

**Exercise 1**

Below are four independent scenarios:

1. A store manager checks the computer system to determine if there is enough inventory to fill a customer order.
2. A year-end inventory count is completed to determine the cost of goods sold.
3. A month-end inventory count is completed to verify the accuracy of the inventory balances.
4. As inventory is received, all items are scanned and input immediately into the inventory records.

**Instructions**

For each scenario determine if a perpetual or a periodic inventory system is used.

**Exercise 2**

Listed below are various accounts:

1. Merchandise inventory
2. Salaries expense
3. Cost of goods sold
4. Depreciation
5. Supplies
6. Advertising expense
7. Sales revenue
8. Insurance expense
9. Gross profit
10. Rent expense

**Instructions**

State which accounts would be classified as operating expenses.

**Exercise 3**

Discuss the difference between the periodic and perpetual inventory systems

**Exercise 4**

On September 4<sup>th</sup>, Nemesis Sports buys merchandise on account from Nike for \$1500, terms 2/10, n/30, FOB shipping point. Nemesis Sports pays freight charges of \$75 on September 5<sup>th</sup>. On September 8<sup>th</sup>, Nemesis Sports returns \$200 of the merchandise to Nike. On September 14<sup>th</sup>, Nemesis Sports pays the total amount owing. Record the transactions on Nemesis Sports books.

**Exercise 5**

On September 4<sup>th</sup>, Nike sells merchandise for \$1500 to Nemesis Sports terms 2/10,n/30, FOB shipping point. The original cost of the merchandise of the merchandise to Nike was \$800. Nemesis Sports pays freight charges of \$75 on September 5<sup>th</sup>. On September 8<sup>th</sup>, goods with a selling price of \$200 and a cost of \$80 are returned and restored to inventory. On September 14<sup>th</sup> Nike receives the correct payment from Nemesis Sports. Record the transaction on the books for Nike.

**Exercise 6**

Below are six independent scenarios:

1. Malcone company sells DVD's to Kirkland industries, FOB destination.
2. Dureck purchases various products, FOB shipping point.
3. Balli Company orders 500 yoga mats. Balli has recorded the freight charges of \$200 to inventory.
4. Organic Company sells products with a promise that they will ensure all products reach their destination free of charge to the customer.
5. Zeus Company advises all customers that they only ensure products meet the specified shipping point.
6. Purec Company purchases 700 chairs, FOB shipping point.

**Instructions**

For each scenario determine who is responsible for paying and recording the freight charges: Buyer (B) or Seller (S).

**Exercise 7**

Below are five independent scenarios:

1. \$50 discount for each 100 products ordered
2. \$100 discount for accounts paid within 30 days
3. 5% discount for purchases over \$1,000
4. 10% discount for purchases paid for in full in 10 days
5. \$1,000 discount for purchases made in excess of \$10,000

**Instructions**

State whether each item is a quantity discount (Q) or a purchase discount (P).

**Exercise 8**

Jabari Company purchases various types of beach toys for sale to consumers. Listed below are the transactions for the month of June. Jabari uses a perpetual inventory system.

- |     |    |  |
|-----|----|--|
| Jun | 1  | Purchased 18 water tubes for \$250 each terms n/30 FOB destination.  |
|     | 8  | Returned 2 tubes purchased on June 1 due to defects. Received a full refund for the defective tubes.         |
|     | 10 | Freight charges of \$85 for the June 1 transaction are paid by the responsible party.                        |
|     | 11 | Made a complaint about competitive pricing. Received a \$200 credit for the water tubes purchased on June 1. |
|     | 15 | Purchased 92 water tubes for \$225 each terms 2/10 n/30.   |
|     | 18 | Made payment for the amount owing for the June 1 transaction.  |
|     | 20 | Made payment for the amount owing for June 15 transaction.   |

**Instructions**

- a) Journalize transactions using the perpetual inventory system.
- b) Determine the balance of the Inventory account for June. (There was no inventory at the beginning of the period).

**Exercise 9**

The following information is for the Cappelio Appliance Company, which uses the perpetual inventory system:

- Jun 2 Sold 70 toaster ovens to the Motor Inn for \$7,700 on account. Credit terms: n/30. Quantity discounts of 10% are given on all orders of 65 or more items. Cost of each toaster oven was \$50.
- 5 Cash sales of 50 toaster ovens amounted to \$5,500. Cost was \$50 each.
- 8 Credited the Motor Inn account for \$495 as an adjustment on 5 damaged units purchased by the Motor Inn on June 2. The units were scrapped.
- 15 Received a cheque from the Motor Inn in full payment of its account.

**Instructions**

Record the following transactions in the general journal.

**Exercise 10**

Jabari Company produces and sells various types of beach toys. Listed below are the transactions for the month of June:

- Jun 1 Sold 18 water tubes for \$250 each terms n/30 FOB destination. Each tube cost \$95.
- 8 Customer returned 2 tubes due to defects. Issued a full refund and scrapped the defective tubes.
- 10 Freight charges of \$85 paid by the responsible party.
- 11 Customer complained about competitive pricing. Granted customer a \$200 credit for tubes purchased.
- 15 Sold 92 tubes for \$225 each terms 2/10 n/30. Each tube cost \$95.
- 18 Received payment in full for June 1 transaction.
- 20 Received payment in full for June 15 transaction.

**Instructions**

- a) Journalize transactions using the perpetual inventory system.
- b) Determine the amount of net sales to be reported on the income statement of Jabari Company.

**Exercise 11**

Kingbridge Range Company has sales in 2017 of \$2,650,000. During the year, the company had \$50,000 in sales returns and \$30,000 in sales discounts. The cost of these sales was \$1,800,000. Operating expenses excluding salaries and wages were \$150,000 and salaries and wages incurred during the year were \$300,000. Kingbridge uses a perpetual inventory system.

**Instructions**

Prepare a multiple-step income statement for Kingbridge Range Company for the year ended December 31, 2017.