CHAPTER 5

SOLUTIONS TO EXERCISES—SET B

EXERCISE 5-1B

1. False. Measuring net income for a merchandiser is conceptually the same as measuring net income for a service company.
2. True.
3. False. For a merchandiser, the primary source of revenues is the sale of inventory.
4. False. Interest is an example of an “other expense”.
5. False. The operating cycle of a merchandiser *differs* from that of a service company. The operating cycle of a merchandiser is ordinarily longer.
6. True.
7. True.
8. False. A perpetual inventory system provides better control over inven­tories than a periodic system.

EXERCISE 5-2B

(a) (1) April  5 Inventory 25,000

Accounts Payable 25,000

(2) April  6 Inventory    700

Cash    700

(3) April  7 Equipment 29,000

Accounts Payable 29,000

(4) April  8 Accounts Payable  3,000

Inventory  3,000

(5) April 15 Accounts Payable

  ($25,000 – $3,000) 22,000

Inventory ($22,000 X 2%) 440

Cash ($22,000 – $440) 21,560

(b) May  4 Accounts Payable 22,000

Cash 22,000

EXERCISE 5-3B

Sept.  6 Inventory (70 X $20)  1,400

Cash  1,400

 9 Inventory     70

Cash     70

10 Accounts Payable     42

Inventory     42

12 Accounts Receivable (40 X $34)    1,360

Sales Revenue   1,360

Cost of Goods Sold (40 X $21)    840

Inventory    840

14 Sales Returns and Allowances    34

Accounts Receivable    34

Inventory   21

Cost of Goods Sold    21

20 Accounts Receivable (20 X $35)   700

Sales Revenue   700

Cost of Goods Sold (20 X $21)   420

Inventory   420

EXERCISE 5-4B

(a) June 10 Inventory 12,000

Accounts Payable 12,000

11 Inventory   500

Cash   500

12 Accounts Payable   700

Inventory   700

19 Accounts Payable ($12,000 – $700) 11,300

Inventory ($11,300 X 2%)   226

Cash ($11,300 – $226) 11,074

EXERCISE 5-4B (Continued)

(b) June 10 Accounts Receivable 12,000

Sales Revenue 12,000

Cost of Goods Sold 7,200

Inventory 7,200

12 Sales Returns and Allowances   700

Accounts Receivable   700

Inventory   300

Cost of Goods Sold   300

19 Cash ($11,300 – $226) 11,074

Sales Discounts ($11,300 X 2%)   226

Accounts Receivable

  ($12,000 – $700) 11,300

EXERCISE 5-5B

(a) 1. Dec.  3 Accounts Receivable 400,000

Sales 400,000

Cost of Goods Sold 240,000

Inventory 240,000

2. Dec.  8 Sales Returns and Allowances  20,000

Accounts Receivable  20,000

3. Dec. 13 Cash ($380,000 – $7,600) 372,400

Sales Discounts ($380,000 X 2%)   7,600

Accounts Receivable

  ($400,000 – $20,000) 380,000

(b) Cash 380,000

Accounts Receivable ($400,000 – $20,000) 380,000

EXERCISE 5-6B

(a) GRIMMETT COMPANY

Income Statement (Partial)

For the Year Ended October 31, 2022

Sales revenues

Sales revenue $940,000

Less: Sales returns and allowances $31,000

Sales discounts 18,000 49,000

Net sales $891,000

Note: Freight-out is a selling expense.

(b) (1) Oct. 31 Sales Revenue 940,000

Income Summary 940,000

(2) 31 Income Summary  49,000

Sales Returns and

  Allowances  31,000

Sales Discounts  18,000

EXERCISE 5-7B

(a) Cost of Goods Sold 1,200

Inventory 1,200

(b) Sales Revenue 165,000

Income Summary 165,000

Income Summary 140,200

Cost of Goods Sold 91,200

Operating Expenses 44,000

Sales Returns and Allowances 3,000

Sales Discounts 2,000

Income Summary ($165,000 – $140,200) 24,800

Retained Earnings 24,800

EXERCISE 5-8B

(a) Cost of Goods Sold     1,400

Inventory    1,400

(b) Sales Revenue 550,000

Income Summary 550,000

Income Summary 520,400

Cost of Goods Sold ($332,000 + $1,400) 333,400

Freight-Out   11,000

Insurance Expense  18,000

Rent Expense  29,000

Salaries and Wages Expense  95,000

Sales Discounts  15,000

Sales Returns and Allowances  19,000

Income Summary ($550,000 – $520,400)  29,600

Retained Earnings  29,600

EXERCISE 5-9B

(a) OAKLEY COMPANY

Income Statement

For the Month Ended March 31, 2022

Sales revenues

Sales revenue $360,000

Less: Sales returns and allowances $13,000

Sales discounts     8,000     21,000

Net sales 339,000

Cost of goods sold   212,000

Gross profit 127,000

Operating expenses

Salaries and wages expense 53,000

Rent expense 32,000

Freight-out 7,000

Insurance expense     6,000

Total operating expenses     98,000

Net income $ 29,000

(b) Gross profit rate = $127,000 ÷ $339,000 = 37.46%.

