

# Current Assets Exercises I

Christopher J. Skousen; Larry M. Walther



Download free books at

[bookboon.com](http://bookboon.com)

Larry M. Walther & Christopher J. Skousen

# Current Assets Exercises I

---

Current Assets Exercises I

1<sup>st</sup> edition

© 2010 Larry M. Walther, Christopher J. Skousen & [bookboon.com](http://bookboon.com)

All material in this publication is copyrighted, and the exclusive property of Larry M. Walther or his licensors (all rights reserved).

ISBN 978-87-7681-645-2

# Contents

<b>Problem 1</b>	<b>6</b>
Worksheet 1	7
Solution 1	8
<b>Problem 2</b>	<b>9</b>
Worksheet 2	9
Solution 2	12
<b>Problem 3</b>	<b>15</b>
Worksheet 3	16
Solution 3	19
<b>Problem 4</b>	<b>21</b>
Worksheet 4	22
Solution 4	23



www.sylvania.com

We do not reinvent  
the wheel we reinvent  
light.

Fascinating lighting offers an infinite spectrum of possibilities: Innovative technologies and new markets provide both opportunities and challenges. An environment in which your expertise is in high demand. Enjoy the supportive working atmosphere within our global group and benefit from international career paths. Implement sustainable ideas in close cooperation with other specialists and contribute to influencing our future. Come and join us in reinventing light every day.

Light is OSRAM

**OSRAM  
SYLVANIA** 

<b>Problem 5</b>	<b>24</b>
Worksheet 5	25
Solution 5	26
<b>Problem 6</b>	<b>27</b>
Worksheet 6	28
Solution 6	29
<b>Problem 7</b>	<b>30</b>
Worksheet 7	32
Solution 7	33
<b>Problem 8</b>	<b>34</b>
Worksheet 8	35
Solution 8	37



Discover the truth at [www.deloitte.ca/careers](http://www.deloitte.ca/careers)

**Deloitte.**

© Deloitte & Touche LLP and affiliated entities.



Click on the ad to read more

# Problem 1

Andre Sampri Sporting Goods Store purchases sporting goods merchandise on account from various vendors. Below is an invoice from Tennis Wear World.

<b>Tennis Wear World</b> Tennis Clothing High Point, CO	
<b>Bill to:</b> Andre Sampri Sporting Goods Store Reno Way, #1234 Denver, CO	INVOICE # 1288

Delivery Date	Invoice Date	F.O.B. Point	Terms
May 15, 20X1	May 15, 20X1	Denver	2/10,n/30

QTY	Description	UNIT PRICE	TOTAL
140	Super Dry Shirt sport collection	\$ 75	\$ 10,500
25	Tennis Visor – head wear	10	\$ 250
15	Summer Fun collection	30	\$ 450
<b>TOTAL</b>			<b>\$ 11,200</b>

- a) Prepare Andre Sampri's journal entries for each of the following transactions, assuming use of a periodic inventory system and the "gross method" of recording:

To record the invoice on May 15.

To record the return of the Summer Fun collection on May 17.

To record the payment of the balance due if payment occurred on May 20.

To record the payment of the balance due if payment occurred on May 30.

- b) Repeat requirement (a) assuming Andre Sampri uses the periodic inventory system and the "net method" of recording.

Worksheet 1

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
May 15			
	<i>Purchased merchandise on account, terms 2/10,n/30</i>		
May 17			
	<i>Returned the Summer Fun collection</i>		
May 20			
	<i>Paid invoice, discount taken</i>		
May 30			
	<i>Paid invoice, discount missed</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
May 15			
	<i>Purchased merchandise on account, terms 2/10,n/30</i>		
May 17			
	<i>Returned the Summer Fun collection</i>		
May 20			
	<i>Paid invoice, discount taken</i>		
May 30			
	<i>Paid invoice, discount missed</i>		

