s $200 credit for suitcases returned costing $120.

Urdan’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 July for Urdan using a perpetual inventory system.

P5-2B Rose Distributing Company completed the following merchandising transactions in the month of April. At the beginning of April, the ledger of Rose showed Cash of $9,000 and Owner’s Capital of $9,000.

Apr.  
2 Purchased merchandise on account from Kwon Supply Co. $6,900, terms 1/10, n/30.
4 Sold merchandise on account $6,500, FOB destination, terms 1/10, n/30. The cost of the merchandise sold was $3,900.
5 Paid $240 freight on April 4 sale.
6 Received credit from Kwon Supply Co. for merchandise returned $500.
11 Paid Kwon Supply Co. in full, less discount.
13 Received collections in full, less discounts, from customers billed on April 4.
14 Purchased merchandise for cash $3,800.
16 Received refund from supplier for returned goods on cash purchase of April 14, $500.
18 Purchased merchandise from Davis Distributors $4,500, FOB shipping point, terms 2/10, n/30.
20 Paid freight on April 18 purchase $100.
23 Sold merchandise for cash $7,400. The merchandise sold had a cost of $4,120.
26 Purchased merchandise for cash $2,300.
27 Paid Davis Distributors in full, less discount.
29 Made refunds to cash customers for defective merchandise $90. The returned merchandise had a fair value of $30.
30 Sold merchandise on account $3,700, terms n/30. The cost of the merchandise sold was $2,800.

Journalize purchase and sales transactions under a perpetual inventory system. (LO 2, 3)

Journalize, post, and prepare a partial income statement. (LO 2, 3, 5)
Rose Distributing Company’s chart of accounts includes the following: No. 101 Cash, No. 112 Accounts Receivable, No. 120 Inventory, No. 201 Accounts Payable, No. 301 Owner’s Capital, No. 401 Sales Revenue, No. 412 Sales Returns and Allowances, No. 414 Sales Discounts, No. 505 Cost of Goods Sold, and No. 644 Freight-Out.

Instructions
(a) Journalize the transactions using a perpetual inventory system.
(b) Enter the beginning cash and capital balances, and post the transactions. (Use J1 for the journal reference.)
(c) Prepare the income statement through gross profit for the month of April 2017.

Prepare financial statements and adjusting and closing entries.
(LO 4, 5)

<table>
<thead>
<tr>
<th>Unadjusted</th>
<th>Adjusted</th>
<th>Unadjusted</th>
<th>Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$ 79,300</td>
<td>$ 80,300</td>
<td>Inventory</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>50,300</td>
<td>50,300</td>
<td>Mortgage Payable</td>
</tr>
<tr>
<td>Accumulated Depr.—Buildings</td>
<td>42,100</td>
<td>52,500</td>
<td>Owner’s Capital</td>
</tr>
<tr>
<td>Accumulated Depr.—Equipment</td>
<td>29,600</td>
<td>42,900</td>
<td>Owner’s Drawings</td>
</tr>
<tr>
<td>Buildings</td>
<td>290,000</td>
<td>290,000</td>
<td>Prepaid Insurance</td>
</tr>
<tr>
<td>Cash</td>
<td>23,800</td>
<td>23,800</td>
<td>Property Tax Expense</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>412,700</td>
<td>412,700</td>
<td>Property Taxes Payable</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>23,700</td>
<td></td>
<td>Sales Returns and Allowances</td>
</tr>
<tr>
<td>Equipment</td>
<td>110,000</td>
<td>110,000</td>
<td>Sales Commissions Expense</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>7,200</td>
<td></td>
<td>Sales Commissions Payable</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>3,000</td>
<td>12,000</td>
<td>Sales Revenue</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>9,000</td>
<td></td>
<td>Utilities Expense</td>
</tr>
<tr>
<td>Interest Revenue</td>
<td>4,000</td>
<td>4,000</td>
<td></td>
</tr>
</tbody>
</table>

Instructions
(a) Prepare a multiple-step income statement, an owner’s equity statement, and a classified balance sheet. $25,000 of the mortgage payable is due for payment next year.
(b) Journalize the adjusting entries that were made.
(c) Journalize the closing entries that are necessary.

Journalize, post, and prepare a trial balance.
(LO 2, 3, 4)

Apr.  4  Purchased racquets and balls from Marx Co. $840, FOB shipping point, terms 2/10, n/30.
   6  Paid freight on purchase from Marx Co. $40.
   8  Sold merchandise to members $1,150, terms n/30. The merchandise sold had a cost of $790.
  10  Received credit of $40 from Marx Co. for a racquet that was returned.
  11  Purchased tennis shoes from Rupp Sports for cash, $420.
  13  Paid Marx Co. in full.
  14  Purchased tennis shirts and shorts from Hayley’s Sportswear $900, FOB shipping point, terms 3/10, n/60.
  15  Received cash refund of $50 from Rupp Sports for damaged merchandise that was returned.
  17  Paid freight on Hayley’s Sportswear purchase $30.
  18  Sold merchandise to members $900, terms n/30. The cost of the merchandise sold was $540.
  20  Received $600 in cash from customers in settlement of their accounts.
  21  Paid Hayley’s Sportswear in full.
  27  Granted an allowance of $40 to members for tennis clothing that did not fit properly.
  30  Received cash payments on account from customers, $710.
The chart of accounts for the tennis shop includes the following: No. 101 Cash, No. 112 Accounts Receivable, No. 120 Inventory, No. 201 Accounts Payable, No. 301 Owner’s Capital, No. 401 Sales Revenue, No. 412 Sales Returns and Allowances, and No. 505 Cost of Goods Sold.

