## Chapter 4

**Reporting and Analyzing**

**Merchandising Operations**

**Exercises**

**Exercise 4-1 (30 minutes)**

**Note: The original missing numbers are blocked.**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **(a)** |  | **(b)** |  | **(c)** |  | **(d)** |  | **(e)** |
| Sales  | **$62,000** |  | **$43,500** |  | **$46,000** |  | **$79,000** |  | **$25,600** |
| **Cost of goods sold** |  |  |  |  |  |  |  |  |  |
|  **Merch. inv. (beg.)**  | **8,000** |  | **17,050** |  | **7,500** |  | **8,000** |  | **4,560** |
|  **Total cost of merch.** |  |  |  |  |  |  |  |  |  |
|  **purchases**  | **38,000** |  | **1,950** |  | **43,750** |  | **32,000** |  | **6,600** |
|  **Merch. inv. (end.)**  |  **(11,950)** |  |  **(3,000)** |  |  **(9,000)** |  |  **(6,600)** |  |  **(4,160)** |
|  **Cost of goods sold**  |  **34,050** |  |  **16,000** |  |  **42,250** |  |  **33,400** |  |  **7,000** |
| **Gross profit**  | **27,950** |  | **27,500** |  | **3,750** |  | **45,600** |  | **18,600** |
| **Expenses**  |  **10,000** |  |  **10,650** |  |  **12,150** |  |  **3,600** |  |  **6,000** |
| **Net income (loss)**  | **$17,950** |  | **$16,850** |  | **$ (8,400)** |  | **$42,000** |  | **$12,600** |

**Explanations:**

**a. Find merchandise inventory (ending) by subtracting cost of goods sold from goods available for sale. Find gross profit as the difference between the sales and cost of goods sold. Find net income as the gross profit less the expenses.**

**b. Find total cost of merchandise purchases by finding the number that makes the total equal the cost of goods sold. Find gross profit from sales less cost of goods sold.**

**c. Find cost of goods sold from sales less gross profit. Find cost of merchandise purchases by finding the number to make the calculation equal cost of goods sold.**

1. **Calculate cost of goods sold as usual. Calculate sales as gross profit plus cost of goods sold.**

e. Find merchandise inventory (ending) by subtracting cost of goods sold from goods available for sale. Find gross profit from sales less cost of goods sold. Find net income as gross profit less expenses.

**Exercise 4-2 (10 minutes)**

**Operating cycle of a merchandiser with credit sales follows (chronological):**

 **2 (a) prepare merchandise for sale**

 **5 (b) collect cash from customers on account**

 **3 (c) make credit sales to customers**

 **1 (d) purchase merchandise**

 **4 (e) monitor and service accounts receivable**

Exercise 4-3 (30 minutes)

