

S5-1 Comparing periodic and perpetual inventory systems

For each statement below, identify whether the statement applies to the periodic inventory system, the perpetual inventory system, or both.

- Normally used for relatively inexpensive goods.
- Keeps a running computerized record of merchandise inventory.
- Achieves better control over merchandise inventory.
- Requires a physical count of inventory to determine the quantities on hand.
- Uses bar codes to keep up-to-the-minute records of inventory.

S5-2 Journalizing purchase transactions

Consider the following transactions for Wonderland Toys:

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| Aug. 7 | Wonderland Toys buys \$101,300 worth of MegoBlock toys on account with credit terms of 2/10, n/60. |
| 13 | Wonderland Toys returns \$10,050 of the merchandise to MegoBlock due to damage during shipment. |
| 14 | Wonderland Toys paid the amount due, less the return and discount. |
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Requirements

- Journalize the purchase transactions. Explanations are not required.
- In the final analysis, how much did the inventory cost Wonderland Toys?

S5-3 Journalizing purchase transactions

Consider the following transactions for Green Drug Store:

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| Feb. 2 | Green buys \$21,200 worth of inventory on account with credit terms of 2/15, n/30, FOB shipping point. |
| 4 | Green pays a \$75 freight charge. |
| 9 | Green returns \$5,500 of the merchandise due to damage during shipment. |
| 14 | Green paid the amount due, less return and discount. |
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Requirements

1. Journalize the purchase transactions. Explanations are not required.
2. In the final analysis, how much did the inventory cost Green Drug Store?

S5-4 Journalizing sales transactions

Journalize the following sales transactions for Paul Sportswear. Explanations are not required. The company estimates sales returns at the end of each month.

May 1	Paul sold \$24,000 of men's sportswear for cash. Cost of goods sold is \$10,000.
3	Paul sold \$63,000 of women's sportswear on account, credit terms are 3/10, n/45. Cost of goods is \$33,000.
5	Paul received a \$5,500 sales return on damaged goods from the customer on May 1. Cost of goods damaged is \$2,750.
10	Paul receives payment from the customer on the amount due, less discount.

S5-5 Estimating sales returns

On December 31, Jack Photography Supplies estimated that approximately 2% of merchandise sold will be returned. Sales Revenue for the year was \$80,000 with a cost of \$48,000. Journalize the adjusting entries needed to account for the estimated returns.

S5-6 Journalizing purchase and sales transactions

Suppose Piranha.com sells 3,500 books on account for \$17 each (cost of these books is \$35,700) on October 10, 2018 to The Textbook Store. One hundred of these books (cost \$1,020) were damaged in shipment, so Piranha.com later received the damaged goods from The Textbook Store as sales returns on October 13, 2018.

Requirements

1. Journalize The Textbook Store's October 2018 transactions.
2. Journalize Piranha.com's October 2018 transactions. The company estimates sales returns at the end of each month.

S5-7 Journalizing purchase and sales transactions

On November 4, 2018, Cain Company sold merchandise inventory on account to Tarin Wholesalers, \$12,000, that cost \$4,800. Terms 3/10, n/30. On November 5, 2018, Tarin Wholesalers paid shipping of \$30. Tarin Wholesalers paid the balance to Cain Company on November 13, 2018.

Requirements

1. Journalize Tarin Wholesalers' November transactions.
2. Journalize Cain Company's November transactions.

S5-8 Adjusting for inventory shrinkage

Jane's Furniture's unadjusted Merchandise Inventory account at year-end is \$69,000. The physical count of inventory came up with a total of \$67,700. Journalize the adjusting entry needed to account for inventory shrinkage.

S5-9 Journalizing closing entries

Rodney RV Center's accounting records include the following accounts at December 31, 2018.

Cost of Goods Sold	\$ 369,000	Accumulated Depreciation—Building	\$ 40,000
Accounts Payable	21,000	Cash	54,000
Rent Expense	22,000	Sales Revenue	685,000
Building	117,000	Depreciation Expense—Building	8,000
Common Stock	122,000	Dividends	60,000
Retained Earnings	5,600	Interest Revenue	15,000
Merchandise Inventory	229,600		
Notes Receivable	29,000		

Requirements

1. Journalize the required closing entries for Rodney.
2. Determine the ending balance in the Retained Earnings account.

Use the following information to answer Short Exercises S5-10 and S5-11.