## Solution 1

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
May 5	Purchases	11,200	
	Accounts Payable		11,200
	<i>Purchased merchandise on account, terms 1/10,n/30</i>		
May 7	Accounts Payable	450	
	Purchases Returns & Allowances		450
	<i>Returned the Summer Fun collection</i>		
May 10	Accounts Payable	10,750	
	Purchase Discounts		215
	Cash		10,535
	<i>Paid invoice, discount taken ((<math>\\$11,200 - \\$450</math>) <math>\times</math> 2% = <math>\\$215</math>)</i>		
May 20	Accounts Payable	10,750	
	Cash		10,750
	<i>Paid invoice, discount missed</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
May 5	Purchases	10,976	
	Accounts Payable		10,976
	<i>Purchased merchandise on account, terms 2/10,n/30 (<math>\\$11,200 - (\\$11,200 \times 2\%) = \\$10,976</math>)</i>		
May 7	Accounts Payable	441	
	Purchases Returns & Allowances		441
	<i>Returned the Summer Fun collection (<math>\\$450 - (\\$450 \times 2\%)</math>)</i>		
May 10	Accounts Payable	10,535	
	Cash		10,535
	<i>Paid invoice, discount taken (<math>\\$10,976 - \\$491 = \\$10,535</math>)</i>		
May 20	Accounts Payable	10,535	
	Purchase Discounts Lost	215	
	Cash		10,750
	<i>Paid invoice, discount missed</i>		

# Problem 2

Ciwick sells electronic equipment and other basic wiring components to electrical supply dealers across the country. Dealers with “preferred status” receive a 20% discount off of list price. All sales are on account, and payment terms are 1/10, n/30.

Sales of \$2,000 and up (large orders) will ship F.O.B. destination. Orders less than \$2,000 (small orders) are always F.O.B. shipping point. However, Ciwick will prepay freight on small orders by “preferred dealers.” Otherwise, small orders are shipped freight collect by the common carrier making the delivery. In no event may a customer apply the cash discount terms to freight charges.

Prepare journal entries to record the sale and subsequent collection for each of the following transactions:

Transaction	Customer Status	List Price	Freight Cost	Date of Sale	Date of Payment
1	Preferred	\$ 3,000	\$ 250	05-Jun	11-Jun
2	Regular	600	60	09-Jun	22-Jun
3	Preferred	1,400	90	11-Jun	22-Jun
4	Regular	4,000	400	12-Jun	19-Jun
5	Regular	3,600	460	14-Jun	01-Jul
6	Preferred	4,800	360	17-Jun	29-Jun

## Worksheet 2

1.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
05-Jun			
11-Jun			

2.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
09-Jun			
22-Jun			

3.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
11-Jun			
22-Jun			

4.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
12-Jun			
19-Jun			

5.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
14-Jun			
01-Jul			

6.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
17-Jun			
29-Jun			

Solution 2

1.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
05-Jun	Accounts Receivable	2,400	
	Freight-out	250	
	Cash		250
	Sales		2,400
	<i>Sold merchandise on account for \$2,400, terms F.O.B. destination, and paid the freight bill of \$250</i>		
11-Jun	Cash	2,376	
	Sales Discounts	24	
	Accounts Receivable		2,400
	<i>Collected invoice amount less 1% discount</i>		

SIMPLY CLEVER

ŠKODA



We will turn your CV into an opportunity of a lifetime



Do you like cars? Would you like to be a part of a successful brand? We will appreciate and reward both your enthusiasm and talent. Send us your CV. You will be surprised where it can take you.

Send us your CV on [www.employerforlife.com](http://www.employerforlife.com)



Click on the ad to read more

2.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
09-Jun	Accounts Receivable	600	
	Sales		600
	<i>Sold merchandise on account for \$600, terms F.O.B. shipping point</i>		
22-Jun	Cash	600	
	Accounts Receivable		600
	<i>Collected invoice amount</i>		

3.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
11-Jun	Accounts Receivable	1,210	
	Cash		90
	Sales		1,210
	<i>Sold merchandise on account for \$1,210, terms F.O.B. shipping point, freight prepaid</i>		
22-Jun	Cash	1,210	
	Accounts Receivable		1,210
	<i>Collected invoice amount plus prepaid freight</i>		

4.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
12-Jun	Accounts Receivable	4,000	
	Freight-out	400	
	Cash		400
	Sales		4,000
	<i>Sold merchandise on account for \$4,000, terms F.O.B. destination, and paid the freight bill of \$400</i>		
19-Jun	Cash	3,960	
	Sales Discounts	40	
	Accounts Receivable		4,000
	<i>Collected invoice amount less 1% discount</i>		

