Accounting Review

Chapter 3-6

Answer Key

1. Insurance Expense
   - Prepaid Ins.
   - Paid Ins.

2. Wages Exp. 1200
   - Wages Payable 1200
   - Cash 3000
   - $3000/5 = $600/day

3. 12/31 Unearned Revenue 900
   - Revenue 2700
4) a) Depreciation Exp. - Machinery 840
    Accum Depr. - Machinery 840

b) Interest Expense 175
    Interest Payable 175

c) Office Supplies Expense 330
    Office Supplies 330

\[ \text{Off. Sup} \]
\[ 300 \]
\[ 100 \]
\[ \text{70} \]

d) Commissions Receivable 740
    Commissions Revenue 740

e) Rent Expense 300
    Prepaid Rent 300

\[ 1000 \times 30\% \]

f) Wages Expense 3,200
    Wages Payable 3,200

5) a) Interest Receivable 270
    Interest Revenue 270

b) Property Tax Exp. 700
    Property Tax Payable 700

c) Unearned Fees 600
    Fees Earned 600

\[ 3,000 \times 20\% \]

d) Insurance Exp. 240
    Prepaid Ins. 240

\[ 400 \times 60\% \]

e) Salary Exp. 950
    Sal. Payable 950
85 85
1000 1000
12,000 12,000
2,100 2,100
4,500 4,500
590 590
1000 1000
29,000 29,000
(7) a) Store Supplies Exp. 600
   Store Supplies 600

b) Dep. Exp. - Buildings 4,200
   Accum Depr. - Buildings 4,200

c) Insurance Exp. 1,350
   Prepaid Ins. 1,350 1,800 x 9/12

d) Interest Exp. 50
   Interest Payable 50

e) Unearned Rev. 800
   Revenue 800 2,400 x 1/3

f) Wage Exp. 1,000
   Wage Payable 1,000
   2,500 x 2/5

g) Fees Receivable 360
   Revenue 360
Income Statement

Gross, Capital 13,200

Act. Payable 8,600

Account, Acc. 4,750

Rent, Rent 1,100

Cash 1,200

Total 7,500

Income Summary 7,000

Commission Revenue 7,500
15,000

\[
\frac{38,000}{4,000} - \frac{36,400}{4,000} = \frac{40,400}{17,000} = \frac{38,400}{17,000}
\]

\[
\text{Beg. inv.} \times \text{Purchase} - \text{Pur. Ret. + Allow} \times \text{Freight in}
\]

\[
\text{Cost of Goods Sold} - \text{Sales} \times \text{Cost of Goods Sold}
\]

\[
\begin{align*}
\text{Sales} & = 320 \\
\text{Cost of Goods Sold} & = 200 \\
\text{Gross Profit} \div 120 & = 240 \\
\end{align*}
\]

\[
\text{Cost of Goods Sold} = \frac{180}{40}
\]

\[
\begin{align*}
\text{Beg. inv.} & + \text{Purchases} - \text{Pur. Ret. + Allow} + \text{Freight in} - \text{End. inv.} \\
& = \text{Cost of Goods Sold}
\end{align*}
\]
Cash

1/13 A/R

1/14 Sales Returns x $100

200

1/15 Sales

100

100

1/16 A/R

1/17 A/P

Cash

1/18 A/P

1/19 A/P

Cash

1/20 A/P

1/21 A/P

Purchase Returns A/P

300

1/22 A/P

A/P

1/23 Cash

A/R

1/24 Office Supplies $450

1/25 Office Supplies $450

1/26 Office Supplies $450
<table>
<thead>
<tr>
<th>Account Name</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
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<td>Equipment</td>
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<td>Unearned Revenue</td>
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<td>(b) 4</td>
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<td>Owner's Capital</td>
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<td>Service Revenue</td>
<td>24</td>
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<td>4</td>
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<td>(d) 3</td>
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<tr>
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<td></td>
<td>17</td>
<td>17</td>
<td>75</td>
<td>75</td>
<td>25</td>
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</tbody>
</table>
Cash

3/31 A/P

750

A/R

1,100

3/35 A/P

1,100

Cash

30

“A/R

COGS

30

Merch. Inv.

