

*. There will also be a return on exam.

Exercise 4-7

Analyzing and recording merchandise transactions—both buyer and seller

EX 4-8
Extra Practice

Santa Fe Company purchased merchandise for resale from Mesa Company with an invoice price of \$24,000 and credit terms of 3/10, n/60. The merchandise had cost Mesa \$16,000. Santa Fe paid within the discount period. Assume that both buyer and seller use a perpetual inventory system.

1. Prepare entries that the buyer should record for (a) the purchase and (b) the cash payment.
2. Prepare entries that the seller should record for (a) the sale and (b) the cash collection.

<u>Buyer - Santa Fe</u>		<u>Seller - Mesa</u>	
Merch Inventory	24000	A/R - Santa Fe	24000
AP - Mesa	24000	Sales	24000
		COGS	16000
		Merch Inv.	16000
<hr/>		<hr/>	
A/P	24000	Cash	23280
Merch Inv. (24000 x 3%)	720	Sales Disc	720
CASH (24000 x 97%)	23280	- A/R Santa Fe	24000

Below is an income statement.

Compute the following SHOWING ALL RELEVANT COMPUTATIONS:

1. Net Sales = 332,250
2. Gross Profit = 172,350
3. Gross Profit Margin = 51.8% p 184
4. Operating Expenses = 141,850
5. Net Income = 30,500

Net Profit margin ???
Could you compute.

p. 186 for detailed calcs,

KC ANTIQUES Adjusted Trial Balance December 31, 2015		
	Debit	Credit
Cash	\$ 7,000	
Accounts receivable	13,000	
Merchandise inventory	60,000	
Store supplies	1,500	
Equipment	45,600	
Accumulated depreciation—Equipment		\$ 16,600
Accounts payable		9,000
Salaries payable		2,000
Common stock		20,000
Retained earnings		59,000
Dividends	10,000	
Sales		343,250
Sales discounts	5,000	
Sales returns and allowances	6,000	
Cost of goods sold	159,900	
Depreciation expense—Store equipment	4,100	
Depreciation expense—Office equipment	1,600	
Sales salaries expense	30,000	
Office salaries expense	34,000	
Insurance expense	11,000	
Rent expense (70% is store, 30% is office)	24,000	
Store supplies expense	5,750	
Advertising expense	31,400	
Totals	<u>\$449,850</u>	<u>\$449,850</u>

NI
30500
Net Sales
332,250
= 9.2%

① Net sales = Sales - Sales Discounts - Sales Returns & Allow
 $343,250 - 5,000 - 6,000 =$

② Gross Profit = Net Sales - COGS =
 $332,250 - 159,900 = 172,350$

③ GP Margin = Gross Profit / Net sales = $172,350 / 332,250 = 51.8$

④ op. expenses = sum of all expenses. $141,850$

⑤ NI = GP - op exp = $172,350 - 141,850 = 30,500$

Alternate Demonstration Problem #1
Chapter 5

The ABC Company had the following inventory record for the month of January:

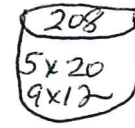
<u>Date</u>	<u>Description</u>	<u># of Items</u>	<u>Unit Price</u>
1/1	Beginning inventory	5	\$20
1/5	Sale	2	
1/11	Purchase	9	12
1/28	Sale	7	

Required:

Assuming a perpetual inventory system is used, determine the cost of goods sold and the ending inventory

1. FIFO
2. LIFO
3. Weighted average

Inventory Account



Bucket
"Avail For Sale"

FIFO

purchases	sales at cost
1/1 #5 x 20 = 100	
<hr/>	1/5 #2 x 20 = 40
Bal #3 x 20 = 60	
1/11 #9 x 12 = 108	
Bal #12 [3x20 9x12] 168	
<hr/>	1/28 7 < 3x20 = 60 4x12 = 48
Bal #5 [5x12] 60	
Ending Inv = 60	COGS = 148

ALWAYS
✓ Bucket

LIFO

purchases	sales at cost
1/1 #5 x 20 = 100	
<hr/>	1/5 2 x 20 = 40
Bal #3 x 20 = 60	
1/11 #9 x 12 = 108	
Bal #12 [3x20 9x12] 168	
<hr/>	#1 7x12 84
Bal #5 [3x20 2x12] 84	124
End Inv = 84	COGS = 124

ALWAYS
✓ Bucket

Inventory Account

Avg Cost

	Sales at Cost
1/1 Beg Inv ^{purchases} 5 x 20 = 100	
	2 x 20 = 40
Bal. 3 x 20 60	
1/1 Purch 9 x 12 108	
Bal #12 [^{Avg} 14] 168	
$168 \div 12$	1/28 # 7 x 14 = 98
End Inv #5 [14] 70	
End Inv = 70	COGS = 138

ALWAYS
✓ buckle

Alternate Demonstration Problem
Chapter 6

The Betsy Dough Company wants to prepare a bank reconciliation for the month of June. When the bank statement for the month of June arrives from the bank, the following steps are performed:

