

Chapter 5

Merchandising Operations And the Accounting Cycle

T Questions

1. Gross profit measures the entity's ability to buy inventory at one price and sell it at a higher price. This process is important because it is fundamental to the profit motive of business.
2. The flow of resources for the *purchase and cash sale of inventory* is from cash to inventory and back to cash. For the *purchase and sale of inventory on account*, the flow is from cash to inventory to accounts receivable and back to cash.
3. Ten items on the invoice are: (1) seller name, (2) invoice date, (3) purchaser name, (4) purchase order date, (5) credit terms of the transaction, such as 3 / 10, n / 30, (6) items ordered by the purchaser, (7) items shipped by the seller and invoiced to the purchaser, (8) total invoice amount in dollars, (9) date of payment, and (10) dollar amount paid by the purchaser.

4.

a. Credit purchase of inventory:	Inventory	XXX	
	Accounts Payable		XXX
Subsequent cash payment:	Accounts Payable	XXX	
	Cash		XXX
b. Credit sale of inventory:	Accounts Receivable	XXX	
	Sales Revenue		XXX
	Cost of Goods Sold	XXX	
	Inventory		XXX
Subsequent cash receipt:	Cash	XXX	
	Accounts Receivable ..		XXX

5. On August 6, within the discount period, the payment would be \$970 (\$1,000 ! 3% of \$1,000, or \$1,000 ! \$30). On August 9, which is after the discount period, payment would be the full amount of \$1,000. The three-day difference is crucial: August 6 is within the discount period, but August 9 is too late to earn the 3% discount. The latest acceptable payment date under the sale terms would be August 27, which is 30 days after the invoice date of July 28.
6. The new contra accounts introduced in this chapter are Sales Discounts and Sales Returns and Allowances. Purchase Discounts, and Purchase Returns and Allowances are contra accounts used by some companies.
7. Cost of Goods Sold's title is especially descriptive because this *expense* represents the cost of the inventory that the entity sold during the period.

8.	Beginning inventory.....	\$ 5,000
	+ Net purchases	30,000
	+ Freight-in.....	<u>1,000</u>
	= Cost of goods available for sale.....	36,000
	! Ending inventory.....	<u>(8,000)</u>
	= Cost of goods sold.....	<u>\$28,000</u>

9. At the end of the period, the adjusting and closing process starts with the trial balance that carries the ending amount of inventory. However, inventory shrinkage or accounting errors can cause the final ending balance to differ from the amount of inventory shown on the trial balance.

10. The adjusting entry for inventory is:

Cost of Goods Sold	9,100	
Inventory		9,100

11. The *single-step* income statement format has only two sections (revenues and expenses) and one income amount (for net income). It works well for *service businesses* because their expenses include no cost of goods sold and no gross profit.

The *multi-step* format has a number of sections and intermediate subtotals, such as gross profit, income from operations, and other revenue and expense. It applies best to *merchandising businesses* because it highlights gross profit, which is sales less cost of goods sold.

12. The income statement reports sales discounts and sales returns and allowances as follows:

Sales revenue		\$300,000		
Less: Sales discounts		(6,000)		
Sales returns				
and allowances		<u>(5,000)</u>		
Net sales revenue				\$289,000

13. A high rate of inventory turnover is preferred because the faster the turnover, the higher the profit.
14. A decreasing gross profit percentage, coupled with an increasing rate of inventory, suggests that the business is *discounting* its merchandise in order to sell it faster.

T Daily Exercises

(5 min.) **DE 5-1**

			<i>Millions</i>
a.	Net sales revenue	=	\$33,212
b.	Gross profit	=	\$10,183
c.	Net earnings (Net income)	=	\$ 1,144

(5-10 min.) **DE 5-2**

Target	Austin Sound Center
Net sales revenue	Net sales revenue..... \$165,900
Cost of goods sold	Cost of goods sold..... 90,800
Gross profit	Gross profit..... 75,100
Net earnings	Net income..... 53,850

Item	Alternate Title
• Net sales revenue	Sales Sales revenue Revenue Net sales
• Cost of goods sold	Cost of sales
• Gross profit	Gross margin
• Net earnings	Net income Net profit

Note: Students may not come up with all of these titles. This exercise can be used to launch a class discussion of alternate account titles used by companies.