Camilia Communications reported the following figures from its adjusted trial balance for its first year of business, which ended on July 31, 2018:

Cash	\$ 2,900	Cost of Goods Sold	\$ 18,700
Selling Expenses	1,400	Equipment, net	9,500
Accounts Payable	4,300	Accrued Liabilities	1,800
Common Stock	4,365	Net Sales Revenue	29,200
Notes Payable, long-term	500	Accounts Receivable	3,200
Merchandise Inventory	1,100	Interest Expense	65
Administrative Expenses	3,300		

S5-10 Preparing a merchandiser's income statement

Prepare Camilia Communications's multi-step income statement for the year ended July 31, 2018.

S5-11 Preparing a merchandiser's statement of retained earnings and balance sheet

Requirements

1. Prepare Camilia Communications's statement of retained earnings for the year ended July 31, 2018. Assume that there were no dividends declared during the year and that the business began on August 1, 2017.
2. Prepare Camilia Communications's classified balance sheet at July 31, 2018. Use the report format.

S5-12 Computing the gross profit percentage

Malden Landscape Supply's selected accounts as of December 31, 2018, follow. Compute the gross profit percentage for 2018.

Selling Expenses	\$ 13,300
Interest Revenue	800
Net Sales Revenue	138,000
Cost of Goods Sold	115,000
Administrative Expenses	10,300

S5A-13 Journalizing multiple performance obligations

Journalize the following sales transactions for Price Company. Explanations are not required. (Assume the company uses a perpetual inventory system.)

Apr. 1	Price Company sold merchandise inventory for \$190. The cost of the inventory was \$100. The customer paid cash. Price Company was running a promotion and the customer received a \$35 award at the time of sale that can be used at a future date on any Price Company merchandise.
May 15	The customer uses the \$35 award when purchasing merchandise inventory for \$40. The cost of the inventory was \$22. The customer paid cash.

S5B-14 Journalizing purchase transactions—periodic inventory system

Consider the following transactions for Garman Packing Supplies:

Apr. 10	Garman Packing Supplies buys \$175,000 worth of merchandise inventory on account with credit terms of 1/10, n/30.
12	Garman returns \$15,200 of the merchandise to the vendor due to damage during shipment.
19	Garman paid the amount due, less the return and discount.

Requirements

- Journalize the purchase transactions assuming Garman Packing Supplies uses the periodic inventory system. Explanations are not required.
- What is the amount of net purchases?

S5B-15 Journalizing sales transactions—periodic inventory system

Journalize the following sales transactions for Sandman Camera Store using the periodic inventory system. Explanations are not required. (Record debits first, then credits. Exclude explanations from journal entries.)

Dec. 3	Sandman sold \$45,100 of camera equipment on account, credit terms are 2/15, n/EOM.
17	Sandman receives payment from the customer on the amount due less the discount.

S5B-16 Journalizing closing entries—periodic inventory system

D & B Printing Supplies's accounting records include the following accounts at December 31, 2018.

Purchases	\$ 193,200	Accumulated Depreciation—Building	\$ 22,000
Accounts Payable	7,800	Cash	21,700
Rent Expense	8,500	Sales Revenue	296,100
Building	44,100	Depreciation Expense—Building	4,500
Common Stock	58,000	Dividends	29,400
Retained Earnings	4,100	Interest Expense	2,600
Merchandise Inventory, Beginning	120,000	Merchandise Inventory, Ending	103,100
Notes Payable	12,100	Purchase Returns and Allowances	21,200
Purchase Discounts	2,700		

Requirements

1. Journalize the required closing entries for D & B Printing Supplies assuming that D & B uses the periodic inventory system.
2. Determine the ending balance in the Retained Earnings account.

S5B-17 Computing cost of goods sold in a periodic inventory system

N Wholesale Company began the year with merchandise inventory of \$8,000. During the year, N purchased \$93,000 of goods and returned \$6,300 due to damage. N also paid freight charges of \$1,300 on inventory purchases. At year-end, N's ending merchandise inventory balance stood at \$17,600. Assume that N uses the periodic inventory system. Compute N's cost of goods sold for the year.