1. The deposits to the bank account, as recorded on the bank statement, are compared to the deposit slips retained by the company. It is noted that the last deposit, of \$400, occurred after banking hours on the day of the bank statement and therefore has not been recorded by the bank on this bank statement.
2. Checks returned with the bank statement are compared to the checks written and listed in checkbook. This comparison shows that there are checks outstanding amounting to \$1,456.
3. The ending balances on the statement and in the company's books are determined. The ending bank statement balance is exactly \$10,129 whereas the books show \$9,000.
4. Other information contained on the bank statement, not previously known to the company, is determined. This includes the following: (a) a note of \$180 plus \$20 interest from a customer for a total of \$200 has been collected by the bank and credited to our account; (b) a check from Frank Ony for \$120 previously deposited by us has been returned for lack of sufficient funds; (c) the bank has charged us \$25 for its services (this includes a \$10 fee for the NSF check). The \$10 fee for the NSF check will be charged to the customer.
5. A bank reconciliation is prepared; it does not balance. The difference is \$18, so a transposition error is looked for (whenever the difference is a multiple of 9, there is a very good chance that there has been an inadvertent exchange of two digits (for example, writing 29 when it should have been 92). An error is found. Check number 141 was written for \$235 for Advertising Expense and cleared the bank for \$235, but was recorded in the company records as \$253.

Required:

Prepare a bank reconciliation for the Betsy Dough Company at June 30, 20XX.

Betsy Dough Corp.

Bank Rec

6-30-XX

Bank		Books	
Bal per bank	10,129	Bal per books	9000
Add: Dep in Trans last day of mo.	400	Add: collections (180 + Interest)	200
less: outstanding checks <1456>		less: NSF - Fran only <120>	
		Fees <10 NSF fee 15 other bank fee> <25>	
Bank +/- errors		+/- book errors + 18 253-235 trans error chk #141.	
Adjusted Bal per bank		Adjusted bal per books	
	<u>9073</u>		<u>9073</u>

VES

Cash	200
Note Receiv	180
Int Rev.	20
AR - Fran	130 (Inc to Fee)
cash.	130
Bank Fee Exp.	15
CASH	15

Cash	18
Adv Exp	18

**Solution: Alternate Demonstration Problem
Chapter 6**

**BETSY DOUGH COMPANY
Bank Reconciliation
June 30, 20XX
Bank Statement**

Bank statement balance	\$10,129
Add:	
Deposit of June 30	<u>400</u>
	10,529
Deduct:	
Outstanding checks	<u>1,456</u>
	<u>\$ 9,073</u>

Depositor's Books

Book balance of cash.....		\$ 9,000
Add:		
Proceeds of customer note collected by bank		200
Error in recording Check No. 141		<u>18</u>
Deduct:		
NSF check from Frank Ony (400.00)	\$ 120	
Bank service charges.....	<u>25</u>	<u>145</u>
		<u>\$ 9,073</u>

Adjusting entries Based on the Bank Reconciliation (made by depositor)

Cash.....	218	
Notes Receivable		180
Interest Revenue		20
Advertising Expense		18
Accounts Receivable – F. Ony	130	
Miscellaneous Expense	15	
Cash		145

Solution: Alternate Demonstration Problem
Chapter 5

1.

FIFO Perpetual			
Date	Purchases	Sales at Cost	Inventory Balance
1/1 Beginning Inventory			5 @ \$20 = \$100
1/5		2 @ \$20 = \$ 40	3 @ \$20 = \$ 60
1/11	9 @ 12=\$108		3 @ \$20 = \$ 60 9 @ \$12 = <u>108</u> \$168
1/28		3 @ \$20 = \$ 60 4 @ \$12 = <u>48</u> \$108	5 @ \$12 = \$ 60 Ending Inventory
Total CGS		\$ 40 + 108 = \$148	

2.

LIFO Perpetual			
Date	Purchases	Sales at Cost	Inventory Balance
1/1 Beginning Inventory			5 @ \$ 20 = \$100
1/5		2 @ \$20 = \$ 40	3 @ \$20 = 60
1/11	9 @ \$12=\$108		3 @ \$20 = \$ 60 9 @ \$12 = <u>108</u> \$168
1/28		7 @ \$12 = \$ 84	3 @ \$20 = \$ 60 2 @ \$12 = <u>24</u> \$ 84 Ending Inventory
Total CGS		\$40 + 84 = \$124	

3.

Weighted Average Perpetual			
Date	Purchases	Sales at Cost	Inventory Balance
1/1 Beginning Inventory			5 @ \$20 = \$100
1/5		2 @ \$20 = \$ 40	3 @ \$20 = \$ 60
1/11	9 @ 12=\$108		3 @ \$20 = \$ 60 9 @ \$12 = <u>108</u> \$168 \$168/12 = \$ 14 CPU
1/28		7 @ \$14 = \$ 98	5 @ \$14 = \$ 70 Ending Inventory
Total CGS		\$ 40 + 94 = \$138	

4.

Specific Identification Perpetual			
Date	Purchases	Sales at Cost	Inventory Balance
1/1 Beginning Inventory			5 @ \$ 20 = \$100 Z1-Z5
1/5		2 @ \$20 = \$ 40 Z2, Z5	3 @ \$20 = \$ 60 Z1, Z3, Z4
1/11	9 @ \$12=\$108 Z6-Z14		3 @ \$20 = \$ 60 Z1, Z3, Z4 9 @ \$12 = <u>108</u> Z6-Z14 \$168
1/28		Z1, Z3 2 @ \$20 = \$ 40 Z6-Z9,& Z14 5 @ \$12 = <u>60</u> \$ 100	1 @ \$20 = \$ 20 Z4 4 @ \$12 = <u>48</u> Z10-13 \$ 68 Ending Inventory
Total CGS		\$40 + 100= \$140	