Work4Me

Algorithmic Version

1st Web-Based Edition

Problem Seven

Accounting for Accounts Receivable and Merchandise Inventory with Perpetual Inventory System

UPTIGHT TOOLS, INCORPORATED
CHART OF ACCOUNTS
Problem 7

ASSETS

101	Cash
105	Accounts Receivable
109	Notes Receivable
113	Interest Receivable
115	Merchandise Inventory
121	Prepaid Insurance
123	Prepaid Rent
125	Prepaid Advertising
127	Store Supplies
129	Office Supplies
131	Store Equipment and Fixtures
132	Accum. Depre., Store Equip. & Fix.
135	Office Equipment
136	Accum. Depre., Office Equipment
139	Delivery Vehicles
140	Accum. Depre., Delivery Vehicles
150	Land

LIABILITIES

201	Accounts Payable
203	Short-Term Notes Payable
205	Sales Tax Payable
209	Salaries and Wages Payable
212	Dividends Payable
215	Interest Payable
218	Property Tax Payable
221	Revenue Received In Advance
231	Income Taxes Payable
251	Long-Term Notes Payable

STOCKHOLDERS' EQUITY

301	Common Stock
305	Retained Earnings
310	Cash Dividends Declared

REVENUE

401	Tools and Accessory Sales
402	Sales Returns and Allowances
403	Sales Discounts

COST OF GOODS SOLD

501	Cost of Goods Sold

OPERATING EXPENSES

601	Salaries and Wages Expense
602	Store Supplies Expense
603	Office Supplies Expense
604	Advertising Expense
606	Delivery Expense
608	Vehicle Operating Expense
610	Depre. Exp., Store Equip. and Fix.
611	Depre. Exp., Office Equip.
6125	Depre. Exp., Delivery Vehicles
621	Rent Expense
622	Insurance Expense
623	Professional Services Expense
624	Electric and Gas Expense
625	Telephone Expense
626	Property Tax Expense
627	Bank Service Charges
629	Miscellaneous Expense

OTHER REVENUE

711	Interest Earned

OTHER EXPENSES

811	Interest Expense
821	Income Taxes Expense

INCOME SUMMARY

901	Income Summary

Uptight Tools, Inc.
Customer List

Customer Number	Customer
10350	Alex Anderson
10440	Bob's Auto Repair
10760	Clinker's Plumbing
10830	Folsom School Dist.
10900	Marshal Motors
11250	Kathy Taylor
11330	Robert Wise
11475	Ernie Young

Credit terms: 2/15, net 30

Uptight Tools, Inc.
Vendor List

Vendor Number	Vendor
20650	Bart's Supply
21200	Boot Hill Tools
22700	Deadwood Equipment
23400	Goodman Freight, Inc.
24000	Honker Brothers
26660	Locker and Sons, Inc.
27500	Mosetti and Company
28800	Videcamper Saws

Credit terms: Vary

Problem 7

UPTIGHT TOOLS, INCORPORATED

ACCOUNTING FOR ACCOUNTS RECEIVABLE, AND MERCHANDISE INVENTORY USING A PERPETUAL INVENTORY SYSTEM

Uptight Tools, Incorporated, is a wholesaler selling products to a variety of retail customers. No sales tax is required when sales are made at wholesale to retailers who will then sell direct to retail customers. All sales made to retail customers are on account (on credit). Credit terms of 2/15, n/30 are extended to all customers by Uptight Tools, Incorporated. Customers who pay their obligations within the discount period, (15 days) are given a 2% reduction (Sales Discount) on the balance due for the merchandise.

Uptight Tool, Incorporated is located in a state that does not collect sales taxes. In this problem, sales tax will not be a part of any sales or sales return transaction.

1. Go to www.pklsoftware.com, select Work4Me, and log in. Select Problem 7, Accounts Receivable with Perpetual Inventory and click.

2. Move the pointer to Journal/Ledgers/Statements, select General Ledger and Print the December 1 Trial Balance for the beginning of the period.

2. Using the Chart of Accounts and Customer List and Vendor List for Uptight Tools, Incorporated, journalize, verify, and post the December sales and related transactions for Uptight Tools, Incorporated.