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Gap's Entries			
	a. Inventory		45,000	
	Accounts Payable			45,000
	Purchased inventory on account.			
	b. Accounts Payable		8,000	
	Inventory			8,000
	Returned inventory to seller.			
	c. Accounts Payable (\$45,000 ! \$8,000)		37,000	
	Inventory (\$37,000 × .02)			740
	Cash (\$37,000 × .98)			36,260
	Paid within discount period.			

(5-10 min.) **DE 5-5**

- a. Original purchase amount \$150,000
 Less: Purchase returns..... (20,000)
 Cost of inventory kept by Toys “Я” Us
 (pay this amount *after* the discount period)..... \$130,000
- b. Cost of inventory with a purchase discount
 (pay this amount *during* the discount period)
 \$130,000 × .97..... \$126,100

(10 min.) **DE 5-6**

Journal						
DATE			ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	May	6	Inventory		150,000	
			Accounts Payable			150,000
b.		13	Accounts Payable		20,000	
			Inventory			20,000
c.		15	Accounts Payable (\$150,000 ! \$20,000)		130,000	
			Inventory (\$130,000 × .03)			3,900
			Cash (\$130,000 × .97)			126,100

Accounts Payable			
May 13	20,000	May 6	150,000
May 15	130,000	Bal.	130,000

(5-10 min.) **DE 5-7**

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Lord & Taylor's Entries			
a.	Inventory		140,000	
	Accounts Payable			140,000
	Purchased inventory on account.			
b.	Accounts Payable		140,000	
	Cash ($\$140,000 \times .98$)			137,200
	Inventory ($\$140,000 \times .02$)			2,800
	Paid on account within discount period.			

Lord & Taylor's cost of the inventory = Amount of the cash payment
= $\$140,000 - \$2,800$
= $\$137,200$

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Liz Claiborne, Inc.'s Entries			
a.	Accounts Receivable		140,000	
	Sales Revenue			140,000
	Sale on account.			
b.	Cost of Goods Sold		82,000	
	Inventory			82,000
	Recorded the cost of goods sold.			
c.	Cash ($\$140,000 \times .98$)		137,200	
	Sales Discounts ($\$140,000 \times .02$)		2,800	
	Accounts Receivable			140,000
	Cash collection within the discount period.			

Net sales revenue ($\$140,000 - \$2,800$)	\$137,200
- Cost of goods sold.....	<u>82,000</u>
= Gross profit	<u>\$ 55,200</u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Miralu's Entries			
a.	Accounts Receivable		45,000	
	Sales Revenue			45,000
	Sale on account.			
	Cost of Goods Sold		22,500	
	Inventory			22,500
	Recorded the cost of goods sold.			
b.	Sales Returns and Allowances		8,000	
	Accounts Receivable			8,000
	Received returned goods.			
	Inventory		4,000	
	Cost of Goods Sold			4,000
	Returned goods to inventory.			
c.	Cash ($\$37,000 \times .98$)		36,260	
	Sales Discounts ($\$37,000 \times .02$)		740	
	Accounts Receivable ($\$45,000 - \$8,000$)			37,000
	Received cash within discount period.			

(10 min.) **DE 5-10**

a. Net sales revenue:		
Sales revenue.....		\$600,000
Less: Sales returns.....		(12,000)
Sales discounts		
[$(\$600,000 - \$12,000) \times .02$].....		<u>(11,760)</u>
Net sales revenue.....		576,240
Cost of goods sold.....		<u>(255,000)</u>
b. Gross profit.....		<u>\$321,240</u>

(5 min.) **DE 5-11**

Adjustment same for a merchandiser as for a service entity: a

Adjustment relates only to a merchandiser: b

Adjusting entry (b) accounts for inventory shrinkage. It brings the Inventory account and the Cost of Goods Sold account to their correct balances.