5.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
14-Jun	Accounts Receivable	3,600	
	Freight-out	460	
	Cash		460
	Sales		3,600
	<i>Sold merchandise on account for \$3,600, terms F.O.B. destination, and paid the freight bill of \$460</i>		
01-Jul	Cash	3,600	
	Accounts Receivable		3,600
	<i>Collected invoice amount</i>		

6.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
17-Jun	Accounts Receivable	3,840	
	Freight-out	360	
	Cash		360
	Sales		3,840
	<i>Sold merchandise on account for \$1,920, terms F.O.B. destination, and paid the freight bill of \$180</i>		
29-Jun	Cash	3,840	
	Accounts Receivable		3,840
	<i>Collected invoice amount</i>		

# Problem 3

Hart Dairy produces a variety of specialty ice creams and buys ingredients from many suppliers. Each supplier seems to have unique policies about discounts and freight terms. Hart Dairy records all purchases “gross” and uses a periodic inventory system.

Hart recently hired a new bookkeeper and needs your help to develop a template of sample journal entries for different scenarios. For purposes of preparing the template, assume that the purchase is \$500 and freight is \$50.

Scenario	Cash Discount	Freight Terms	Discount Condition
1	2/10, n/30	F.O.B. Shipping point/freight prepaid	taken
2	2/10, n/30	F.O.B. Shipping point/freight prepaid	missed
3	2/10, n/30	F.O.B. Destination/freight prepaid	taken
4	2/10, n/30	F.O.B. Destination/freight prepaid	missed
5	2/10, n/30	F.O.B. Shipping point/freight collect	taken
6	2/10, n/30	F.O.B. Shipping point/freight collect	missed

Cynthia | AXA Graduate

**AXA Global Graduate Program**

Find out more and apply

redefining / standards AXA



The first scenario is done as an example on the preprinted worksheet. Select from the below accounts to record each journal entry

- Cash
- Purchases
- Accounts Payable
- Purchases Discounts
- Freight-in

Worksheet 3

1.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Freight-in	50	
	Accounts Payable		550
	<i>F.O.B. Shipping point/freight prepaid</i>		
pay	Accounts Payable	550	
	Purchases Discounts		10
	Cash		540
	<i>discount taken</i>		

2.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase			
	<i>F.O.B. Shipping point/freight prepaid</i>		
pay			
	<i>discount missed</i>		

3.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase			
	Accounts Payable		
	<i>F.O.B. Destination/freight prepaid</i>		
pay			
	<i>discount taken</i>		

4.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase			
	<i>F.O.B. Destination/freight prepaid</i>		
pay			
	<i>discount missed</i>		

5.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase			
	<i>F.O.B. Shipping point/freight collect</i>		
pay			
	<i>discount taken</i>		

6.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase			
	<i>F.O.B. Shipping point/freight collect</i>		
pay			
	<i>discount missed</i>		

I joined MITAS because  
I wanted **real responsibility**

The Graduate Programme  
for Engineers and Geoscientists  
[www.discovermitas.com](http://www.discovermitas.com)



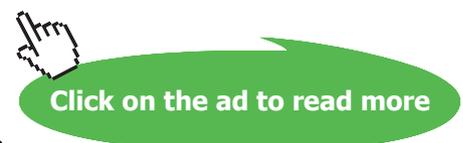


**Month 16**  
I was a construction supervisor in the North Sea advising and helping foremen solve problems

Real work  
International opportunities  
Three work placements







Solution 3

1.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Freight-in	50	
	Accounts Payable		550
	<i>F.O.B. Shipping point/freight prepaid</i>		
pay	Accounts Payable	550	
	Purchases Discounts		10
	Cash		540
	<i>discount taken</i>		

2.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Freight-in	50	
	Accounts Payable		550
	<i>F.O.B. Shipping point/freight prepaid</i>		
pay	Accounts Payable	550	
	Cash		550
	<i>discount missed</i>		

3.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Accounts Payable		500
	<i>F.O.B. Destination/freight prepaid</i>		
pay	Accounts Payable	500	
	Purchases Discounts		10
	Cash		490
	<i>discount taken</i>		

4.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Accounts Payable		500
	<i>F.O.B. Destination/freight prepaid</i>		
pay	Accounts Payable	500	
	Cash		500
	<i>discount missed</i>		

5.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Freight-in	50	
	Cash		50
	Accounts Payable		500
	<i>F.O.B. Shipping point/freight collect</i>		
pay	Accounts Payable	500	
	Purchases Discounts		10
	Cash		490
	<i>discount taken</i>		

6.