Instructions
(a) Journalize the April transactions using a perpetual inventory system.
(b) Enter the beginning balances in the ledger accounts and post the April transactions. (Use J1 for the journal reference.)
(c) Prepare a trial balance on April 30, 2017.

*P5-5B* At the end of Roshek Department Store's fiscal year on December 31, 2017, these accounts appeared in its adjusted trial balance.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight-In</td>
<td>$ 5,600</td>
</tr>
<tr>
<td>Inventory</td>
<td>$40,500</td>
</tr>
<tr>
<td>Purchases</td>
<td>$447,000</td>
</tr>
<tr>
<td>Purchase Discounts</td>
<td>$12,000</td>
</tr>
<tr>
<td>Purchase Returns and Allowances</td>
<td>$6,400</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>$725,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>$11,000</td>
</tr>
</tbody>
</table>

Additional facts:
1. Merchandise inventory on December 31, 2017, is $65,000.
2. Roshek Department Store uses a periodic system.

Instructions
Prepare an income statement through gross profit for the year ended December 31, 2017.

*P5-6B* Val Knight operates a retail clothing operation. She purchases all merchandise 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 2014–2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Inventory (ending)</th>
<th>Accounts payable (ending)</th>
<th>Sales revenue</th>
<th>Purchases of merchandise inventory on account</th>
<th>Cash payments to suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$13,000</td>
<td>$20,000</td>
<td>$239,000</td>
<td>$146,000</td>
<td>$135,000</td>
</tr>
<tr>
<td>2015</td>
<td>$11,300</td>
<td>$14,700</td>
<td>$237,000</td>
<td>$145,000</td>
<td>$161,000</td>
</tr>
<tr>
<td>2016</td>
<td>$14,700</td>
<td>$235,000</td>
<td>$129,000</td>
<td>$127,000</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$12,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Instructions
(a) Calculate cost of goods sold for each of the 2015, 2016, and 2017 fiscal years.
(b) Calculate the gross profit for each of the 2015, 2016, and 2017 fiscal years.
(c) Calculate the ending balance of accounts payable for each of the 2015, 2016, and 2017 fiscal years.
(d) Sales declined in fiscal 2017. Does that mean 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. (Round to one decimal place.)

*P5-7B* At the beginning of the current season, the ledger of Everett Tennis Shop showed Cash $2,500; Inventory $1,700; and Owner’s Capital $4,200. The following transactions were completed during April.

<table>
<thead>
<tr>
<th>Apr</th>
<th>4 Purchased racquets and balls from Riggs Co. $740, terms 3/10, n/30.</th>
<th>Gross profit $304,300</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6 Paid freight on Riggs Co. purchase $60.</td>
<td>(c) 2016 Ending accts payable $15,000</td>
</tr>
<tr>
<td></td>
<td>8 Sold merchandise to customers $900, terms n/30.</td>
<td>(a) 2016 $141,600</td>
</tr>
<tr>
<td></td>
<td>10 Received credit of $40 from Riggs Co. for a racquet that was returned.</td>
<td>(c) Total debits $6,250</td>
</tr>
<tr>
<td></td>
<td>11 Purchased tennis shoes from King Sports for cash $300.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13 Paid Riggs Co. in full.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14 Purchased tennis shirts and shorts from BJ Sportswear $700, terms 2/10, n/60.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15 Received cash refund of $50 from King Sports for damaged merchandise that was returned.</td>
<td>(LO 5, 7)</td>
</tr>
</tbody>
</table>
17  Paid freight on BJ Sportswear purchase $30.
18  Sold merchandise to customers $1,000, terms n/30.
20  Received $500 in cash from customers in settlement of their accounts.
21  Paid BJ Sportswear in full.
27  Granted an allowance of $25 to customers for tennis clothing that did not fit properly.
30  Received cash payments on account from customers $550.

The chart of accounts for the tennis shop includes Cash, Accounts Receivable, Inventory, Accounts Payable, Owner's Capital, Sales Revenue, Sales Returns and Allowances, Purchases, Purchase Returns and Allowances, Purchase Discounts, and Freight-In.

Instructions
(a) Journalize the April transactions using a periodic 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, 2017.
(d) Prepare an income statement through gross profit, assuming inventory on hand at April 30 is $2,296.

(c) Tot. trial balance $6,225  
(d) Gross profit $766