The Unit 3 Assignment includes:

1. Problem BTN 4-9 – found on page 202 of your textbook. (worth 10 points)
2. Problem 4-3A – found on pages 193- 194 of your textbook. (worth 20 Points)
3. Problem 6-4A (Part 1, ONLY) – found on page 284 of your text book (worth 10 Points).

ENTREPRENEURIAL DECISION

C1 C2 P4

BTN 4-7 Refer to the opening feature about Heritage Link Brands. Assume that Selena and Khary Cuffe report current annual sales at approximately $10 million and disclose the following income statement.

Heritage Link Brands Income Statement For Year Ended January 31, 2010	
Net sales	$10,000,000
Cost of sales	6,100,000
Expenses (other than cost of sales)	2,000,000
Net income	$ 1,900,000

Selena and Khary Cuffe sell to various individuals and retailers, ranging from small shops to large chains. Assume that they currently offer credit terms of 1/15, n/60, and ship FOB destination. To improve their cash flow, they are considering changing credit terms to 3/10, n/30. In addition, they propose to change shipping terms to FOB shipping point. They expect that the increase in discount rate will increase net sales by 9%, but the gross margin ratio (and ratio of cost of sales divided by net sales) is expected to remain unchanged. They also expect that delivery expenses will be zero under this proposal; thus, expenses other than cost of sales are expected to increase only 6%.

Required

1. Prepare a forecasted income statement for the year ended January 31, 2011, based on the proposal.
2. Based on the forecasted income statement alone (from your part 1 solution), do you recommend that Selena and Khary implement the new sales policies? Explain.
3. What else should Selena and Khary consider before deciding whether or not to implement the new policies? Explain.

HITTING THE ROAD

C1

Point: This activity complements the Ethics Challenge assignment.

BTN 4-8 Arrange an interview (in person or by phone) with the manager of a retail shop in a mall or in the downtown area of your community. Explain to the manager that you are a student studying merchandising activities and the accounting for sales returns and sales allowances. Ask the manager what the store policy is regarding returns. Also find out if sales allowances are ever negotiated with customers. Inquire whether management perceives that customers are abusing return policies and what actions management takes to counter potential abuses. Be prepared to discuss your findings in class.

GLOBAL DECISION

A2 P4

NOKIA

RIM

Apple

BTN 4-9 Nokia (www.Nokia.com), Research In Motion, and Apple are competitors in the global marketplace. Key comparative figures for each company follow.

	Net Sales	Cost of Sales
Nokia*	40,984	27,720
Research In Motion†	$14,953	$ 8,369
Apple†	$42,905	$25,683

* EUR millions for Nokia.

† $ millions for Research In Motion and Apple.

Required

1. Rank the three companies (highest to lowest) based on the gross margin ratio.
2. Which of the companies uses a multiple-step income statement format? (These companies' income statements are in Appendix A.)

8 Sold merchandise that had cost $1,200 for $1,600 cash.
9 Purchased merchandise from Lane Co. for $2,300 under credit terms of 2/15, n/60, FOB destination, invoice dated July 9.
11 Received a $200 credit memorandum from Lane Co. for the return of part of the merchandise purchased on July 9.
12 Received the balance due from Coke Co. for the invoice dated July 2, net of the discount.
16 Paid the balance due to Black Company within the discount period.
19 Sold merchandise that cost $900 to AKP Co. for $1,250 under credit terms of 2/15, n/60, FOB shipping point, invoice dated July 19.
21 Issued a $150 credit memorandum to AKP Co. for an allowance on goods sold on July 19.
24 Paid Lane Co. the balance due after deducting the discount.
30 Received the balance due from AKP Co. for the invoice dated July 19, net of discount.
31 Sold merchandise that cost $3,200 to Coke Co. for $5,000 under credit terms of 2/10, n/60, FOB shipping point, invoice dated July 31.

Check July 12, Dr. Cash $784
July 16, Cr. Cash $5,940
July 24, Cr. Cash $2,058
July 30, Dr. Cash $1,078

Problem 4-3A
Preparing adjusting entries and income statements; and computing gross margin, acid-test, and current ratios
A1 A2 P3 P4

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The following unadjusted trial balance is prepared at fiscal year-end for Rex Company.

