

## Merchandising Exercises answers (Chapter 5)

### Exercise 1 Solution

1. perpetual
2. periodic or perpetual
3. perpetual
4. perpetual

### Exercise 2 Solution

2. Salaries expense
4. Depreciation
6. Advertising expense
8. Insurance expense
10. Rent Expense

### Exercise 3 Solution

In a perpetual inventory system, the company keeps detailed records of each inventory purchase and sale. This system continuously shows the quantity and cost of the inventory that should be on hand for every item. In a periodic inventory system, companies do not keep detailed inventory records of the goods on hand throughout the period. Instead, the cost of goods sold is determined only at the end of the accounting period.

### Exercise 4 Solution

#### Hints and Action Plan

- Purchases of goods for resale are recorded in the asset account Merchandise Inventory.
- Examine freight terms to determine which company pays the freight charges
- Freight charges paid by the purchaser increase the cost of the merchandise inventory
- The Merchandise Inventory account is reduced by the cost of merchandise returned
- Calculate purchase discounts using the net amount owing
- Reduce the Merchandise

### Exercise 6 Solution

1. S
2. B

- 3. B
- 4. S
- 5. B
- 6. B

**Exercise 7 Solution**

- 1. Q
- 2. P
- 3. Q
- 4. P
- 5. Q

**Exercise 8 Solution**

a)

Jun 1	Inventory .....	4,500	
	Accounts Payable (18 × \$250).....		4,500
8	Accounts Payable.....	500	
	Inventory .....		500
10	No entry freight paid by the seller.		
11	Accounts Payable.....	200	
	Inventory .....		200
15	Inventory .....	20,700	
	Accounts Payable (92 × \$225).....		20,700
18	Accounts Payable (\$4,500 – \$500 – \$200) .....	3,800	
	Cash.....		3,800
20	Accounts Payable.....	20,700	
	Inventory (\$20,700 × 2%).....		414
	Cash.....		20,286

b) Inventory balance is determined as  $\$4,500 - \$500 - \$200 + \$20,700 - \$414 = \$24,086$ .

**Exercise 9 Solution**

Jun 2	Accounts Receivable.....	6,930	
	Sales .....		6,930
	To record sales of merchandise to the Motor Inn. (\$7,700 × 10% quantity discount = \$770 quantity discount) (\$7,700 – \$770 quantity discount = \$6,930)		
	Cost of Goods Sold (70 × \$50) .....	3,500	
	Inventory .....		3,500
5	Cash.....	5,500	
	Sales .....		5,500
	To record cash sales.		
	Cost of Goods Sold (50 × \$50) .....	2,500	
	Inventory .....		2,500
8	Sales Returns and Allowances .....	495	
	Accounts Receivable.....		495
	Loss of Damage Goods .....	250	
	COGS.....		250
15	Cash.....	6,435	
	Accounts Receivable.....		6,435
	To record collection. (\$6,930 – \$495 = \$6,435)		

**Exercise 10 Solution**

a)

Jun 1	Accounts Receivable.....	4,500	
	Sales (18 × \$250) .....		4,500
	Cost of Goods Sold .....	1,710	
	Inventory (18 × \$95).....		1,710
8	Sales Returns and Allowances .....	500	
	Accounts Receivable.....		500
	Loss of Damage Goods .....	190	
	COGS.....		190
10	Freight-out.....	85	
	Cash.....		85
11	Sales Returns and Allowances .....	200	
	Accounts Receivable.....		200
15	Accounts Receivable.....	20,700	

	Sales (92 × \$225) .....		20,700
	Cost of Goods Sold .....	8,740	
	Inventory (92 × \$95) .....		8,740
18	Cash (\$4,500 – \$500 – \$200) .....	3,800	
	Accounts Receivable .....		3,800
20	Cash .....	20,286	
	Sales Discount (\$20,700 × 2%) .....	414	
	Accounts Receivable .....		20,700
b) Net Sales is determined as:			
	Sales .....		\$25,200
	Less: Sales discounts .....	\$414	
	Sales returns and allowances .....	700	(1,114)
	Net Sales .....		<u>\$24,086</u>

### Exercise 11 Solution

#### KINGBRIDGE RANGE COMPANY Income Statement Year Ended December 31, 2017

Sales revenue			
	Sales .....		\$2,650,000
	Less: Sales returns and allowances .....	\$50,000	
	Sales discounts .....	<u>30,000</u>	<u>80,000</u>
	Net sales .....		2,570,000
	Cost of goods sold .....		<u>1,800,000</u>
	Gross profit .....		770,000
Operating expenses			
	Salaries and wages .....	\$300,000	
	Other operating expenses .....	<u>150,000</u>	
	Total operating expenses .....		<u>450,000</u>
	Profit .....		<u>\$ 320,000</u>