3. It is important to remember that when a perpetual inventory system is used by the business, two journal entries are required for each product sales transaction.

Recording Cash and Credit Sales Entries

When recording cash or credit sales, two journal entries are required:

1. **First, the sales entry must be recorded, with a debit to Account Receivable (Cash or Notes Receivable) and a credit to Sales. Sales tax is ignored in this problem**

2. **Second, the cost of good sold entry must be recorded with a debit to the Cost of Goods Sold account (501) and a credit to the Merchandise Inventory account (115).**

TRANSACTIONS FOR DECEMBER 1-31

December 1
An assortment of tools was sold on credit to Customer Alex Anderson, proprietor of Anderson Supply for **$4,550.00**. Shipping terms on this sale are FOB Shipping Point. **All credit sales are offered with terms of 2/15, net 30, and sales tax is not applied to sales in this problem.** The cost of the merchandise sold to Anderson Supply was **$2,275.00**. Invoice Number: **U2002**. Customer Number: **10350.**

All sales transactions require two journal entries:
 (1) Record the sale (see Page 4)
 (2) **Record the Cost of Merchandise Sold (see Page 4)**

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December 4
Tools and parts totaling **$14,500.00** were sold on credit to Marshal Motors. The merchandise sold cost Uptight Tools **$7,250.00**. Shipping terms for all sales over **$12,000.00** are FOB Destination. The shipping charges will be paid later to a private carrier. Invoice Number: **U2003.** Customer Number: **10900.**

Two journal entries are required!

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December 5
Clinker's Plumbing has submitted a check for the balance less the 2% discount earned by paying the invoice within the discount period. Invoice Number: **U1988**

Move the pointer to **Journal/Ledgers/Statements,** select **Subsidiary Ledgers,** and then select **Accounts Receivable Ledger**. Click on the **Customer** button. Use the drop-down menu and select **10760 Clinker's Plumbing.** Click on the **Show AR Ledger** button. Note the balance of Clinker's Plumbing account.

Return to **Data Entry** and record the receipt of cash and the sales discount.
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Transactions for December 1 – 31 continued…

December 7
A credit memo was issued to Marshal Motors for **$900.00** worth of merchandise returned. The goods returned cost Uptight Tools **$450.00**. Invoice Number: **U2003.** Credit Memo Number: **CM202**. Customer Number: **10900**.

Two journal entries are required:
- **(1) Record the Sales Return and Allowances**
- **(2) Record the return of the Merchandise Inventory and reduction in the Cost of Goods Sold.**

****

December 8
Robert Wise has submitted a check for the balance less the 2% discount earned by paying hid invoice within the discount period. Invoice Number: **U2000.**

Move the pointer to **Journal/Ledgers/Statements,** select **Subsidiary Ledgers,** and then select **Accounts Receivable Ledger**. Click on the **Customer** account. Use the drop-down menu and select **11330 Robert Wise.** Click on the **Show AR Ledger** button. Note the balance of the Robert Wise account.

Return to **Data Entry** and record the receipt of cash and the sales discount.

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December 12
A check was issued for number for **$356** as payment in full of for a freight invoice received today from Daly Freight Company. Daly Freight Company makes most of the local customer deliveries of merchandise for Uptight Tools. Check Number: **10040.** Invoice Number: **D3333.**

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December 16
A payment in full was received for an invoice from customers Alex Anderson. The sale was made to Mr. Anderson on December 1. **Remember 2/15, n/30 terms are extended to all customers of Uptight Tools, Incorporated**. Invoice Number: **U2002.** Customer Number: **10350.**

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January 6, 2020

Transactions for December 1 – 31 continued…

December 19
A payment in full was received for an invoice from Marshal Motors. Be sure to note sale entry of December 4 and the **credit memo (CM202) of December 7**. Invoice Number: **U2003**. Customer Number: **10900.**

****

December 21
Tools totaling **$17,600.00** were sold to Ernie Young on credit. Shipping terms for all sales this large are FOB Destination. The shipping charges will be paid later to a private carrier. The merchandise sold to Mr. Young cost Uptight Tools **$8,800.00**. Invoice Number: **U2004**. Customer Number: **11475.**

Two journal entries are required!