(5 min.) **DE 5-12**

From the **income statement**:

Sales revenue

Sales returns and allowances (but allowances can relate to a service entity if the entity grants an allowance to its customers)

Net sales revenue

Cost of goods sold

Gross profit

From the **statement of owner's equity**:

None

From the **balance sheet**:

Inventory (a current asset)

(5-10 min.) **DE 5-13**

Dell Computer Corporation	
Income Statement	
Year Ended January 31, 2000	
	<i>Millions</i>
Net sales revenue	\$25,265
Cost of goods sold	<u>20,047</u>
Gross profit	5,218
Total operating expenses	<u>3,552</u>
Net income	<u>\$ 1,666</u>

(15 min.) **DE 5-14**

Dell Computer Corporation		
Balance Sheet		
January 31, 2000		
ASSETS		<i>Millions</i>
<i>Current:</i>		
Cash		\$ 3,809
Accounts receivable		2,608
Inventory		391
Other current assets		<u>873</u>
Total current assets		7,681
Property and equipment, net		765
Other assets		<u>3,025</u>
Total assets		<u>\$11,471</u>
LIABILITIES		
<i>Current:</i>		
Accounts payable		\$3,538
Other current liabilities		<u>1,654</u>
Total current liabilities		5,192
Long-term liabilities		<u>971</u>
Total liabilities		6,163
OWNERS' EQUITY		
Owners' equity		<u>5,308</u>
Total liabilities and owners' equity		<u>\$11,471</u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	<i>CLOSING ENTRIES</i>			
	Sales Revenue		169,300	
	Income Summary			169,300
	Income Summary		1,500	
	Interest Expense			1,500
	C. Ernest, Capital		54,100	
	C. Ernest, Withdrawals			54,100
			53,850	
	Income Summary			53,850
	C. Ernest, Capital			

C. Ernest, Capital	
	25,900
54,100	53,850
	25,650*

*Agrees with balance sheet figure.

1. Accounts to close:

- Net sales revenue
- Cost of goods sold
- Selling, general, and administrative expenses
- Depreciation expense
- Interest expense
- Other expenses

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>CLOSING ENTRIES</i>			
2000				<i>Millions</i>	
Jan.	31	Net Sales Revenue		33,212	
		Income Summary			33,212
	31	Income Summary		32,068	
		Cost of Goods Sold			23,029
		Selling, General, and Administrative Expenses			7,490
		Depreciation Expense			854
		Interest Expense			393
		Other Expenses			302

2. None: These are all permanent accounts that never get closed.

(10 min.) **DE 5-17**

*Dollars in
Millions*

$$\begin{aligned} \text{Gross profit percentage} &= \frac{\text{Gross profit}}{\text{Net sales revenue}} = \frac{\$25,265 - \$20,047}{\$25,265} \\ &= \frac{\$5,218}{\$25,265} \\ &= 20.7\% \end{aligned}$$

$$\begin{aligned} \text{Inventory turnover} &= \frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\$20,047}{(\$320 + \$391) / 2} \\ &= \frac{\$20,047}{\$355.5} \\ &= 56.4 \text{ times per year} \end{aligned}$$

(5-10 min.) **DE 5-18**

Lands' End data:

	<i>Millions</i>
a. Net sales revenue.....	\$1,320
Cost of sales	<u>(727)</u>
Gross profit.....	\$ 593
b. Cash collections from customers	\$1,323
Cash payments to suppliers.....	<u>(682)</u>
Excess of collections over payments	<u>\$ 641</u>

The excess of collections over payments is greater.