	REX COMPANY Unadjusted Trial Balance January 31, 2011		
1		Debit	Credit
2	Cash	$ 2,200	
3	Merchandise inventory	11,500	
4	Store supplies	4,800	
5	Prepaid insurance	2,300	
6	Store equipment	41,900	
7	Accumulated depreciation—Store equipment		$ 15,000
8	Accounts payable		9,000
9	Common stock		5,000
10	Retained earnings		27,000
11	Dividends	2,000	
12	Sales		104,000
13	Sales discounts	1,000	
14	Sales returns and allowances	2,000	
15	Cost of goods sold	37,400	
16	Depreciation expense—Store equipment	0	
17	Salaries expense	31,000	
18	Insurance expense	0	
19	Rent expense	14,000	
20	Store supplies expense	0	
21	Advertising expense	9,900	
22	Totals	$160,000	$160,000
23			

Rent expense and salaries expense are equally divided between selling activities and the general and administrative activities. Rex Company uses a perpetual inventory system.

Required

1. Prepare adjusting journal entries to reflect each of the following:
   a. Store supplies still available at fiscal year-end amount to $1,650.
   b. Expired insurance, an administrative expense, for the fiscal year is $1,500.
   c. Depreciation expense on store equipment, a selling expense, is $1,400 for the fiscal year.
   d. To estimate shrinkage, a physical count of ending merchandise inventory is taken. It shows $11,100 of inventory is still available at fiscal year-end.

Check (2) Gross profit, $63,200; (3) Total expenses, $98,750; Net income, $2,250

2. Prepare a multiple-step income statement for fiscal year 2011.
3. Prepare a single-step income statement for fiscal year 2011.
4. Compute the current ratio, acid-test ratio, and gross margin ratio as of January 31, 2011.

Problem 4-4A
Computing merchandising amounts and formatting income statements
C2 P4

BizKid Company's adjusted trial balance on August 31, 2011, its fiscal year-end, follows.

	Debit	Credit
Merchandise inventory	$ 31,000	
Other (noninventory) assets	120,400	
Total liabilities		$ 35,000
Common stock		10,000
Retained earnings		91,650
Dividends	8,000	
Sales		212,000
Sales discounts	3,250	
Sales returns and allowances	14,000	
Cost of goods sold	82,600	
Sales salaries expense	29,000	
Rent expense—Selling space	10,000	
Store supplies expense	2,500	
Advertising expense	18,000	
Office salaries expense	26,500	
Rent expense—Office space	2,600	
Office supplies expense	800	
Totals	$348,650	$348,650

On August 31, 2010, merchandise inventory was $25,000. Supplementary records of merchandising activities for the year ended August 31, 2011, reveal the following itemized costs.

Invoice cost of merchandise purchases	$91,000
Purchase discounts received	1,900
Purchase returns and allowances	4,400
Costs of transportation-in	3,900

Required

1. Compute the company's net sales for the year.
2. Compute the company's total cost of merchandise purchased for the year.
3. Prepare a multiple-step income statement that includes separate categories for selling expenses and for general and administrative expenses.
4. Prepare a single-step income statement that includes these expense categories: cost of goods sold, selling expenses, and general and administrative expenses.

Check (2) $88,600; (3) Gross profit, $112,150; Net income, $22,750; (4) Total expenses, $172,000

Problem 4-5A
Preparing closing entries and interpreting information about discounts and returns
C2 P3

Use the data for BizKid Company in Problem 4-4A to complete the following requirements.

Required

1. Prepare closing entries as of August 31, 2011 (the perpetual inventory system is used).

Analysis Component

2. The company makes all purchases on credit, and its suppliers uniformly offer a 3% sales discount. Does it appear that the company's cash management system is accomplishing the goal of taking all available discounts? Explain.
3. In prior years, the company experienced a 5% returns and allowance rate on its sales, which means approximately 5% of its gross sales were eventually returned outright or caused the company to grant allowances to customers. How do this year's results compare to prior years' results?