**Apr. 2 Merchandise Inventory 4,600**

 **Accounts Payable—Lyon 4,600**

 **Purchased merchandise on credit.**

 **3 Merchandise Inventory 300**

 **Cash 300**

 **Paid shipping charges on merchandise.**

 **4 Accounts Payable—Lyon 600**

 **Merchandise Inventory 600**

 **Returned unacceptable merchandise.**

 **17 Accounts Payable—Lyon 4,000**

 **Merchandise Inventory 80**

 **Cash\* 3,920**

 **Paid within discount period less returns.**

 **\*($4,600 - $600) x (100%-2%)**

 **18 Merchandise Inventory 8,500**

 **Accounts Payable—Frist 8,500**

 **Purchased merchandise on credit.**

 **21 Accounts Payable—Frist 500**

 **Merchandise Inventory 500**

 **Received an allowance on purchase.**

 **28 Accounts Payable—Frist 8,000**

 **Merchandise Inventory 80**

 **Cash\* 7,920**

 **Paid balance within discount period.**

 **\*($8,500 - $500) x (100%-1%)**

**Exercise 4-4 (30 minutes)**

 **SELLER—Allied**

**May 3 Merchandise Inventory 20,000**

 **Cash 20,000**

 **Purchased goods (2,000 x $10).**

**May 5 Accounts Receivable 21,000**

 **Sales 21,000**

 **Sold goods on credit (1,500 x $14).**

 **5 Cost of Goods Sold 15,000**

 **Merchandise Inventory 15,000**

 **Record cost of sale (1,500 x $10).**

**May 7 Sales Returns and Allowances 1,750**

 **Accounts Receivable 1,750**

 **Accepted returns (125 x $14).**

 **7 Merchandise Inventory 1,250**

 **Cost of Goods Sold 1,250**

 **Returned goods to inventory (125 x $10).**

**May 8 Sales Returns and Allowances 300**

 **Accounts Receivable 300**

 **Allowance for scuffed items.**

**May 15 Cash 18,571**

 **Sales Discount\* 379**

 **Accounts Receivable\*\* 18,950**

 **Received payment within discount period.**

 **\*($21,000 - $1,750 - $300) x 2%**

 **\*\*($21,000 - $1,750 - $300)**

**Exercise 4-5 (15 minutes)**

 **BUYER—Macy**

**May 3 No entry for buyer.**

**May 5 Merchandise Inventory 21,000**

 **Accounts Payable 21,000**

 **Purchased merchandise on credit.**

**May 7 Accounts Payable 1,750**

 **Merchandise Inventory 1,750**

 **Returned unwanted merchandise.**

 **(125 x $14)**

**May 8 Accounts Payable 300**

 **Merchandise Inventory 300**

 **Received allowance for scuffed goods.**

**May 15 Accounts Payable\* 18,950**

 **Merchandise Inventory\*\* 379**

 **Cash 18,571**

 **Paid for May 5 purchase less R&A.**

 **\* ($21,000 - $1,750 - $300)**

 **\*\*($21,000 - $1,750 - $300) x 2%**

**Exercise 4-6 (30 minutes)**

**1. BUYER- Santa Fe**

 **a) Credit Purchase**

 **Merchandise Inventory 24,000**

 **Accounts Payable 24,000**

 **Purchased merchandise on credit.**

 **b) Payment within Discount Period**

 **Accounts Payable 24,000**

 **Merchandise Inventory 720**

 **Cash\* 23,280**

 **Paid within 3% discount period.**

 **\*$24,000 x (100%-3%)**

 **c) Payment after Discount Period**

 **Accounts Payable 24,000**

 **Cash 24,000**

 **Paid after 3% discount period.**

**2. SELLER – Mesa**

 **a) Credit Sale**

 **Accounts Receivable 24,000**

 **Sales 24,000**

 **Sold merchandise on account.**

 **Cost of Goods Sold 16,000**

 **Merchandise Inventory 16,000**

 **Record cost of sale.**

 **b) Collection within Discount Period**

 **Cash\* 23,280**

 **Sales Discounts 720**

 **Accounts Receivable 24,000**

 **Cash received within discount period.**

 **\*$24,000 x (100%-3%)**

 **c) Collection after Discount Period**

 **Cash 24,000**

 **Accounts Receivable 24,000**

 **Cash received after discount period.**

**Exercise 4-7 (25 minutes)**

**1. Entries for Sydney (BUYER):**

**May 11 Merchandise Inventory 40,000**

 **Accounts Payable 40,000**

 **Purchased goods.**

 **11 Merchandise Inventory 345**

 **Cash 345**

 **Paid shipping charges on purchased goods.**

 **12 Accounts Payable 1,400**

 **Merchandise Inventory 1,400**

 **Returned goods.**

 **20 Accounts Payable\* 38,600**

 **Merchandise Inventory\*\* 1,158**

 **Cash 37,442**

 **Paid balance within discount period.**

 **\*$40,000-$1,400**

 **\*\*($40,000-$1,400) x 3%**

**2. Entries for Troy (SELLER):**

**May 11 Accounts Receivable 40,000**

 **Sales 40,000**

 **Sold goods.**

 **11 Cost of Goods Sold 30,000**

 **Merchandise Inventory 30,000**

 **Record cost of sale.**

 **12 Sales Returns and Allowances 1,400**

 **Accounts Receivable 1,400**

 **Accepted returns.**

 **12 Merchandise Inventory 1,050**

 **Cost of Goods Sold 1,050**

 **Returned goods to inventory.**

 **20 Cash 37,442**

 **Sales Discounts\* 1,158**

 **Accounts Receivable\*\* 38,600**

 ***Received payment within discount period.***

 **\*($40,000-$1,400) x 3%**

 **\*\*$40,000-$1,400**

Exercise 4-8 (30 minutes)