(5-10 min.) **DE 5-19**

Req. 1

	<i>Millions</i>
Beginning inventory.....	\$ 3,475
Net purchases plus freight in.....	<u>23,352</u>
Cost of goods available of sale	26,827
Ending inventory	<u>(3,798)</u>
Cost of goods sold.....	<u>\$23,029</u>

Req. 2

The cost of goods sold amount agrees with Exhibit 5-1.

1. Net sales revenue:

Sales.....		F400,000
Less: Sales discounts.....	F 4,000	
Sales returns	<u>8,000</u>	<u>(12,000)</u>
Net sales revenue.....		<u>388,000</u>

2. Cost of goods sold:

Beginning inventory.....	F 20,000	
Net purchases	240,000*	
Freight in	<u>8,000</u>	
Cost of goods available	268,000	
Ending inventory	<u>(30,000)</u>	
Cost of goods sold.....		<u>238,000</u>

3. Gross profit..... F150,000

*Net purchases

Purchases		F250,000
Less: Purchase discounts.....	F 3,000	
Purchase returns	<u>7,000</u>	<u>(10,000)</u>
Net purchases		<u>F240,000</u>

(5-10 min.) **DE 5-21**

	<i>Millions</i>
Cost of goods sold.....	\$6,775
+ Ending inventory.....	<u>1,462</u>
= Cost of goods available for sale.....	8,237
! Beginning inventory	<u>(1,056)</u>
= Purchases.....	<u>\$7,181*</u>

*Includes freight in.

T Exercises

(10-15 min.) **E 5-1**

1. Toys “Я” Us is a merchandiser, as shown by the

- Income statement:
Net sales
Cost of sales
- Balance sheet:
Merchandise inventories

2. Gross profit:

	<i>(Millions of dollars)</i>	
	Fiscal Years	
	2000	1999
Sales.....	\$11,862	\$11,170
Cost of sales.....	<u>(8,321)</u>	<u>(8,191)</u>
Gross profit.....	<u>\$ 3,541</u>	<u>\$ 2,979</u>

The gross profit is up. This is a good sign.

3.

Date:

To: Investors

From: Student Name

Subject: Trend of sales, gross profit, and net income for
Toys “Я” Us

In fiscal year 2000, Toys “Я” Us’s sales, gross profit, and net income were all better than in 1999. These trends lead to a favorable outlook for the company. However, the net loss during 1999 casts a bit of a cloud over the company’s outlook.

(15-20 min.) **E 5-2**

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	3	Inventory		1,900	
		Accounts Payable			1,900
	7	Accounts Payable		300	
		Inventory			300
	9	Inventory		30	
		Cash			30
	10	Accounts Receivable		3,100	
		Sales Revenue			3,100
	10	Cost of Goods Sold		1,700	
		Inventory			1,700
	12	Accounts Payable (\$1,900 ! \$300)		1,600	
		Inventory (\$1,600 × .02)			32
		Cash (\$1,600 ! \$32)			1,568
	16	Sales Returns and Allowances		800	
		Accounts Receivable			800
	23	Cash (\$2,300 ! \$46)		2,254	
		Sales Discounts (\$2,300 × .02)		46	
		Accounts Receivable			
		(\$3,100 ! \$800)			2,300

Reqs. 1, 2, and 3

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
May	15	Inventory		979.32	
		Accounts Payable			979.32
	19	Accounts Payable		500.20	
		Inventory			500.20
	22	Accounts Payable			
		(\$979.32 ! \$500.20)		479.12	
		Inventory (\$479.12 × .02)			9.58
		Cash (\$479.12 ! \$9.58)			469.54

(10-15 min.) **E 5-4**

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
April	30	Inventory		8,000	
		Accounts Payable			8,000
May	4	Accounts Payable		800	
		Inventory			800
	14	Cash		6,984	
		Note Payable			
		[($\$8,000 - \800) \times .97]			6,984
	14	Accounts Payable ($\$8,000 - \800)		7,200	
		Inventory ($\$7,200 \times .03$)			216
		Cash ($\$7,200 - \216)			6,984
June	14	Note Payable		6,984	
		Interest Expense ($\$6,984 \times .01$)		70	
		Cash			7,054