10

“A/R

Sales

100

3/11

“A/R

Sales

1,800

3/16

“A/R

Cash

50

3/8

Merch. Inv.

50

3/6

“A/R

Merch. Inv.

150

3/2

“A/R

Inv.

960

“A/R

4/14
<table>
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<tr>
<th>Account</th>
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<td>Merch. Inventory</td>
<td>600</td>
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<td>Sales Return &amp; Allow</td>
<td>200</td>
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<tr>
<td>Sales Disct.</td>
<td>100</td>
</tr>
<tr>
<td>Purchases</td>
<td>10,000</td>
</tr>
<tr>
<td>Freight In</td>
<td>1,000</td>
</tr>
<tr>
<td>Selling Exp.</td>
<td>5,000</td>
</tr>
<tr>
<td>General &amp; Admin.</td>
<td>2,000</td>
</tr>
<tr>
<td>Merch. Inv.</td>
<td>800</td>
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<tr>
<td>Sales</td>
<td>23,000</td>
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<tr>
<td>Purchase Returns &amp; Allow</td>
<td>400</td>
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<td>Income Summary</td>
<td>24,200</td>
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<tr>
<td>Income Summary</td>
<td>5,300</td>
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<td>Flaubert, Capital</td>
<td>5,300</td>
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<tr>
<td>Flaubert Capital</td>
<td>2,500</td>
</tr>
<tr>
<td>Flaubert, Withdraws</td>
<td>2,500</td>
</tr>
</tbody>
</table>
(16) Sales

Income Summary

Income Summary
Sales Returns & Allow. 23,850
Cost of Goods Sold 400
Freight In 21,500
Supplies Exp. 500
Deprec. Exp., Equip. 150
Freight Out 1,000

Income Summary
Capital 39,000

Capital 15,150

Commander, Capital 15,150

Commander, Withdrawals 15,150

(17) a) 8/7 Merch. Inv. 8,000
     A/P 8,000

     8/9 A/P 8,000
     Cash 7,920
     Purch. Disc. 80
     8,000 x 1%

b) A/P 8,000
     Cash 8,000
Net Income
- Gen & Admin Exp
- Adj. Exp.
- Gross Profit
- Cost of Goods Sold
- Net Sales

\[
\begin{align*}
\text{Net Income} & = 37,200 \\
\text{Gen & Admin Exp} & = 14,000 \\
\text{Adj. Exp.} & = 8,000 \\
\text{Gross Profit} & = 54,200 \\
\text{Cost of Goods Sold} & = 54,800 \\
\text{Net Sales} & = 119,000 \\
\end{align*}
\]

\[
\begin{align*}
\text{Begin. Inv.} & = 40,000 \\
\text{Purchases} & = 60,000 \\
\text{Freight In} & = 40,000 \\
\text{End. Inv.} & = 30,000 \\
\text{Net Sales} & = 119,000 \\
\text{Sales Returns} & = 1,000 \\
\text{Sales Allow} & = 20,000
\end{align*}
\]
a) Sales 90,000
   - Sales Returns/Allow 1,200
   Net Sales 88,800

b) Beg Inv. 32,000
   + Purchases 30,000
   - Purch Returns/Allow 500
   + Freight In 1,500
   = End Inv. 16,000
   COGS 42,000

c) Net Sales 88,800
   - COGS 42,000
   Gross Profit 41,800
d) Gross Profit 41,800
   - Sales Sal Exp. (7,000)
   - Gen & Admin Exp (11,000)
   Net Income 23,800

McGuire Co.
Income Statement
For Yr Ended Dec 31, 19xx

Net Sales
Sales
50,000
Less: Sales Returns/Allow
750
49,250

Cost of Goods Sold
Inv., Jan 1, 19xx
Purchases 25,000
Less: Purch Returns/Allow 1,500
Net Purchases 23,500
Freight In 1,500
Net Purchases 25,000
Cost of Goods Available
Inv., Dec 31, 19xx
27,500
2,000
Cost of Goods Sold
25,500