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
purchase	Purchases	500	
	Freight-in	50	
	Cash		50
	Accounts Payable		500
	<i>F.O.B. Shipping point/freight collect</i>		
pay	Accounts Payable	500	
	Cash		500
	<i>discount missed</i>		

# Problem 4

Partial information follows about net sales, net purchases, cost of goods sold, gross profit, total expenses, and net income for Jensen Company. Compute the missing values.

## NET SALES

Sales	\$2,400,000
Sales discounts	60,000
Sales returns and allowances	?
Net sales	2,205,000

## NET PURCHASES

Purchases	\$1,200,000
Freight-in	60,000
Purchases discounts	?
Purchases returns and allowances	7,500
Net purchases	1,240,500

**ie** business school

**93%**  
OF MIM STUDENTS ARE  
WORKING IN THEIR SECTOR 3 MONTHS  
FOLLOWING GRADUATION

**MASTER IN MANAGEMENT**

- STUDY IN THE CENTER OF MADRID AND TAKE ADVANTAGE OF THE UNIQUE OPPORTUNITIES THAT THE CAPITAL OF SPAIN OFFERS
- PROPEL YOUR EDUCATION BY EARNING A DOUBLE DEGREE THAT BEST SUITS YOUR PROFESSIONAL GOALS
- STUDY A SEMESTER ABROAD AND BECOME A GLOBAL CITIZEN WITH THE BEYOND BORDERS EXPERIENCE

Length: 10 MONTHS  
Av. Experience: 1 YEAR  
Language: ENGLISH / SPANISH  
Format: FULL-TIME  
Intakes: SEPT / FEB

**5 SPECIALIZATIONS**  
PERSONALIZE YOUR PROGRAM

**#10 WORLDWIDE**  
MASTER IN MANAGEMENT  
FINANCIAL TIMES

**55 NATIONALITIES**  
IN CLASS

[www.ie.edu/master-management](http://www.ie.edu/master-management) | [mim.admissions@ie.edu](mailto:mim.admissions@ie.edu) | Follow us on IE MIM Experience



COST OF GOODS SOLD

Beginning inventory	\$256,200
Ending inventory	223,500
Cost of goods sold	?

GROSS PROFIT

Gross profit	?
--------------	---

TOTAL EXPENSES

Rent	\$108,000
Salaries	437,100
Utilities	36,900
Freight-out	?
Other	72,300
Total expenses	726,600

NET INCOME

Net income	?
------------	---

Worksheet 4

Sales		\$	2,400,000
Less: Sales discounts	\$	60,000	
Sales returns and allowances		<b>45,000</b>	105,000
<b>Net sales</b>		\$	2,295,000

## Solution 4

Sales		\$	2,400,000
Less: Sales discounts	60,000		
Sales returns and allowances	<b>45,000</b>		105,000
<b>Net sales</b>		\$	<b>2,295,000</b>
Purchases		\$	1,200,000
Plus: Freight-in			60,000
		\$	1,260,000
Less: Purchase discounts	<b>\$ 4,000</b>		
Purchase returns and allowances	7,500		11,500
<b>Net purchases</b>		\$	<b>1,248,500</b>
Beginning inventory, Jan. 1		\$	256,200
Net purchases			1,248,500
Goods available for sale		\$	1,504,700
Less: Ending inventory, Dec. 31			223,500
<b>Cost of goods sold</b>		\$	<b>1,281,200</b>
Net sales		\$	2,295,000
Cost of goods sold			1,281,200
<b>Gross profit</b>		\$	<b>1,013,800</b>
Rent		\$	108,000
Salaries			437,100
Utilities			36,900
Freight-out			<b>72,300</b>
Other			72,300
<b>Total expenses</b>		\$	<b>726,600</b>
Gross profit		\$	1,013,800
Total expenses			726,600
<b>Net income</b>		\$	<b>287,200</b>

# Problem 5

Blacksmith Hardware Company provides the following alphabetic list of accounts and their respective balances. All accounts have normal balances, and income statement account balances are for the year ending December 31, 20X5. A physical count of merchandise inventory on hand at year end revealed a balance of \$1,386,950. Use this information to prepare a comprehensive income statement.