(10-15 min.) **E 5-5**

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
April	30	Accounts Receivable		8,000	
		Sales Revenue			8,000
	30	Cost of Goods Sold ($\$8,000 \times .60$)		4,800	
		Inventory			4,800
May	4	Sales Returns and Allowances		800	
		Accounts Receivable			800
	4	Inventory		480	
		Cost of Goods Sold ($\$800 \times .60$)			480
	14	Cash ($\$7,200 ! \216)		6,984	
		Sales Discounts ($\$7,200 \times .03$)		216	
		Accounts Receivable ($\$8,000 ! \800)			7,200

*Req. 1***CLOSING ENTRIES**

2000			<i>Millions</i>
Jan.	31	Sales Revenue.....	38,434
		Interest Revenue.....	37
		Income Summary.....	38,471
	31	Income Summary.....	36,151
		Cost of Goods Sold.....	27,023
		Other Expense.....	1,597
		Selling Expense.....	6,832
		Interest Expense.....	28
		General and Administrative Expense.....	671
	31	Income Summary (\$38,471 ! \$36,151).....	2,320
		Owner Capital.....	2,320
	31	Owner Capital.....	255
		Owner Withdrawals.....	255

Req. 2 Amounts in millions

Income Summary		Owner Capital	
Clo.	36,151	Clo.	38,471
Clo.	2,320	Clo.	2,320
		Bal.	8,740
		Bal.	10,805

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>CLOSING ENTRIES</i>			
20X2					
Mar.	31	Sales Revenue			
		(\$233,000 + \$6,100)		239,100	
		Income Summary			239,100
	31	Income Summary		164,240	
		Sales Discounts			2,000
		Cost of Goods Sold			
		(\$111,600 + \$4,290)			115,890
		Selling Expense			
		(\$21,050 + \$5,200 + \$1,200)			27,450
		General Expense			
		(\$10,500 + \$3,400 + \$2,250)			16,150
		Interest Expense			2,750
	31	Income Summary			
		(\$239,100 - \$164,240)		74,860	
		Jack Potter, Capital			74,860
	31	Jack Potter, Capital		45,000	
		Jack Potter, Withdrawals			45,000

Net income was \$74,860.

(10-15 min.) **E 5-8**

Northstar Auto Supply		
Income Statement		
Year Ended March 31, 20X2		
Sales revenues (\$233,000 + \$6,100)	\$239,100	
Less: Sales discounts	<u>2,000</u>	
Net sales revenue		\$237,100
Cost of goods sold (\$111,600 + \$4,290)		<u>115,890</u>
Gross profit		121,210
Operating expenses:		
Selling expenses (\$21,050 + \$5,200 + \$1,200)	\$ 27,450	
General expenses (\$10,500 + \$3,400 + \$2,250)	<u>16,150</u>	<u>43,600</u>
Operating income		77,610
Other expense:		
Interest expense		<u>2,750</u>
Net income		<u>\$ 74,860</u>

(10 min.) **E 5-9**

		20X2	20X1
Gross profit percentage	$= \frac{\text{Gross profit}}{\text{Net sales revenue}}$	$= \frac{\$121,210}{\$237,100}$	$= 51\% \quad 48\%$
Inventory turnover	$= \frac{\text{Cost of goods sold}}{\text{Average inventory}}$	$= \frac{\$115,890}{(\$36,100 + \$42,900 + \$30,500) / 2}$	$= 3.72 \quad 3.16$

The increase in the gross profit percentage, coupled with the increase in the rate of inventory turnover, suggests that Northstar's profits are increasing.

