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. A. Accounts Receivable Purchase Returns and Allowances B. Sales Returns and Allowances C. Purchases Sales Sales Discounts D. Purchase Discounts Accounts Payable II. JOURNAL ENTRIES Note: Linda Smith's new business is Linda's Video Showcase. DR. CR. Jan. 3 Transaction---> Merchandise purchased for \$5,000 on credit Description from A. Co. invoice dated 1/1, terms 2/10,n30. Description Jan. 7 Returned \$400 of defected merchandise to A. Co. purchased 1/1. Jan. 11 Paid A. Co. for purchase of 1/1 less return and discount. Jan. 12 Recorded cash sales of \$3,000. Jan. 14 Recorded credit sale of \$6,000 to B. Co. terms 2/10,n30. Jan. 18 B. Co. returned \$200 of merchandise purchased 1/14. Jan. 24 Received payment from B. Co. less return, less discount. Feb. 2 Merchandise purchased from Z. Co. with a value of \$4,000, terms 1/10,n30 - Net Method. Feb. 28 Paid Z. Co. for purchase of 2/2 plus discount lost. Feb. 28 1 Paid Transportation charges of \$30 for merchandise purchased 2/2.

III. LOGIC OF INCOME STATEMENT

Instruction: Fill in the missing Account Categories.

Gross Sales -- Operating Expenses

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

INCOME STAT	EMENT		BALANCE SHEET		
Linda's Video Show Income Statemen			Linda's Video Showcase Balance Sheet , 1995		
Sales Revenue: , 1995			, 1	995	
Net Sales		\$1,010			
Cost of Goods Sold: Merchandise Inventory, January 1, 1995	\$ 100				
			n or known finn og er en		
			LIABILITIES		
Goods Available for Sale	\$ 500				
			OWNER'S EQUITY		
Gross Profit		\$ 590			
Net Income from Operation		<u>\$ 200</u>	Total Liabilities and Owner's Equity	<u>\$ 650</u>	
	v.	CLOSIN	G ENTRIES		
	DR.	CR.		DR. CR	
Dec. 31 Income Summary	940		Dec. 31 Ending Inventory	80	

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