Accounts payable	\$	331,995
Accounts receivable		414,450
Accumulated depreciation		832,770
Beginning inventory, Jan. 1		1,224,780
Capital stock		720,000
Cash		127,210
Depreciation expense		329,950
Dividends		60,000
Equipment		1,622,780
Freight-in		217,205
Freight-out		17,830
Insurance expense		43,500
Marketing expense		559,955
Purchase discounts		8,940
Purchase returns & allowances		33,325
Purchases		2,167,215
Rent expense		211,675
Retained earnings, Jan. 1		121,635
Salaries expense		1,169,990
Salaries payable		49,775
Sales		4,889,660
Sales discounts		44,085
Sales returns and allowances		69,990
Utilities expense		94,435



## Solution 5

<b>BLACKSMITH HARDWARE COMPANY</b>			
<b>Income Statement</b>			
<b>For the Year Ending December 31, 20X5</b>			
<b>Revenues</b>			
Sales			\$ 4,889,660
Less: Sales discounts		\$ 44,085	
Sales returns and allowances		69,990	114,075
Net sales			\$ 4,775,585
<b>Cost of goods sold</b>			
Beginning inventory, Jan 1		\$ 1,224,780	
Add Purchases		\$ 2,167,215	
Freight-in		217,205	
		<u>\$ 2,384,420</u>	
Less: Purchase discounts	\$ 8,940		
Purchase returns & allowances	33,325	42,265	
Net purchases			2,342,155
Goods available for sale			\$ 3,566,935
Less: Ending inventory, Dec. 31			1,386,950
Cost of goods sold			2,179,985
<b>Gross profit</b>			<b>\$ 2,595,600</b>
<b>Expenses</b>			
Salaries		\$ 1,169,990	
Marketing		559,955	
Rent		211,675	
Insurance		43,500	
Utilities		94,435	
Freight-out		17,830	
Depreciation		329,950	2,427,335
<b>Net income</b>			<b>\$ 168,265</b>

# Problem 6

Everything Electrical sales custom electrical fittings. Following is the corporation's income statement. Use this statement to prepare closing entries. No dividends were declared during the period.

<b>EVERYTHING ELECTRICAL INC.</b>			
<b>Income Statement</b>			
<b>For the Year Ending December 31, 20X4</b>			
<b>Revenues</b>			
Sales			\$ 1,775,308
Less: Sales discounts		\$ 9,334	
Sales returns and allowances		19,760	29,094
Net sales			\$ 1,746,214
<b>Cost of goods sold</b>			
Beginning inventory, Jan 1		\$ 364,686	
Add Purchases	\$ 1,186,712		
Freight-in	42,180		
		\$ 1,228,892	
Less: Purchase discounts	\$ 7,002		
Purchase returns & allowances	38,018	45,020	
Net purchases		1,183,872	
Goods available for sale		\$ 1,548,558	
Less: Ending inventory, Dec. 31		398,110	
Cost of goods sold		1,150,448	
<b>Gross profit</b>			<b>\$ 595,766</b>
<b>Expenses</b>			
Salaries		\$ 376,000	
Insurance		18,304	
Utilities		15,520	
Freight-out		4,868	
Depreciation		27,546	442,238
<b>Net income</b>			<b>\$ 153,528</b>