|  |
| --- |
| **Merchandise Inventory** |
| **Balance, Dec. 31, 2017**  | **25,000** |  | **Purchase discounts received**  | **1,700** |
| **Invoice cost of purchases**  | **192,500** |  | **Purchase returns and allow.**  | **4,000** |
| **Returns by customers**  | **2,100** |  | **Cost of sales transactions**  | **196,000** |
| **Transportation-in**  | **2,900** |  | **Shrinkage**  | **800** |
| **Balance, Dec. 31, 2018** | **20,000** |  |  |  |

|  |
| --- |
| **Cost of Goods Sold** |
| **Cost of sales transactions** **Inventory shrinkage**  **recorded in December 31,**  **2018, adjusting entry**  | **196,000****800** |  | **Returns by customers and**  **restored to inventory**  | **2,100** |
| **Balance, Dec. 31, 2018** | **194,700** |  |  |  |

**Exercise 4-9 (20 minutes)**

 **PERPETUAL**

**Nov. 1 Merchandise Inventory 1,500**

 **Accounts Payable 1,500**

 **Record purchases, terms 2/5, n/30.**

**Nov. 5 Accounts Payable 1,500**

 **Merchandise Inventory 30**

 **Cash 1,470**

 **Record payment within discount period.**

**Nov. 7 Cash 196**

 **Merchandise Inventory 196**

 **Returned goods for cash. $200 x (100%-2%)**

**Nov. 10 Merchandise Inventory 90**

 **Cash 90**

 **Payment of freight charges.**

**Nov. 13 Accounts Receivable 1,600**

 **Sales 1,600**

 ***Record sale of goods, terms n/30.***

 **Cost of Goods Sold 800**

 **Merchandise Inventory 800**

 ***Record cost of goods sold.***

**Nov. 16 Sales Returns and Allowances 160**

 **Accounts Receivable 160**

 ***Return of merchandise sold on credit.***

 **Merchandise Inventory 80**

 **Cost of Goods Sold 80**

 ***Return of merchandise to inventory.***

***Instructor note*: This second entry changes if the goods returned are defective. In this case the returned inventory is recorded at its estimated value, not its cost. To illustrate, if the goods (costing $80) returned are defective and estimated to be worth, say, $50, the following entry is made: Dr. Merchandise Inventory for $50, Dr. Loss from Defective Merchandise for $30, and Cr. Cost of Goods Sold for $80.**

Exercise 4-10 (25 minutes)