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December 27
A check was received for **$11,000.00** as payment in full of the November 27 invoice from Kathy Taylor. Invoice Number: **U2001**. Customer Number: **11250**.

****

December 31
A credit memo was issued to Ernie Young for **$500.00** worth of merchandise returned today. The items returned cost Uptight Tools **$250.00**. Invoice Number: **U2004.** Credit Memo Number: **CM203.** Customer Number: **11475.**

Two journal entries are required!

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This Concludes the Transactions for Problem Seven: Accounts Receivable with Perpetual Inventory

Now that you have completed the December transactions, it is time to check the accuracy of your work.

1. Move the pointer to Journal/Ledgers/Statements in the Menu Bar, move down to the General Ledger selection and click. The completed Trial Balance will appear on the screen. Print the trial balance.

2. Move the pointer to Check Figures in the Menu Bar. Select Problem Check Figures and then **Print** the **Check Figures for Problem Seven – Accounts Receivable with Perpetual Inventory.**

If 'Your Balances" do not match the "Correct Balances" of the selected account totals in the Check Figures for Problem 7 you must correct the unmatched balances before answering the evaluation questions,

If 'Your Balances" match the "Correct Balances" for the selected account totals in the Check Figures for Problem 7 then complete the instructions below, and answer the questions on the examination on the last page of this manual**.**

3. Print the Trial Balance for the period ended December 31.

4. Print the General Ledger cards for:

    101 Cash
    105 Accounts Receivable
    115 Merchandise Inventory
    501 Cost of Goods Sold

5. Move the pointer to Journals/Ledgers/Statements in the Menu Bar, down to Subsidiary Ledgers and over to Accounts Receivable Ledger. Print the document.

6. Click on the All Customers button and print all of the customer accounts.

7. When all of the required documents have been printed, you have completed your computer work for Problem 7. To exit this problem, click on Log Out. From the PKL software Home Page you may make another selection or click on File and exit the system.

8. Using your printed documents, answer the questions to the examination on the next page. After you have filled in the answers, log in to Problem 7. Accounts Receivable with Perpetual Inventory, move the pointer to Evaluations and complete Exam 7: Accounts Receivable with Perpetual Inventory. You may print the examination to hand in to your professor or, if required, email your examination to your professor.

ALGORITHMIC WORK4ME
PROBLEM SEVEN   NAME_____
ACCOUNTS RECEIVABLE   CLASS DAY AND TIME_____DATE_____
PERPETUAL INVENTORY

1. The issuance of a credit memo requires that the Sales Returns and   _____
    Allowances account be debited.
    A) Yes
    B) No

2. A sale of merchandise on credit requires that a debit entry be   _____
    recorded to the Accounts Payable account.
    A) Yes
    B) No

3. The Schedule of Accounts Receivable is a list of all of the customers   _____
    and the balance owed by each customer.
    A) Yes
    B) No

4. Accounts Receivable and Accounts Payable are also known as   _____
    "control accounts".
    A) Yes
    B) No

5. Cash terms of **3/10, net 60** means that the balance of the invoice must   _____
    paid within **60** days of the invoice date to qualify for the discount.
    A) Yes
    B) No

6. What is the correct ending balance of the Accounts Receivable $_____
    account?

7. **List by number**, the customer that has the largest balance due on   _____
    December 31?   **Customer Number**

8. What is the current balance owed by customer Ernie Young? $_____

9. **List by number**, the customer who has an overdue balance (a   _____
    balance that is past the net 30-day period).   **Customer Number**

10. What was the additional cost to Kathy Taylor when she paid Invoice $_____
    U2001 after the discount period?

11. What was the amount of the debit to the Cash account on December 8? $_____

12. What was the amount of the sales discount given to customer Robert Wise on December 8? $_____

13. Has the balance of the Merchandise Inventory account **increased**, **decreased**, or remained **unchanged** during December?   _____
      A) Increased
      B) Decreased
      C) Unchanged

14. Has the balance of the Cost of Goods Sold **increased**, **decreased**, or remained **unchanged** during December?   _____
      A) Increased
      B) Decreased
      C) Unchanged

15. After the final entry on December 31, what is the correct total for **Net Sales**? $_____