Req. 1

(multi-step income statement)

Barringer Boats, Ltd.			
Income Statement			
Year Ended December 31, 20X0			
Sales revenue		\$204,000	
Less: Sales discounts	\$ 9,000		
Sales returns	<u>4,600</u>	<u>13,600</u>	
Net sales revenue			\$190,400
Cost of goods sold			<u>99,300</u>
Gross profit			91,100
Operating expenses:			
Selling expenses		\$ 37,800	
General expenses		<u>23,500</u>	<u>61,300</u>
Operating income			29,800
Other revenue:			
Interest revenue			<u>1,500</u>
Net income			<u>\$ 31,300</u>

Req. 2

	Current year	Last year
Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$		
= $\frac{\$99,300}{(\$19,400 + \$21,000) / 2}$	= 4.9	3.8

The increase in the inventory turnover ratio suggests improvement in inventory turnover.

Barringer Boats, Ltd.	
Income Statement (single step)	
Year Ended December 31, 20X0	
Revenues:	
Net sales revenue (net of sales discounts, \$9,000, and returns, \$4,600)	\$190,400
Interest revenue	<u>1,500</u>
Total revenues	191,900
Expenses:	
Cost of goods sold	\$ 99,300
Selling expenses	37,800
General expenses	<u>23,500</u>
Total expenses	<u>160,600</u>
Net income	<u>\$ 31,300</u>

					Current	Last			
					year	year			
Gross profit percentage	=	$\frac{\text{Gross profit}}{\text{Net sales revenue}}$	=	$\frac{\text{Net sales revenue} - \text{Cost of goods sold}}{\text{Net sales revenue}}$	=	$\frac{\$190,400 - \$99,300}{\$190,400}$	=	48%	50%

The decrease in gross profit percentage suggests slightly worse profitability this year versus last year.

(5-10 min.) **E 5-12**

General Motors data:

	<i>Billions</i>
Sales.....	\$153
Cost of goods sold.....	<u>(127)</u>
a. Gross profit.....	<u>\$ 26</u>
Cash collections from customers	\$152
Cash payments for inventory	<u>(123)</u>
b. Excess of cash collections over cash payments	<u>\$ 29</u>

The excess of cash collections over cash payments was greater than the company's gross profit.

(10 min.) **E 5-13**

Cost of goods sold:

Beginning inventory.....	\$ 21,000
+ Net purchases	93,600*
+ Freight in	<u>4,100</u>
= Cost of goods available for sale.....	118,700
! Ending inventory.....	<u>(19,400)</u>
= Cost of goods sold.....	<u>\$ 99,300</u>

*Net purchases:

Purchases	\$98,600
! Purchase discounts	(3,000)
! Purchase returns and allowances	<u>(2,000)</u>
= Net purchases	<u>\$93,600</u>

(10-15 min.) **E 5-14**

<i>Sales</i>	<i>Sales Discounts</i>	<i>Net Sales</i>	<i>Beginning Inventory</i>	<i>Net Purchases</i>	<i>Ending Inventory</i>	<i>Cost of Goods Sold</i>	<i>Gross Profit</i>
\$98,300	(a)	\$92,800	\$32,500	\$66,700	\$39,400	(b)	\$33,000
62,400	\$2,100	(c)	27,450	43,000	(d)	\$44,100	(e)
91,500	1,800	89,700	(f)	44,900	22,900	59,400	(g)
(h)	3,000	(i)	40,700	(j)	48,230	72,500	39,600

Computations:

- a. $\$98,300 - \$92,800 = \$5,500$.
- b. $\$92,800 - \$33,000 = \$59,800$.
- c. $\$62,400 - \$2,100 = \$60,300$.
- d. $\$27,450 + \$43,000 - \$44,100 = \$26,350$.
- e. $\$60,300 - \$44,100 = \$16,200$.
- f. $\$22,900 + \$59,400 - \$44,900 = \$37,400$.
- g. $\$89,700 - \$59,400 = \$30,300$.
- h. Must solve for (i) first. Then solve for (h). See below.
- i. $\$72,500 + \$39,600 = \$112,100$.
- h. $\$3,000 + \$112,100 = \$115,100$.
- j. $\$48,230 + \$72,500 - \$40,700 = \$80,030$.