EXERCISE 5-10B

(a) KRUEGER COMPANY

Income Statement

For the Year Ended December 31, 2022

Net sales $1,650,000

Cost of goods sold 922,000

Gross profit  728,000

Operating expenses 647,000

Income from operations   81,000

Other revenues and gains

Interest revenue  $20,000

Other expenses and losses

Interest expense $49,000

Loss on disposal of

   equipment 7,000 56,000 (36,000)

Net income $ 45,000

(b) KRUEGER COMPANY

Income Statement

For the Year Ended December 31, 2022

Revenues

Net sales $1,650,000

Interest revenue 20,000

Total revenues $1,670,000

Expenses

Cost of goods sold 922,000

Operating expenses    647,000

Interest expense     49,000

Loss on disposal of equipment 7,000

Total expenses 1,625,000

Net income $  45,000

EXERCISE 5-11B

1. Sales Returns and Allowances 205

Sales Revenue 205

2. Supplies 300

Accounts Payable 300

Cash 300

Inventory 300

3. Sales Discounts  130

Sales Returns and Allowances 130

4. Inventory  30

Cash 270

Freight-Out 300

EXERCISE 5-12B

(a) $1,000,000 – $670,000 = $330,000.

(b) $330,000/$1,000,000 = 33%. The gross profit rate is generally considered to be more useful than the gross profit amount. The rate expresses a more meaningful (qualitative) relationship between net sales and gross profit. The gross profit rate tells how many cents of each sales dollar go to gross profit. The trend of the gross profit rate is closely watched by financial statement users, and is compared with rates of competi­tors and with industry averages. Such comparisons provide information about the effectiveness of a company’s purchasing function and the soundness of its pricing policies.

(c) Income from operations is $130,000 ($330,000 – $200,000), and net income is $120,000 ($130,000 – $10,000).

(d) The amount shown for net income is the same in a multiple-step income statement and a single-step income statement. Both income statements report the same revenues and expenses, but in different order. Therefore, net income in Hanlon’s single-step income statement is also $120,000.

(e) Inventory is reported as a current asset immediately below accounts receivable.

EXERCISE 5-13B

(a) (\*missing amount)

a. Sales revenue $ 210,000)

\*Sales returns (10,000)

Net sales $ 200,000)

b. Net sales $ 200,000)

Cost of goods sold (120,000)

\*Gross profit $  80,000)

c. Gross profit $  80,000)

Operating expenses (50,000)

\*Net income $  30,000)

d. \*Sales revenue $ 100,000)

Sales returns (5,000)

Net sales $ 95,000)

e. Net sales $ 95,000)

\*Cost of goods sold 53,000)

Gross profit $  42,000)

f. Gross profit $  42,000)

\*Operating expenses 22,000)

Net income $  20,000)

)

(b) Doty Company

 Gross profit ÷ Net sales = $80,000 ÷ $200,000 = 40%

Ramos Company

 Gross profit ÷ Net sales = $42,000 ÷ $95,000 = 44.2%

EXERCISE 5-14B

(\*Missing amount)

(a) Sales revenue $ 90,000

Sales returns and allowances 2,000\*

Net sales $ 88,000

(b) Net sales $ 88,000

Cost of goods sold   56,000

Gross profit $ 32,000\*

(c) and (d)

Gross profit $ 32,000

Operating expenses 15,000

Income from operations (c) $ 17,000\*

Other expenses and losses 4,000

Net income (d) $  13,000\*

(e) Sales revenue $ 98,000\*

Sales returns and allowances 5,000

Net sales $ 93,000

(f) Net sales $ 93,000

Cost of goods sold 60,000\*

Gross profit $ 33,000

(g) and (h)

Gross profit $ 33,000

Operating expenses (g) 20,000\*

Income from operations (h) $ 13,000\*

Other expenses and losses 7,000

Net income $  6,000

(i) Sales revenue $127,000

Sales returns and allowances 12,000

Net sales $115,000\*

(j) Net sales $115,000

Cost of goods sold 84,000\*

Gross profit $ 31,000

EXERCISE 5-14B (Continued)

(k) and (l)

Gross profit $ 31,000

Operating expenses 18,000

Income from operations (k) $ 13,000\*

Other expenses and losses (l) 3,000\*

Net income $ 10,000

\*EXERCISE 5-15B

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Accounts |  | Adjusted  Trial Balance | | |  | Income  Statement | | |  | Balance  Sheet | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Debit |  | Credit |  | Debit |  | Credit |  | Debit |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash  Inventory  Sales Revenue  Sales Returns and Allowances  Sales Discounts  Cost of Goods Sold |  | 11,000   93,000   12,000  13,000  370,000 |  | 550,000 |  | 12,000  13,000  370,000 |  | 550,000 |  | 11,000  93,000 |  |  |