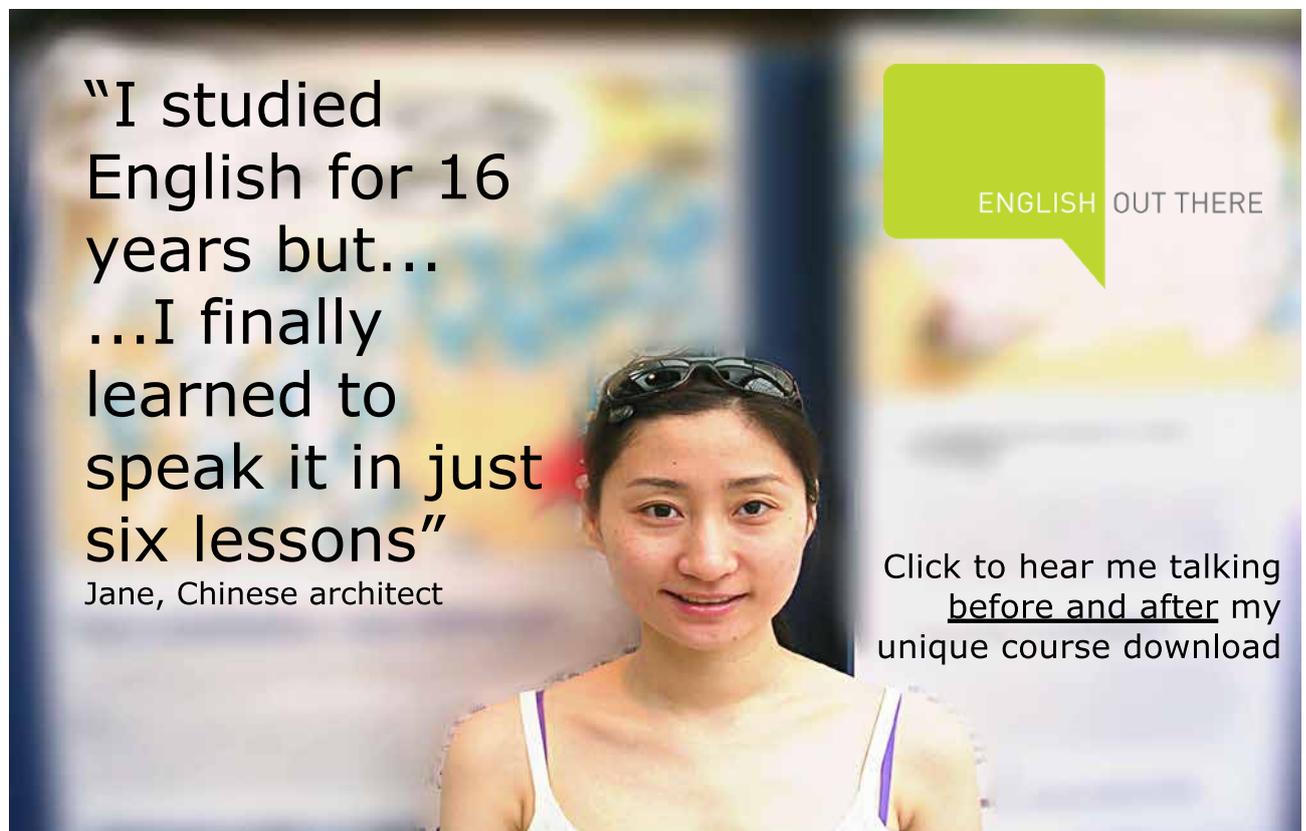
## Solution 6

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Sales	1,775,308	
	Purchase Discounts	7,002	
	Purchase Returns and Allowances	38,018	
	Inventory	398,110	
	Income Summary		2,218,438
	<i>To close income statement accounts with a credit balance, and establish ending inventory balance</i>		
Dec. 31	Income Summary	2,064,910	
	Sales Discounts		9,334
	Sales Returns and Allowances		19,760
	Purchases		1,186,712
	Freight-in		42,180
	Salaries Expense		376,000
	Insurance Expense		18,304
	Utilities Expense		15,520
	Freight-out		4,868
	Depreciation Expense		27,546
	Inventory		364,686
	<i>To close income statement accounts with a debit balance, and remove the beginning inventory balance</i>		
Dec. 31	Income Summary	153,528	
	Retained Earnings		153,528
	<i>To close Income Summary to retained earnings</i>		

# Problem 7

McEnroe Corporation and Edberg Corporation each sell tennis equipment. McEnroe Corporation's strategy is to focus on selling quality units at the best possible prices, while attempting to minimize selling, general, and administrative expenses (SG&A). Edberg Corporation has concluded that many customers will differentiate more on brand than quality, and is promoting its inferior goods with a significant marketing campaign.

Study each company's income statement below, and calculate the respective proportion of sales returns, the gross profit margin, and the net profit on sales. Both companies are subject to a 30% tax rate. Assuming no change in SG&A, which company would experience the biggest increase in profit from a 10% increase in net sales? Which company would experience the biggest decline in profit from a 10% decrease in net sales?