(5-10 min.) **E 5-15**

Beginning inventory + Net purchases - Ending inventory = Cost of goods sold

Net purchases = Cost of goods sold - Beginning inventory + Ending inventory
= \$154 million - \$103 million + \$129 million
= \$180 million

CONTINUING EXERCISE

(15-20 min.) **E 5-16**

Reqs. 1 and 2

Cash			
Jan. 2	7,200	Jan. 2	1,500
28	600	16	1,400
		21	2,000
		24	300
Bal.	2,600		

Accounts Receivable			
Jan. 18	1,100		
19	900		
Bal.	2,000		

Accounting Software Inventory			
Jan. 7	4,000	Jan. 18	700
		28	400
Bal.	2,900		

Prepaid Rent			
Jan. 2	1,500	Jan. 31	500
Bal.	1,000		

Accumulated Depreciation			
		Jan. 31	200

Accounts Payable			
Jan. 21	2,000	Jan. 7	4,000
		Bal.	2,000

Salary Payable			
		Jan. 31	1,400

Amos Faraday, Capital			
		Clo.	4,900

Income Summary			
Clo.	4,900	Clo.	9,800
Clo.	4,900	Bal.	4,900

Service Revenue			
		Jan. 2	7,200
		19	900
Clo.	8,100	Bal.	8,100

Reqs. 1 and 2

Sales Revenue			
		Jan. 18	1,100
		28	600
Clo.	1,700	Bal.	1,700

Cost of Goods Sold			
Jan. 18	700		
28	400		
Bal.	1,100	Clo.	1,100

Salary Expense			
Jan. 16	1,400		
31	1,400		
Bal.	2,800	Clo.	2,800

Rent Expense			
Jan. 31	500	Clo.	500

Utilities Expense			
Jan. 24	300	Clo.	300

Depreciation Expense			
Jan. 31	200	Clo.	200

Req. 2

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		7,200	
		Service Revenue			7,200
	2	Prepaid Rent		1,500	
		Cash			1,500
	7	Accounting Software Inventory		4,000	
		Accounts Payable			4,000
	16	Salary Expense		1,400	
		Cash			1,400
	18	Accounts Receivable		1,100	
		Sales Revenue			1,100
	18	Cost of Goods Sold		700	
		Accounting Software Inventory			700
	19	Accounts Receivable		900	
		Service Revenue			900
	21	Accounts Payable		2,000	
		Cash			2,000
	24	Utilities Expense		300	
		Cash			300
	28	Cash		600	
		Sales Revenue			600
	28	Cost of Goods Sold		400	
		Accounting Software Inventory			400

Req. 2

DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>Adjusting Entries</i>			
Jan.	31	Salary Expense		1,400	
		Salary Payable			1,400
	31	Rent Expense (\$1,500 × 1/3)		500	
		Prepaid Rent			500
	31	Depreciation Expense		200	
		Accumulated Depreciation			200
		<i>Closing Entries</i>			
Jan.	31	Service Revenue		8,100	
		Sales Revenue		1,700	
		Income Summary			9,800
	31	Income Summary		4,900	
		Cost of Goods Sold			1,100
		Salary Expense			2,800
		Rent Expense			500
		Utilities Expense			300
		Depreciation Expense			200
	31	Income Summary (\$9,800 ! \$4,900)		4,900	
		Amos Faraday, Capital			4,900

After Closing

Total debits in the ledger.....	\$8,500
Total credits in the ledger.....	8,500

Req. 3

Amos Faraday, Consultant		
Income Statement		
Month Ended January 31, 20XX		
Revenues:		
Service revenue		\$8,100
Sales revenue		<u>1,700</u>
Expenses:		9,800
Cost of goods sold	\$1,100	
Salary expense	2,800	
Rent expense	500	
Utilities expense	300	
Depreciation expense	<u>200</u>	<u>4,900</u>
Net income		<u><u>\$4,900</u></u>