\*EXERCISE 5-16B

### LIPPERT COMPANY

#### Worksheet

For the Month Ended June 30, 2022

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Titles** | **Trial Balance** | | Adjustments | | **Adj. Trial   Balance** | | **Income Statement** | | **Balance Sheet** | |
|  | **Dr.** | **Cr.** | **Dr.** | **Cr.** | **Dr.** | **Cr.** | **Dr.** | **Cr.** | **Dr.** | **Cr.** |
| Cash | **4,500** |  |  |  | **4,500** |  |  |  | **4,500** |  |
| **Accounts Receivable** | **5,000** |  |  |  | **5,000** |  |  |  | **5,000** |  |
| **Inventory** | **12,000** |  |  |  | **12,000** |  |  |  | **12,000** |  |
| **Accounts Payable** |  | **2,500** |  | **2,700** |  | **5,200** |  |  |  | **5,200** |
| **Common Stock** |  | **8,000** |  |  |  | **8,000** |  |  |  | **8,000** |
| **Sales Revenue** |  | **90,000** |  |  |  | **90,000** |  | **90,000** |  |  |
| **Cost of Goods Sold** | **54,000** |  |  |  | **54,000** |  | **54,000** |  |  |  |
| **Operating Expenses** | **25,000** |  | **2,700** |  | **27,700** |  | **27,700** |  |  |  |
| **Totals** | **100,500** | **100,500** | **2,700** | **2,700** | **103,200** | **103,200** | **81,700** | **90,000** | **21,500** | **13,200** |
| **Net Income** |  |  |  |  |  |  | **8,300** |  |  | **8,300** |
| Totals |  |  |  |  |  |  | **90,000** | **90,000** | **21,500** | **21,500** |

\*EXERCISE 5-17B

Inventory, September 1, 2021 $ 35,000

Purchases $300,000

Less: Purchase returns and allowances 4,000

Net Purchases 296,000

Add: Freight-in 8,500

Cost of goods purchased 304,500

Cost of goods available for sale 339,500

Inventory, August 31, 2022 (45,000)

Cost of goods sold $294,500

\*EXERCISE 5-18B

(a) Sales revenue $650,000

Less: Sales returns and allowances $ 12,000

Sales discounts 7,000 19,000

Net sales 631,000

Cost of goods sold

Inventory, January 1 35,000

Purchases $390,000

Less: Purch. rets. and alls. 3,000

Purch. discounts 8,000 379,000

Add: Freight-in 6,000

Cost of goods available for sale 420,000

Inventory, December 31 (41,000)

Cost of goods sold 379,000

Gross profit $252,000

(b) Gross profit $252,000 – Operating expenses = Net income $120,000.

Operating expenses = $132,000.

\*EXERCISE 5-19B

|  |  |  |
| --- | --- | --- |
| (a) $2,050 ($2,100 – $ 50)  (b) $2,120 ($2,050 + $ 70)  (c) $2,020 ($2,320 – $ 300) |  | (g) $ 3,250 ($ 150 + $ 3,100)  (h) $ 150 ($ 3,250 – $ 3,100)  (i) $ 3,750 ($ 500 + $ 3,250) |
| (d) $ 40 ($1,100 – $1,060)  (e) $ 60 ($1,120 – $1,060)  (f) $ 130 ($1,220 – $1,090) |  | (j) $ 790 ($12,200 – $11,410 from (I))  (k) $ 400 ($11,200 – $10,800)  (l) $11,410 ($10,800 + $ 610) |

\*EXERCISE 5-20B

(a) 1. April 5 Purchases 30,000

Accounts Payable 30,000

2. April 6 Freight-In  800

Cash 800

3. April 7 Equipment 37,000

Accounts Payable 37,000

4. April 8 Accounts Payable 3,000

Purchase Returns and

 Allowances 3,000

5. April 15 Accounts Payable

 ($30,000 – $3,000) 27,000

Purchase Discounts

 ($27,000 X 2%) 540

Cash ($27,000 – $540) 26,460

(b) May 4 Accounts Payable

 ($30,000 – $3,000) 27,000

Cash 27,000

\*EXERCISE 5-21B

(a) 1. April 5 Purchases 35,000

Accounts Payable 35,000

2. April 6 Freight-In  1,000

Cash 1,000

3. April 7 Equipment 41,000

Accounts Payable 41,000

4. April 8 Accounts Payable 5,000

Purchase Returns and

 Allowances 5,000

5. April 15 Accounts Payable

 ($35,000 – $5,000) 30,000

Purchase Discounts

 ($30,000 X 2%) 600

Cash ($30,000 – $600) 29,400

(b) May 4 Accounts Payable

 ($35,000 – $5,000) 30,000

Cash 30,000

\*EXERCISE 5-22B

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Accounts |  | Adjusted  Trial Balance | | |  | Income  Statement | | |  | Balance  Sheet | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Debit |  | Credit |  | Debit |  | Credit |  | Debit |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash  Inventory  Purchases  Purchase Returns and  Allowances  Sales Revenue  Sales Returns and  Allowances  Sales Discounts  Rent Expense |  | 12,000   80,000  240,000   10,000   5,000  42,000 |  | 30,000  430,000 |  | 80,000  240,000   10,000   5,000  42,000 |  | 70,000  30,000 430,000 |  | 12,000  70,000 |  |  |