**Adjusting entries**

**Dec. 31 Sales Salaries Expense 1,700**

 **Salaries Payable 1,700**

 ***Record accrued salaries.***

**Dec. 31 Selling Expenses 3,000**

 **Prepaid Selling Expenses 3,000**

 ***Record expired prepaid selling expenses.***

**Dec. 31 Cost of Goods Sold 1,300**

 **Merchandise Inventory 1,300**

 ***Record inventory shrinkage***

 ***($30,000 - $28,700).***

**Closing entries**

**Dec. 31 Sales 529,000**

 **Income Summary 529,000**

 **Close temporary accounts with credit balances.**

**Dec. 31 Income Summary 444,500**

 **Sales Returns and Allowances 17,500**

 **Sales Discounts 5,000**

 **Cost of Goods Sold ($212,000 + $1,300) 213,300**

 **Sales Salaries Exp. ($48,000 + $1,700) 49,700**

 **Utilities Expense 15,000**

 **Selling Expenses ($36,000 + $3,000) 39,000**

 **Administrative Expenses 105,000**

 **Close temporary accounts with debit balances.**

**Dec. 31 Income Summary 84,500**

 **Retained Earnings 84,500**

 **Close Income Summary account.**

**Dec. 31 Retained Earnings 33,000**

 **Dividends 33,000**

 **Close the dividends account.**

**Exercise 4-11 (10 minutes)**

**Multiple-Step Income Statement — Sales Related Information Only**

**Sales (gross) $200,000**

**Less: Sales discounts $ 4,000**

 **Sales returns and allowances 16,000 20,000**

**Net sales 180,000**

**Exercise 4-12 (20 minutes)**

**a. $3,000 Understatement**

 ***Explanation*: The employee oversight in omitting these goods from the physical count would cause ending inventory to be understated by $3,000.**

**b. $3,000 Understatement**

 ***Explanation*: The inventory understatement in part *a* results in total assets to be understated by $3,000.**

**c. $3,000 Understatement**

 ***Explanation*: Comparison of the perpetual inventory records with the physical count would incorrectly indicate an additional shrinkage of $3,000. This means the entry to debit Cost of Goods Sold and credit Merchandise Inventory for shrinkage is overstated by $3,000, which understates income by $3,000**

**d. $3,000 Understatement**

 ***Explanation*: Because of the understated income as explained in part *c*, total equity would be understated by $3,000.**

Exercise 4-13 (20 minutes)

**a. Understatement.**

 **Gross margin (Gross profit / Sales) would be understated because the gross profit would be understated.**

**b. Understatement.**

 **Profit margin (Net income / Sales) would be understated because the net income would be understated.**

**c. No effect.**

 **Acid-test ratio would be unaffected because inventory is not a quick asset.**

**d. Understatement.**

 **Current ratio would be understated because its numerator is understated.**

**Exercise 4-14 (15 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  **Camaro** |  **GTO** |  **Torino** |
| **Current ratio computation** |  |  |  |
| **Current assets**  | **$5,200** | **$3,500** | **$7,410** |
| **Current liabilities**  | **$2,000** | **$1,000** | **$3,800** |
| **Current ratio**  | **2.60** | **3.50** | **1.95** |
|  |  |  |  |
| **Acid-test ratio computation** |  |  |  |
| **Cash**  | **$2,000** | **$ 110** | **$1,000** |
| **Short-term investments**  | **50** | **0** | **580** |
| **Current receivables**  |  **350** |  **470** |  **700** |
| **Quick assets**  | **$2,400** | **$ 580** | **$2,280** |
|  |  |  |  |
| **Current liabilities**  | **$2,000** | **$1,000** | **$3,800** |
| **Acid-test ratio**  | **1.20** | **0.58** | **0.60** |

***Interpretation:***

**Camaro has the highest acid-test ratio and a healthy current ratio. Since Camaro has enough current assets to cover its current liabilities by more than two times and enough quick assets to cover its current liabilities by more than one time, Camaro appears to be in the best position to meet its short-term obligations.**

**More specifically, GTO exhibits superior ability to meet current year obligations using the current ratio and Camaro has the superior ability to meet near-term obligations using the acid-test ratio. The three companies’ current ratios range from marginally adequate (such as Torino’s 1.95) to strong (such as GTO’s 3.50). Further, Camaro is the only company whose acid-test ratio exceeds the common benchmark (rule-of-thumb) of 1.0. Although GTO has a higher current ratio than Camaro, Camaro would appear to be in a better position to meet its current obligations since it has a higher percentage of its most liquid assets, demonstrated by a higher acid-test ratio.**

**In summary, Torino looks the worst for its ability to pay its immediate and current year obligations. Camaro looks the strongest. GTO is in between with a strong current ratio and the lowest acid-test ratio.**

Exercise 4-15 (25 minutes)