Gross Profit
Operating Exp.
Selling Exp.
12,500
Gen & Admin
5,000
Total Operating
17,500
Net Income
6,250
<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount</th>
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<tbody>
<tr>
<td>6/10 Merch. A/P</td>
<td>$5,000</td>
</tr>
<tr>
<td>6/10 Merch. Inv.</td>
<td>$700</td>
</tr>
<tr>
<td>6/2 A/P Cash</td>
<td>$4,300</td>
</tr>
<tr>
<td>6/4 A/R Sales</td>
<td>$5,000</td>
</tr>
<tr>
<td>6/6 COGS</td>
<td>$3,600</td>
</tr>
<tr>
<td>6/10 Sales Returns &amp; Allow</td>
<td>$300</td>
</tr>
<tr>
<td>6/15 A/R</td>
<td>$450</td>
</tr>
<tr>
<td>6/2 A/R</td>
<td>$4,300</td>
</tr>
</tbody>
</table>
Prepare general journal entries without explanations for the merchandising transactions listed below for Krebs Company. Assume use of the periodic inventory system.

May
1. Sold merchandise to Certi Company for $1,200, terms 2/10, n/30.
2. Purchased merchandise from Supplier Corporation for $3,000, terms 2/10, n/30.
3. Gave credit to Certi Company for merchandise returned, $200.
4. Purchased merchandise from Terbo Company for $4,700, terms 2/10, n/30.
10. Received amount owed from Certi Company for balance of May 1 purchase.
11. Returned $700 in merchandise to Terbo Company for credit.
13. Paid Supplier Corporation in full for purchase of May 2.

Kirk Company purchased $5,000 worth of merchandise, terms n/30, from the Spock Company on June 4. The cost of the merchandise to Spock was $3,600. On June 10, Kirk returned $700 worth of goods to Spock for full credit. The goods had a cost of $450 to Spock. On June 12, the account was paid in full. Prepare journal entries without explanations to record these transactions in (a) Kirk's records and (b) Spock's records. Assume use of the perpetual inventory system by both companies.

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent accounts. In the blank next to each account, write the letter indicating to which category it belongs. Be able to prepare an actual statement.

a. Current assets
b. Investments
c. Property, plant, and equipment
d. Intangible assets

1. Accumulated Depreciation
c. Revenues Received in Advance
3. Interest Expense
d. Wages Payable
5. Hillary Richards, Capital
e. Merchandise Inventory

f. Current liabilities
g. Long-term liabilities
h. Owner's equity
i. Not on balance sheet

7. Trademark
8. Notes Payable (in 5 years)
9. Depreciation Expense
10. Prepaid Interest
11. Land Held for Future Use

The following lettered items represent a classification scheme for a multistep income statement. In the blank next to each account, write the letter indicating to which category it belongs. Be able to prepare an actual statement.

a. Net sales
b. Cost of goods sold
c. Selling expenses
d. General and administrative expenses
e. Other revenues and expenses
f. Not on income statement

c. Interest Income
d. Accumulated Depreciation
e. Sales Returns and Allowances
f. Merchandise Inventory
7. Company President's Salary
8. Utilities Expense for Store
9. Purchases Discounts
10. Freight Out Expense
11. Office Salaries Expense for Headquarters
12. Office Supplies Expense
13. Other Expense
14. Interest Receivable
LARKIN CLOTHING STORE
(Partial) Income Statement
For the Month Ended November 30, 1999

Sales Revenues
Sales........................................ $70,000
Less: Sales discounts....................... 1,800
Net sales..................................... 68,200

