

PRACTICE SET

MERCHANDISE ACCOUNTING

I. LOGIC OF DEBITS AND CREDITS

Instructions: In the space provided, write the letter of the account on the right which is opposite the account on the left. In Part II, journalize given the transaction descriptions.

<u>B</u>	Purchase Returns and Allowances	A.	Accounts Receivable
<u>C</u>	Sales	B.	Sales Returns and Allowances
<u>D</u>	Sales Discounts	C.	Purchases
<u>A</u>	Accounts Payable	D.	Purchase Discounts

II. JOURNAL ENTRIES

Note: Linda Smith's new business is Linda's Video Showcase.

		DR.	CR.
Jan. 3	Purchases Accounts Payable, A. Company	5,000	5,000
Transaction---	Merchandise purchased for \$5,000 on credit		
Description	from A. Company invoice dated 1/1, terms 2/10,n30.		
Jan. 7	Accounts Payable, A. Company Purchase Returns and Allowances	400	400
	Returned \$400 of defected merchandise to A. Company purchased 1/1.		
Jan. 11	Accounts Payable, A. Company Purchase Discounts	4,600	92
	Cash		4,508
	Paid A. Company for purchase of 1/1 less return and discount.		
Jan. 12	Cash Sales	3,000	3,000
	Recorded cash sales of \$3,000.		
Jan. 14	Accounts Receivable, B. Company Sales	6,000	6,000
	Recorded credit sale of \$6,000 to B. Company terms 2/10,n30.		
Jan. 18	Sales Returns and Allowances Accounts Receivable, B. Company	200	200
	B. Company returned \$200 of merchandise purchased 1/14.		
Jan. 24	Cash Sales Discounts	5,684 116	5,800
	Accounts Receivable, B. Company		
	Received payment from B. Company less return, less discount.		
Feb. 2	Purchases Accounts Payable	3,960	3,960
	Merchandise purchased from Z. Company with a value of \$4,000, terms 1/10,n30 - Net Method.		
Feb. 28	Accounts Payable Purchase Discount Lost	3,960 40	4,000
	Cash		
	Paid Z. Company for purchase of 2/2 plus discount lost.		
Feb. 28	Transportation-In Cash	30	30
	Paid Transportation charges of \$30 for merchandise purchased 2/2.		

III. LOGIC OF INCOME STATEMENT

Instruction: Fill in the missing Account Categories.

Net Sales
- <u>Cost of Goods Sold</u>
Gross Profit
- <u>Operating Expenses</u>
Income from Operations

Part I Answers B, C, D, A

IV. INCOME STATEMENT AND BALANCE SHEET

Instructions: From these randomly ordered accounts prepare an Income Statement, Balance Sheet, and Closing Entries. Data is in thousands and balances are as of 12/31/95.

Sales Returns and Allowances	Merchandise Inventory, January 1, 1995	Withdrawals
11	100	50
Merchandise Inventory, December 31, 1995	Selling Expenses	Cash
80	190	220
Purchases	Sales	Accounts Receivable
400	1050	30
Purchase Returns and Allowances	Accounts Payable	Office Supplies
2	100	100
Sales Discounts	Office Equipment	Prepaid Rent
29	220	100
Transportation-In	Accumulated Depreciation	Capital, Jan. 1, 1995
10	50	200
	General and Administrative Expense	Purchase Discounts
	200	8
		Notes Payable
		200

INCOME STATEMENT

Linda's Video Showcase
Income Statement
For the Year Ended December 31, 1995

Sales Revenue:		
Gross Sales		\$1,050
Sales Returns and Allowances	\$11	
Sales Discounts	<u>29</u>	
		40
Net Sales		<u>\$1,010</u>
Cost of Goods Sold:		
Merchandise Inventory, January 1, 1995	\$ 100	
Purchases	\$400	
Purchase Returns and Allowances	\$ 2	
Purchase Discounts	<u>8</u>	
		10
Net Purchases	\$390	
Plus Transportation-In	<u>10</u>	
		400
Goods Available for Sale	\$ 500	
Merchandise Inventory, December 31, 1995	<u>80</u>	
		420
Cost of Goods Sold		<u>420</u>
Gross Profit		\$ 590
Operating Expenses:		
Selling Expenses	\$ 190	
General and Administrative Expenses	<u>200</u>	
		390
Total Operating Expenses		<u>390</u>
Net Income from Operation		<u>\$ 200</u>

BALANCE SHEET

Linda's Video Showcase
Balance Sheet
December 31, 1995

Current Assets:		
Cash	\$ 50	
Accounts Receivable	220	
Office Supplies	30	
Prepaid Rent	100	
Inventory	<u>80</u>	
		480
Total Current Assets		\$ 480
Plant and Equipment:		
Office Equipment	\$220	
Accumulated Depreciation	<u>50</u>	
		170
Total Assets		<u>\$ 650</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$100	
Notes Payable	<u>200</u>	
		300
Total Liabilities		\$ 300
OWNER'S EQUITY		
Capital, Linda Smith, January 1, 1995	\$200	
Net Income	\$200	
Withdrawals	<u>50</u>	
		150
Increase in Capital		<u>150</u>
Capital, Linda Smith, December 31, 1995		350
Total Liabilities and Owner's Equity		<u>\$ 650</u>

V. CLOSING ENTRIES

	DR.	CR.		DR.	CR.
Dec. 31 Income Summary	940		Dec. 31 Ending Inventory	80	
Sales Returns and Allowances		11	Sales	1,050	
Sales Discounts		29	Purchase Returns	2	
Beginning Inventory		100	Purchase Discounts	8	
Purchases		400	Income Summary		1,140
Transportation-In		10			
Selling Expenses		190	Dec. 31 Income Summary	200	
General and Administrative Expenses		200	Capital, Linda Smith		200
			Dec. 31 Capital, Linda Smith	50	
			Withdrawals, Linda Smith		50

Note: Journal Entries are becoming more complicated. See page A40 on Understanding Journal Entries for a logical approach to follow when recording Journal Entries.