**FIT-FOR-LIFE FOODS**

**Income Statement**

**For Year Ended December 31**

**Sales $220,000**

**Less: Sales discounts $16,000**

 **Sales returns and allowances 4,000 20,000**

**Net sales 200,000**

**Cost of goods sold 90,000**

**Gross profit 110,000**

**Expenses**

 **Selling expenses**

 **Sales staff wages 23,000**

 **Rent expense—Selling space 10,000**

 **TV advertising expense 2,000**

 **Sales commission expense 13,000**

 **Total selling expenses 48,000**

 **General and administrative expenses**

 **Office supplies expense 700**

 **Insurance expense 1,300**

 **Depreciation expense—Office copier 500**

 **Office salaries expense 32,500**

 **Total general and administrative expenses 35,000**

 **Total expenses 83,000**

**Income from operations 27,000**

**Other revenues, gains, expenses & losses**

 **Gain on sale of equipment 6,250**

 **Interest revenue 750**

 **Total other revenues, gains, expenses & losses 7,000**

**Net income $ 34,000**

**Exercise 4-16A (30 minutes)**

 **PERIODIC—Buyer (Gross Method)**

**Apr. 2 Purchases 4,600**

 **Accounts Payable—Lyon 4,600**

 **Purchased merchandise on credit.**

 **3 Transportation-In 300**

 **Cash 300**

 **Paid shipping charges on merchandise.**

 **4 Accounts Payable—Lyon 600**

 **Purchases Returns & Allowances 600**

 **Returned unacceptable merchandise.**

 **17 Accounts Payable—Lyon 4,000**

 **Purchase Discounts\* 80**

 **Cash\*\* 3,920**

 **Paid within discount period less returns.**

 **\*($4,600 - $600) x 2%**

 **\*\*($4,600 - $600) x (100%-2%)**

 **18 Purchases 8,500**

 **Accounts Payable—Frist 8,500**

 **Purchased merchandise on credit.**

 **21 Accounts Payable—Frist 500**

 **Purchases Returns & Allowances 500**

 **Received an allowance on purchase.**

 **28 Accounts Payable—Frist 8,000**

 **Purchases Discounts\* 80**

 **Cash 7,920**

 **Paid balance (less 1%) within discount period.**

 **\*($8,500 - $500) x 1%**

**Exercise 4-17A (30 minutes)**

**1. BUYER- Santa Fe (Periodic & Gross Method)**

 **a) Credit Purchase**

 **Purchases 24,000**

 **Accounts Payable 24,000**

 **Purchased merchandise on credit.**

 **b) Payment within Discount Period**

 **Accounts Payable 24,000**

 **Purchases Discounts 720**

 **Cash 23,280**

 **Paid account payable within 3% discount period.**

 **c) Payment after Discount Period**

 **Accounts Payable 24,000**

 **Cash 24,000**

 **Paid account payable after discount period.**

**2. SELLER – Mesa (Periodic & Gross Method)**

 **a) Credit Sale**

 **Accounts Receivable 24,000**

 **Sales 24,000**

 **Sold merchandise on account.**

 **b) Collection within Discount Period**

 **Cash 23,280**

 **Sales Discounts 720**

 **Accounts Receivable 24,000**

 **Collected receivable within discount period.**

 **c) Collection after Discount Period**

 **Cash 24,000**

 **Accounts Receivable 24,000**

 **Collected receivable after discount period.**

**Exercise 4-18A (25 minutes)**

**1. Entries for Sydney (BUYER)—Periodic & Gross Method:**

**May 11 Purchases 40,000**

 **Accounts Payable 40,000**

 **Purchased goods.**

 **11 Transportation-In 345**

 **Cash 345**

 **Paid shipping charges on purchased goods.**

 **12 Accounts Payable 1,400**

 **Purchases Returns and Allowances 1,400**

 **Returned goods.**

 **20 Accounts Payable\* 38,600**

 **Purchases Discounts\*\* 1,158**

 **Cash 37,442**

 **Paid balance within 3% discount period.**

 **\* $40,000 - $1,400**

 **\*\*($40,000 - $1,400) x 3%**

**2. Entries for Troy (SELLER)—Periodic & Gross Method:**

**May 11 Accounts Receivable 40,000**

 **Sales 40,000**

 **Sold goods.**

 **12 Sales Returns and Allowances 1,400**

 **Accounts Receivable 1,400**

 **Accepted returns.**

 **20 Cash 37,442**

 **Sales Discounts\* 1,158**

 **Accounts Receivable\*\* 38,600**

 ***Collected account receivable.***

 ***\* ($40,000 - $1,400) x 3%***

 ***\*\*$40,000 - $1,400***

Exercise 4-19 (20 minutes)