Cost of Goods Sold
Merchandise inventory, November 1........ $30,000
Purchases..................................... 28,000
Less: Purchase returns and allowances..... 3,500
Net purchases............................... 24,500
Add: Freight-in................................ 2,000
Cost of goods purchased.................... 26,500
Cost of goods available for sale........... 56,500
Merchandise inventory, November 30........ 32,000
Cost of goods sold.......................... 24,500
Gross profit.................................. 43,700

1. FIFO: Ending inventory $2,700
   300 units @ $7 = $2,100
   100 units @ $6 = 600
   400 units $2,700

2. Average Cost: Ending inventory $2,280
   $5,700 + 1,000 = $5.70 per unit × 400 units = $2,280

3. LIFO: Ending Inventory $1,900
   100 units @ $4 = $400
   300 units @ $5 = 1,500
   400 units $1,900

4. FIFO: Cost of goods sold $3,000
   100 units @ $4 = $400
   400 units @ $5 = 2,000
   100 units @ $6 = 600
   600 units $3,000

LIFO: Cost of goods sold $3,800
   300 units @ $7 $2,100
   200 units @ $6 1,200
   100 units @ $5 500
   600 units $3,800

Income would have been $800 ($3,800 vs. $3,000) greater if the company used FIFO instead of LIFO.
<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Units</th>
<th>Unit Cost</th>
<th>Units</th>
<th>Selling Price/Unit</th>
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</thead>
<tbody>
<tr>
<td>3/1</td>
<td>Beginning inventory</td>
<td>100</td>
<td>$60</td>
<td></td>
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<tr>
<td>3/3</td>
<td>Purchase</td>
<td>60</td>
<td>$78</td>
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<tr>
<td>3/4</td>
<td>Sales</td>
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<tr>
<td>3/10</td>
<td>Purchase</td>
<td>200</td>
<td>$82</td>
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<tr>
<td>3/16</td>
<td>Sales</td>
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<td>40</td>
<td>$90</td>
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<td></td>
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<td>400</td>
<td></td>
<td>280</td>
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(a) Using FIFO - the earliest units purchased were the first sold.

\[
\begin{align*}
3/1 & \quad 100 \quad @ \quad $60 \quad = \quad $6,000 \\
3/3 & \quad 60 \quad @ \quad 78 \quad = \quad 4,680 \\
3/10 & \quad 120 \quad @ \quad 82 \quad = \quad 9,840 \\
280 \quad \text{units} & \quad \frac{20,520}{280} \quad = \quad \text{the cost of goods sold}
\end{align*}
\]

(b) Calculate the weighted average unit cost:

\[
\frac{30,680}{400} = 76.70
\]

\[
76.70 \times \text{units in ending inventory (400 available less 280 sold = 120)}
\]

\[
76.70 \times 120 = 9,204
\]

(c) There are 120 units in ending inventory. They are comprised of the first units purchased when LIFO is assumed.

\[
\begin{align*}
3/1 & \quad 100 \quad @ \quad $60 \quad = \quad $6,000 \\
3/3 & \quad 20 \quad @ \quad 78 \quad = \quad 1,560 \\
120 \quad \text{units} & \quad \frac{7,560}{120} \quad = \quad \text{ending inventory}
\end{align*}
\]
1. 700 units in ending inventory.

Under FIFO, the units remaining in inventory are the ones purchased most recently.
10/24 200 units @ $11.60 = $2,320
10/16 500 units @ 10.80 = 5,400
700 units $7,720

2. 700 units in ending inventory.

Under average cost method, the weighted average cost per unit must be computed.
$21,120 + 2,000 units = $10.56
700 units x $10.56 = $7,392

3. 700 units in ending inventory.

Under LIFO, the units remaining are the ones purchased earliest.
10/1 400 units @ $10.00 = $4,000
10/8 300 units @ 10.40 = 3,120
700 units $7,120

<table>
<thead>
<tr>
<th></th>
<th>1 Individual Items</th>
<th>2 Major Categories</th>
<th>3 Total Inventory</th>
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<td>Lawnmowers:</td>
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<td>Total</td>
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<td>$61,000</td>
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<tr>
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<td>$104,000</td>
<td>$105,000</td>
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