"I studied English for 16 years but...  
...I finally learned to speak it in just six lessons"  
Jane, Chinese architect

ENGLISH OUT THERE

Click to hear me talking before and after my unique course download

<b>MCENROE CORPORATION</b>		
<b>Income Statement</b>		
<b>For the Year Ending December 31, 20X6</b>		
<b>Net sales</b>		
Gross sales	\$ 2,837,628	
Less: Sales return	56,754	\$ 2,780,874
<b>Cost of goods sold</b>		2,128,221
<b>Gross profit</b>		\$ 652,653
<b>Selling expenses</b>	\$ 135,000	
<b>General &amp; administrative expenses</b>	360,000	495,000
<b>Income before taxes</b>		\$ 157,653
<b>Income tax expense (30%)</b>		47,296
<b>Net income</b>		\$ 110,357

<b>BORG CORPORATION</b>		
<b>Income Statement</b>		
<b>For the Year Ending December 31, 20X6</b>		
<b>Net sales</b>		
Gross sales	\$ 2,957,628	
Less: Sales return	176,754	\$ 2,780,874
<b>Cost of goods sold</b>		1,251,393
<b>Gross profit</b>		\$ 1,529,393
<b>Selling expenses</b>	\$ 1,011,828	
<b>General &amp; administrative expenses</b>	360,000	1,371,828
<b>Income before taxes</b>		\$ 157,653
<b>Income tax expense (30%)</b>		47,296
<b>Net income</b>		\$ 110,357

### Worksheet 7

**McEnroe Corporation**

- Sales returns rate
- Gross profit margin
- Net profit margin

**Borg Corporation**

- Sales returns rate
- Gross profit margin
- Net profit margin

	<b>McEnroe</b>	<b>Borg</b>
<b>10% increase in net sales</b>		
Net sales (\$2,780,874 × 110%)	\$	\$
Cost of goods sold	_____	_____
Gross profit (net sales × gross profit margin)	\$	\$
SG&A	_____	_____
Income before taxes	\$	\$
Income tax expense (30%)	_____	_____
Net income	\$ =====	\$ =====
<b>10% decrease in net sales</b>		
Net sales (\$2,780,874 × 90%)	\$	\$
Cost of goods sold	_____	_____
Gross profit (net sales × gross profit margin)	\$	\$
SG&A	_____	_____
Income before taxes	\$	\$
Income tax expense (30%)	_____	_____
Net income	\$ =====	\$ =====

## Solution 7

**McEnroe Corporation**

Sales returns rate	$(\$56,754 \div \$2,837,628)$	2,00%
Gross profit margin	$(\$652,653 \div \$2,780,874)$	23,47%
Net profit margin	$(\$110,357 \div \$2,780,874)$	3,97%

**Borg Corporation**

Sales returns rate	$(\$176,754 \div \$2,957,628)$	5,98%
Gross profit margin	$(\$1,529,481 \div \$2,780,874)$	55,00%
Net profit margin	$(\$110,357 \div \$2,780,874)$	3,97%

Intuitively, the company with the highest gross profit rate (Borg) would benefit more from an increase in sales (assuming SG&A is not changing). Conversely, Borg will suffer more from a decline in sales. Below is a comparison of effects:

	<b>McEnroe</b>	<b>Borg</b>
<b>10% increase in net sales</b>		
Net sales ( $\$2,780,874 \times 110\%$ )	\$ 3,058,961	\$ 3,058,961
Cost of goods sold	2,341,043	1,376,532
Gross profit (net sales $\times$ gross profit margin)	\$ 717,918	\$ 1,682,429
SG&A	495,000	1,371,828
Income before taxes	\$ 222,918	\$ 310,601
Income tax expense (30%)	66,875	93,180
Net income	\$ 156,043	\$ 217,421
<b>10% decrease in net sales</b>		
Net sales ( $\$2,780,874 \times 90\%$ )	\$ 2,502,787	\$ 2,502,787
Cost of goods sold	1,915,399	1,126,254
Gross profit (net sales $\times$ gross profit margin)	\$ 587,388	\$ 1,376,533
SG&A	495,000	1,371,828
Income before taxes	\$ 92,388	\$ 4,705
Income tax expense (30%)	27,716	1,411
Net income	\$ 64,671	\$ 3,293

# Problem 8

Timeless Time Clock Shop reported the following merchandising-related transactions during April. Timeless Time Clock records all purchases “gross” and credit terms are precisely followed on both purchases and sales.