Exercises

For all exercises, assume the perpetual inventory system is used unless stated otherwise. Round all numbers to the nearest whole dollar unless stated otherwise.



E5-18 Using accounting vocabulary

Match the accounting terms with the corresponding definitions.

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| 1. Credit Terms | a. The cost of the merchandise inventory that the business has sold to customers. |
| 2. FOB Destination | b. An amount granted to the purchaser as an incentive to keep goods that are not "as ordered." |
| 3. Invoice | c. A type of merchandiser that buys merchandise either from a manufacturer or a wholesaler and then sells those goods to consumers. |
| 4. Cost of Goods Sold | d. A situation in which the buyer takes ownership (title) at the delivery destination point. |
| 5. Purchase Allowance | e. A type of merchandiser that buys goods from manufacturers and then sells them to retailers. |
| 6. FOB Shipping Point | f. A discount that businesses offer to purchasers as an incentive for early payment. |
| 7. Wholesaler | g. A situation in which the buyer takes title to the goods after the goods leave the seller's place of business. |
| 8. Purchase Discount | h. The terms of purchase or sale as stated on the invoice. |
| 9. Retailer | |

E5-19 Journalizing purchase transactions from an invoice

Kingston Tires received the following invoice from a supplier (Fields Distribution, Inc.).

	FIELDS DISTRIBUTION, INC. 7290 S. Prospect Street Ravenna, OH 44266		
Invoice date: September 23, 2018			
Sold to: Kingston Tires 6678 Diamond Avenue Ravenna, OH 44266		Payment terms: 1/10, n/30	
Description	Quantity Shipped	Price	Amount
D39-X4 Radials	4	\$38.12	\$152.48
M223 Belted-bias	10	42.84	428.40
Q92 Truck tires	6	58.12	348.72
Total			\$929.60
Due date: October 3, 2018 October 4 through October 23, 2018		Amount: \$920.30 \$929.60	

Requirements

- Journalize the transaction required by Kingston Tires on September 23, 2018. Do not round numbers to the nearest whole dollar. Assume tires are purchased on account.
- Journalize the return on Kingston's books on September 28, 2018, of the D39-X4 Radials, which were ordered by mistake. Do not round numbers to the nearest whole dollar.
- Journalize the payment on October 1, 2018, to Fields Distribution, Inc. Do not round numbers to the nearest whole dollar.

E5-20 Journalizing purchase transactions

Hajjar Jewelers uses a perpetual inventory system and had the following purchase transactions. Journalize all necessary transactions. Explanations are not required.

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| Jun. 20 | Purchased inventory of \$5,900 on account from Silk Diamonds, a jewelry importer. Terms were 3/15, n/45, FOB shipping point. |
| 20 | Paid freight charges, \$400. |
| Jul. 4 | Returned \$900 of inventory to Silk. |
| 14 | Paid Silk Diamonds, less return. |
| 16 | Purchased inventory of \$3,600 on account from Sandra Diamonds, a jewelry importer. Terms were 3/10, n/EOM, FOB destination. |
| 18 | Received a \$300 allowance from Sandra Diamonds for damaged but usable goods. |
| 24 | Paid Sandra Diamonds, less allowance and discount. |

E5-21 Journalizing sales transactions

Journalize the following sales transactions for Antique Mall. Explanations are not required. The company estimates sales returns at the end of each month.

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| Jan. 4 | Sold \$16,000 of antiques on account, credit terms are n/30. Cost of goods is \$8,000. |
| 8 | Received a \$300 sales return on damaged goods from the customer. Cost of goods damaged is \$150. |
| 13 | Antique Mall received payment from the customer on the amount due from Jan. 4, less the return. |
| 20 | Sold \$4,900 of antiques on account, credit terms are 1/10, n/45, FOB destination. Cost of goods is \$2,450. |
| 20 | Antique Mall paid \$70 on freight out. |
| 29 | Received payment from the customer on the amount due from Jan. 20, less the discount. |
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E5-22 Journalizing purchase and sales transactions

Journalize the following transactions for Soul Art Gift Shop. Explanations are not required.