**L´Oréal**

**Income Statement (€ millions)**

**For Year Ended December 31, 2016**

**Net sales €25,837.1**

**Cost of sales 7,341.7**

 **Gross profit 18,495.4**

**Research and development expense   (849.8)**

**Advertising and promotion expense (7,498.7)**

**Selling, general and administrative expense (5,607.0)**

**Finance costs (58.4)**

**Finance income 385.6**

**Other expense (543.8)**

 **Profit before tax expense 4,323.3**

**Income tax expense 1,214.6**

**Net profit € 3,108.7**

**Exercise 4-20B (15 minutes)**

**a.**

**Dec. 31 Sales Discounts 20**

 **Allowance for Sales Discounts 20**

 Expected sales discounts. $1,000 x 2%

**b.**

**Dec. 31 Sales Discounts 15**

 **Allowance for Sales Discounts 15**

 Expected sales discounts.

 Step 1: Current Bal. is $5 credit

 Step 2: Bal. should be $20 credit

 Step 3: $15 credit adjustment req.

**c. Contra asset account (a contra to Accounts Receivable).**

**Exercise 4-21B (25 minutes)**

**a.**

**Dec. 31 Sales Returns and Allowances 60,000**

 **Sales Refund Payable 60,000**

 Expected sales to be refunded.

**b.**

**Dec. 31 Inventory Returns Estimated 22,500**

 **Cost of Goods Sold 22,500**

 Expected cost of returns.

**c.**

**Jan. 3 Sales Returns and Allowances 2,000**

 **Cash 2,000**

 Goods returned for cash refund.

**Jan. 3 Merchandise Inventory 750**

 **Cost of Goods Sold 750**

 Returned goods added to inventory.