Check (1) $22,750 Dr. to close Income Summary (3) Current-year rate, 6.6%

Problem 6-3A
Establish, reimburse, and increase petty cash
P2

Shelton Gallery had the following petty cash transactions in February of the current year.

Feb. 2 Wrote a $300 check, cashed it, and gave the proceeds and the petty cashbox to Bo Brown, the petty cashier.
5 Purchased bond paper for the copier for $10.13 that is immediately used.
9 Paid $22.50 COD shipping charges on merchandise purchased for resale, terms FOB shipping point. Shelton uses the perpetual system to account for merchandise inventory.
12 Paid $9.95 postage to express mail a contract to a client.
14 Reimbursed Alli Buck, the manager, $58 for business mileage on her car.
20 Purchased stationery for $77.76 that is immediately used.
23 Paid a courier $18 to deliver merchandise sold to a customer, terms FOB destination.
25 Paid $15.10 COD shipping charges on merchandise purchased for resale, terms FOB shipping point.
27 Paid $64 for postage expenses.
28 The fund had $21.23 remaining in the petty cash box. Sorted the petty cash receipts by accounts affected and exchanged them for a check to reimburse the fund for expenditures.
28 The petty cash fund amount is increased by $100 to a total of $400.

Required

1. Prepare the journal entry to establish the petty cash fund.
2. Prepare a petty cash payments report for February with these categories: delivery expense, mileage expense, postage expense, merchandise inventory (for transportation-in), and office supplies expense. Sort the payments into the appropriate categories and total the expenditures in each category.
3. Prepare the journal entries for part 2 to both (*a*) reimburse and (*b*) increase the fund amount.

Check (3a & 3b) Total Cr. to Cash $378.77

Problem 6-4A
Prepare a bank reconciliation and record adjustments
P3

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The following information is available to reconcile Clark Company's book balance of cash with its bank statement cash balance as of July 31, 2011.

a. On July 31, the company's Cash account has a $26,193 debit balance, but its July bank statement shows a $28,020 cash balance.

b. Check No. 3031 for $1,380 and Check No. 3040 for $552 were outstanding on the June 30 bank reconciliation. Check No. 3040 is listed with the July canceled checks, but Check No. 3031 is not. Also, Check No. 3065 for $336 and Check No. 3069 for $2,148, both written in July, are not among the canceled checks on the July 31 statement.

c. In comparing the canceled checks on the bank statement with the entries in the accounting records, it is found that Check No. 3056 for July rent was correctly written and drawn for $1,250 but was erroneously entered in the accounting records as $1,230.

d. A credit memorandum enclosed with the July bank statement indicates the bank collected $9,000 cash on a non-interest-bearing note for Clark, deducted a $45 collection fee, and credited the remainder to its account. Clark had not recorded this event before receiving the statement.

e. A debit memorandum for $805 lists a $795 NSF check plus a $10 NSF charge. The check had been received from a customer, Jim Shaw. Clark has not yet recorded this check as NSF.

f. Enclosed with the July statement is a $15 debit memorandum for bank services. It has not yet been recorded because no previous notification had been received.

g. Clark's July 31 daily cash receipts of $10,152 were placed in the bank's night depository on that date, but do not appear on the July 31 bank statement.

Required

1. Prepare the bank reconciliation for this company as of July 31, 2011.
2. Prepare the journal entries necessary to bring the company's book balance of cash into conformity with the reconciled cash balance as of July 31, 2011.

Check (1) Reconciled balance, $34,308; (2) Cr. Note Receivable $9,000

Analysis Component

3. Assume that the July 31, 2011, bank reconciliation for this company is prepared and some items are treated incorrectly. For each of the following errors, explain the effect of the error on (i) the adjusted bank statement cash balance and (ii) the adjusted cash account book balance.
   a. The company's unadjusted cash account balance of $26,193 is listed on the reconciliation as $26,139.
   b. The bank's collection of the $9,000 note less the $45 collection fee is added to the bank statement cash balance on the reconciliation.