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| Feb. 3 | Purchased \$3,300 of merchandise inventory on account under terms 3/10, n/EOM and FOB shipping point. |
| 7 | Returned \$900 of defective merchandise purchased on February 3. |
| 9 | Paid freight bill of \$400 on February 3 purchase. |
| 10 | Sold merchandise inventory on account for \$4,700. Payment terms were 2/15, n/30. These goods cost the company \$2,350. |
| 12 | Paid amount owed on credit purchase of February 3, less the return and the discount. |
| 28 | Received cash from February 10 customer in full settlement of their debt. |
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E5-26 Journalizing adjusting entries including estimating sales returns

Emerson St. Book Shop's unadjusted Merchandise Inventory at June 30, 2018 was \$5,200. The cost associated with the physical count of inventory on hand on June 30, 2018, was \$4,900. In addition, Emerson St. Book Shop estimated approximately \$1,000 of merchandise sold will be returned with a cost of \$400.

Requirements

1. Journalize the adjustment for inventory shrinkage.
2. Journalize the adjustment for estimated sales returns.

E5-27 Computing the gross profit percentage

Router Software earned net sales revenue of \$65,000,000 in 2018. Cost of goods sold was \$42,900,000, and net income reached \$9,000,000, the company's highest ever. Compute the company's gross profit percentage for 2018.

E5A-28 Journalizing multiple performance obligations and sales transactions

Journalize the following sales transactions for Masco Supply. Explanations are not required. (Record debits first, then credits. Exclude explanations from journal entries. Assume the perpetual inventory method is used.)

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| Mar. 1 | Masco Supply sold merchandise inventory for \$3,200. The cost of the inventory was \$1,280. The customer paid cash. Masco Supply was running a promotion and the customer received a \$50 award at the time of sale that can be used at a future date on any Masco Supply merchandise. |
| 3 | Sold \$7,000 of supplies on account. Credit terms are 1/10, n/45, FOB destination. Cost of goods is \$2,800. |
| 10 | Received payment from the customer on the amount due from March 3, less the discount. |
| Apr. 15 | The customer used the \$50 award when purchasing merchandise inventory for \$350, the cost of the inventory was \$140. The customer paid cash. |
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E5B-29 Journalizing purchase transactions—periodic inventory system

Lowell Appliances had the following purchase transactions. Journalize all necessary transactions using the periodic inventory system. Explanations are not required.

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| Sep. 4 | Purchased inventory of \$6,300 on account from Max Appliance Wholesale, an appliance wholesaler. Terms were 2/15, n/30, FOB shipping point. |
| 4 | Paid freight charges, \$410. |
| 10 | Returned \$600 of inventory to Max. |
| 17 | Paid Max Appliance Wholesale, less return and discount. |
| 20 | Purchased inventory of \$4,000 on account from MX Appliance, an appliance wholesaler. Terms were 3/10, n/45, FOB destination. |
| 22 | Received a \$700 allowance from MX Appliance for damaged but usable goods. |
| 29 | Paid MX Appliance, less allowance and discount. |
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E5B-30 Journalizing sales transactions—periodic inventory system

Journalize the following sales transactions for Bulls Eye Archery using the periodic inventory system. Explanations are not required. The company estimates sales returns and allowances at the end of each month. (Record debits first, then credits. Exclude explanations from journal entries. Round all numbers to the nearest whole dollar.)

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- Aug. 1 Sold \$7,100 of equipment on account, credit terms are 1/10, n/30.
- 8 Bulls Eye received payment from the customer on the amount due from August 1, less the discount.
- 15 Sold \$2,200 of equipment on account, credit terms are n/45, FOB destination.
- 15 Bulls Eye paid \$140 on freight out.
- 20 Bulls Eye negotiated a \$200 allowance on the goods sold on August 15.
- 24 Received payment from the customer on the amount due from August 15, less the allowance.
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E5B-31 Journalizing purchase and sales transactions—periodic inventory system

Journalize the following transactions for Master Bicycles using the periodic inventory system. Explanations are not required.

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- Nov. 2 Purchased \$3,400 of merchandise inventory on account under terms 2/10, n/EOM and FOB shipping point.
- 6 Returned \$800 of defective merchandise purchased on November 2.
- 8 Paid freight bill of \$100 on November 2 purchase.
- 10 Sold merchandise inventory on account for \$6,100. Payment terms were 3/15, n/45.
- 11 Paid amount owed on credit purchase of November 2, less the return and the discount.
- 22 Received cash from November 10 customer in full settlement of their debt, less the discount.
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