Prepare journal entries to record each transaction.

- |        |  |
|--------|--|
| 03-apr | Purchased \$2,000 of clocks on account from Tic Toc Time, F.O.B. destination, terms 1/10, n/30.  |
| 05-apr | Sold a \$750 clock to Harold Lee on account, terms 2/10, n/eom. The customer picked up the clock from the shop.  |
| 09-apr | Paid the amount due for the purchase of April 3.   |
| 11-apr | Purchased \$4,000 of clocks on account from Creighton Clockworks, F.O.B. shipping point, terms 2/10, n/30. Freight charges of \$230 were prepaid by Creighton and added to the invoice. No discount is permitted on the freight charges. |
| 19-apr | Sold a \$1,750 clock on account, terms 2/10, n/eom. Timeless sold the clock F.O.B. destination, and paid the freight charges of \$165.   |
| 23-apr | The customer of April 19 called to report that the clock was received damaged. An agreement was reached to reduce the invoice by 20%.  |
| 27-apr | Paid Creighton Clockworks for the purchase of April 11.  |
| 27-apr | Harold Lee paid for the purchase of April 5.   |
| 28-apr | The customer of April 19 paid the balance due.   |

Worksheet 8

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
03-Apr			
	<i>Purchased clocks on account, terms 1/10,n/30</i>		
05-Apr			
	<i>Sold clock on account, terms 2/10, n/eom</i>		
09-Apr			
	<i>Paid for the purchase of April 3, taking the 1% discount</i>		
11-Apr			
	<i>Received bill for cost of supplies</i>		
19-Apr			
	<i>Sold clock on account, 2/10, n/eom, F.O.B. destination</i>		
23-Apr			
	<i>Reduced balance due from customer on account of damage</i>		

27-Apr			
	<i>Paid the full amount due for the purchase of April 11</i>		
27-Apr			
	<i>Collected the amount due for the sale on April 5</i>		
28-Apr			
	<i>Collected remaining amount for April 19 sale, less 2% discount</i>		

Excellent Economics and Business programmes at:



university of groningen




**“The perfect start of a successful, international career.”**

**CLICK HERE**  
to discover why both socially and academically the University of Groningen is one of the best places for a student to be

[www.rug.nl/feb/education](http://www.rug.nl/feb/education)



## Solution 8

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
03-Apr	Purchases	2,000	
	Accounts Payable		2,000
	<i>Purchased clocks on account, terms 1/10,n/30</i>		
05-Apr	Accounts Receivable	750	
	Sales		750
	<i>Sold clock on account, terms 2/10, n/eom</i>		
09-Apr	Accounts Payable	2,000	
	Purchases Discounts		20
	Cash		1,980
	<i>Paid for the purchase of April 3, taking the 1% discount</i>		
11-Apr	Purchases	4,000	
	Freight-in	230	
	Accounts Payable		4,230
	<i>Received bill for cost of supplies</i>		
19-Apr	Accounts Receivable	1,750	
	Freight-out	165	
	Sales		1,750
	Cash		165
	<i>Sold clock on account, 2/10, n/eom, F.O.B. destination</i>		
23-Apr	Sales Returns and Allowances	350	
	Accounts Receivable		350
	<i>Reduced balance due from customer on account of damage</i>		

27-Apr	Accounts Payable	4,230	
	Cash		4,230
	<i>Paid the full amount due for the purchase of April 11</i>		
27-Apr	Cash	750	
	Accounts Receivable		750
	<i>Collected the amount due for the sale on April 5</i>		
28-Apr	Cash	1,372	
	Sales Discounts	28	
	Accounts Receivable		1,400
	<i>Collected remaining amount for April 19 sale, less 2% discount</i>		

## American online LIGS University

is currently enrolling in the  
Interactive Online **BBA, MBA, MSc,**  
**DBA and PhD** programs:

- ▶ enroll **by September 30th, 2014** and
- ▶ **save up to 16%** on the tuition!
- ▶ pay in 10 installments / 2 years
- ▶ Interactive **Online** education
- ▶ visit [www.ligsuniversity.com](http://www.ligsuniversity.com) to find out more!

Note: LIGS University is not accredited by any nationally recognized accrediting agency listed by the US Secretary of Education. More info [here](http://www.ligsuniversity.com).





Click on the ad to read more