**Exercise 4-22B (25 minutes)**

**a. $70,000 ($100,000 sales – $30,000 cost of sales)**

**b. (1) Sales Returns and Allowances 5,000**

 **Sales Refund Payable 5,000**

 Expected sales to be refunded. $100,000 x 5%

 **(2) Inventory Returns Estimated 1,500**

 **Cost of Goods Sold 1,500**

 Expected cost of returns. $30,000 x 5%

 **(3) $66,500 [($100,000 sales – $5,000 estim. sales returns & allowances)**

 **– ($30,000 cost of sales – $1,500 cost of sales to be returned)]**

**c. Liability account (usually a current liability).**

**d. Asset account (usually a current asset).Exercise 4-23C (25 minutes)**

**1. Entries for Sydney (BUYER)—Perpetual & Net Method**

**May 11 Merchandise Inventory 38,800**

 **Accounts Payable 38,800**

 **Purchased goods. ($40,000 x [100%-3%])**

 **11 Merchandise Inventory 345**

 **Cash 345**

 **Paid shipping charges on purchased goods.**

 **12 Accounts Payable 1,358**

 **Merchandise Inventory 1,358**

 **Returned goods. ($1,400 x [100%-3%])**

 **20 Accounts Payable 37,442**

 **Cash 37,442**

 **Paid within discount period. ($38,800 - $1,358)**

**2. Entries for Troy (SELLER)—Perpetual & Net Method**

**May 11 Accounts Receivable 38,800**

 **Sales 38,800**

 **Sold goods. ($40,000 x [100%-3%])**

 **11 Cost of Goods Sold 30,000**

 **Merchandise Inventory 30,000**

 **Record cost of sale.**

 **12 Sales Returns and Allowances 1,358**

 **Accounts Receivable 1,358**

 **Accepted returns. ($1,400 x [100%-3%])**

 **12 Merchandise Inventory 1,050**

 **Cost of Goods Sold 1,050**

 **Returned goods to inventory.**

 **20 Cash 37,442**

 **Accounts Receivable 37,442**

 ***Collected account receivable. ($38,800 - $1,358)***

**Exercise 4-24C (25 minutes)**

 **BUYER—Perpetual & Gross Method**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Recording inventory at gross amounts** |  |  |
| **Oct. 2** | **Merchandise Inventory**  | **3,000** |  |
|  |  **Accounts Payable**  |  | **3,000** |
|  |  ***Record merchandise purchases.*** |  |  |
|  |  |  |  |
| **10** | **Accounts Payable**  | **500** |  |
|  |  **Merchandise Inventory**  |  | **500** |
|  |  ***Record credit memo for returns.*** |  |  |
|  |  |  |  |
| **17** | **Merchandise Inventory**  | **5,400** |  |
|  |  **Accounts Payable**  |  | **5,400** |
|  |  ***Record merchandise purchases.*** |  |  |
|  |  |  |  |
| **27** | **Accounts Payable**  | **5,400** |  |
|  |  **Merchandise Inventory\***  |  | **108** |
|  |  **Cash**  |  | **5,292** |
|  | ***Record payment for merchandise less the discount. \*($5,400 x .02)*** |  |  |
|  |  |  |  |
| **31** | **Accounts Payable**  | **2,500** |  |
|  |  **Cash**  |  | **2,500** |
|  | ***Record payment for merchandise less the returns ($3,000 - $500).*** |  |  |

**Exercise 4-24C *(Concluded)***

 **BUYER—Perpetual & Net Method**

|  |  |  |  |
| --- | --- | --- | --- |
| **b.** | **Recording inventory at net amounts** |  |  |
|  |  |  |  |
| **Oct. 2** | **Merchandise Inventory**  | **2,940** |  |
|  |  **Accounts Payable**  |  | **2,940** |
|  |  ***Record merchandise purchases less discount.*** ***[$3,000 - ($3,000 x .02) = $2,940]*** |  |  |
|  |  |  |  |
| **10** | **Accounts Payable**  | **490** |  |
|  |  **Merchandise Inventory**  |  | **490** |
|  |  ***Record credit memo for returns.*** ***[$500 - ($500 x .02)]*** |  |  |
|  |  |  |  |
| **17** | **Merchandise Inventory**  | **5,292** |  |
|  |  **Accounts Payable**  |  | **5,292** |
|  |  ***Record merchandise purchases less discount.*** ***[$5,400 - ($5,400 x .02) = $5,292]*** |  |  |
|  |  |  |  |
| **27** | **Accounts Payable**  | **5,292** |  |
|  |  **Cash**  |  | **5,292** |
|  |  ***Paid for merchandise.*** |  |  |
|  |  |  |  |
| **31** | **Accounts Payable** **Discounts Lost**  | **2,450****50** |  |
|  |  **Cash\***  |  | **2,500** |
|  |  *Paid for goods less returns plus discount lost.* ***\*($2,940 - $490 + $50)*** |  |

Exercise 4-25 (30 minutes)

**Mar. 3 Merchandise Inventory 1,150**

 **Accounts Payable—GreenWorld 1,150**

 **Purchased merchandise on credit.**

 **4 Merchandise Inventory 75**

 **Cash 75**

 **Paid shipping on merchandise.**

 **5 Accounts Payable—GreenWorld 150**

 **Merchandise Inventory 150**

 **Returned unacceptable merchandise.**

 **18 Accounts Payable—GreenWorld 1,000**

 **Merchandise Inventory 20**

 **Cash\* 980**

 **Paid within discount period less returns.**

 **\*($1,150 - $150) x (100%-2%)**

 **19 Merchandise Inventory 425**

 **Accounts Payable—PeopleFirst 425**

 **Purchased merchandise on credit.**

 **21 Accounts Payable—PeopleFirst 25**

 **Merchandise Inventory 25**

 **Received an allowance on purchase.**

 **29 Accounts Payable—PeopleFirst 400**

 **Merchandise Inventory 4**

 **Cash\* 396**

 **Paid balance within discount period.**

#####  *\*($425 - $25) x (100%-1%)*