

# ***Work4Me Accounting Simulations***

***3<sup>rd</sup> Web-Based Edition***

## ***Problem Nine***

***Accounts Receivable, Accounts Payable and  
Sales Taxes Payable in a Perpetual Inventory  
System***

***With Adjusting Entries, Subsidiary Ledgers,  
and Financial Statements***

**UPTIGHT TOOLS, INCORPORATED**  
**CHART OF ACCOUNTS**  
**Problem 9**

<b>ASSETS</b>	<b>REVENUE</b>
101 Cash	401 Tools and Accessory Sales
105 Accounts Receivable	402 Sales Returns and Allowances
109 Notes Receivable	403 Sales Discounts
113 Interest Receivable	
115 Merchandise Inventory	<b>COST OF GOODS SOLD</b>
121 Prepaid Insurance	
123 Prepaid Rent	501 Cost of Goods Sold
125 Prepaid Advertising	502 Transportation-In
127 Store Supplies	
129 Office Supplies	<b>OPERATING EXPENSES</b>
131 Store Equipment and Fixtures	
132 Accum. Depre., Store Equip. and Fix.	601 Salaries and Wages Expense
135 Office Equipment	602 Store Supplies Expense
136 Accum. Depre., Office Equipment	603 Office Supplies Expense
139 Delivery Vehicles	604 Advertising Expense
140 Accum. Depre., Delivery Vehicles	606 Delivery Expense
150 Land	608 Vehicle Operating Expense
	610 Depre. Exp., Store Equip. and Fix.
<b>LIABILITIES</b>	611 Depre. Exp., Office Equip.
	612 Depre. Exp., Delivery Vehicles
201 Accounts Payable	621 Rent Expense
203 Short-Term Notes Payable	622 Insurance Expense
205 Sales Tax Payable	623 Professional Services Expense
209 Salaries & Wages Payable	624 Electric and Gas Expense
212 Dividends Payable	625 Telephone Expense
215 Interest Payable	626 Property Tax Expense
218 Property Tax Payable	627 Bank Service Charges
221 Revenue Received In Advance	629 Miscellaneous Expense
231 Income Taxes Payable	
251 Long-Term Notes Payable	<b>OTHER REVENUE</b>
<b>STOCKHOLDERS' EQUITY</b>	711 Interest Earned
301 Common Stock	<b>OTHER EXPENSES</b>
305 Retained Earnings	
310 Cash Dividends Declared	811 Interest Expense
	821 Income Taxes Expense
	<b>INCOME SUMMARY</b>
	901 Income Summary

**Uptight Tools, Inc.  
Customer List**

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

**Uptight Tools, Inc.  
Vendor List**

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

# **PROBLEM 9**

## **UPTIGHT TOOLS, INCORPORATED**

### **ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND SALES TAXES PAYABLE IN A PERPETUAL INVENTORY SYSTEM**

For **Problem 9** you will be recording the purchase and sales transactions for the Retail Division of Uptight Tools, Incorporated. Since the sales are made at the retail level, **sales tax of 7% will be added to each cash or charge sale.** Example: An assortment of tools priced at **\$125.45** is sold to a cash customer. The sales tax on this total will be **\$8.78** ( $\$125.45 \times 7\% = \$8.7815$  which rounds to **\$8.78**).

The compound entry would appear as:

Date	Account Titles	Debit	Credit
Dec. 1	Cash	134.23	
	Tools and Accessory Sales		125.45
	Sales Tax Payable		8.78

Uptight Tools **does not extend sales discounts** to its customers. Customers who purchase merchandise on credit are extended **net 15 credit terms**.

**Uptight Tools maintains a perpetual inventory system and uses the ‘gross’ method of recording purchases of inventory.** When the credit terms of the invoice are met within the discount period, Accounts Payable is debited for the full amount of the invoice, the discount earned is credited directly to the Merchandise Inventory account and Cash is credited for the net amount.

**Freight costs are debited directly to the Transportation-In Account.** While it is acceptable to charge freight charges to the Merchandise Inventory account, management wants the freight charges maintained in a separate account (Transportation-In) for the purposes of cost control.

**Note:** If an inventory ledger was maintained, the freight costs would usually to be allocated to the various inventory items to which the freight costs apply. Without an inventory ledger (as in this problem), charging freight costs to the Merchandise Inventory account will distort the amount of inventory shrinkage or overage that is determined as a result of the year-end physical inventory. The authors point of view is that the information provided to management by tracking total freight costs and the possible distortion of inventory shrinkage or overage warrants charging freight costs to a separate account (Transportation-In).

Using the Chart of Accounts and the Vendor and Customer Lists for this problem, journalize the merchandise purchases and sales and related merchandise transactions for Uptight Tools.

**Begin the Work4Me Program** and when the **Main Program – Work4Me** screen appears, **Select Problem 9, Accounts Receivable and Accounts Payable**. Click on the **Daily JE** button and you are ready to enter the daily entries for December.

## TRANSACTIONS FOR DECEMBER

Student Analysis

### December 1

Sold an assortment of tools for **\$456.00** cash plus **7%** sales tax of \$31.92. The tools sold cost Uptight Tools **\$228.00**.

Invoice: **U2061**.

- 1) Record the Sale. See Page 1 for the treatment of the sales tax.
- 2) The program will automatically record and post the Merchandise Inventory account and the Cost of Goods Sold account for every credit sale or cash sale entry.

Move the pointer to **Journal/Ledgers/Statements**, select **General Journal**, scroll down and view the transaction you just recorded. Note the entry to Cost of Goods Sold and Merchandise Inventory.

*The automatic update of the Cost of Goods Sold account and the Merchandise Inventory account is a feature unique to the software used by Uptight Tools, Incorporated.*

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### December 1

Sold on credit to customer Ernie Young tools and parts for **\$1,540** plus **7%** sales tax. Net 15-day credit terms are extended to all customers. The cost of the merchandise sold totaled **\$770.00**.

Invoice: **U2062**. Customer: **11475**.

\*\*\*\*\*

### December 2

Purchased **\$13,100** worth of merchandise on credit from Boot Hill Tools. Boot Hill Tools extends 2/10, n/30 terms and ships all merchandise FOB shipping point. Freight charges will be billed from a separate carrier.

Invoice: **BH666**. Vendor: **21200**.

\*\*\*\*\*

**Transactions for December continue...**

**December 4**

Purchased on credit from Deadwood Equipment \$5,730 worth of merchandise. Deadwood Equipment extends cash terms of 2/10, n/30.

Invoice: **D4545**. Vendor: **22700**.

\*\*\*\*\*

**December 6**

Received a billing statement and issued check for \$155 to Hollman Freight Company, for freight charges incurred for delivery of merchandise items from Boot Hill Tools on December 2.

Check: **33332**. Invoice: **HL123**.

\*\*\*\*\*

**December 10**

Paid an invoice from Videcamper Saws. The invoice was dated November 30, listed merchandise totaling \$9,000, and 1/10, n/30 credit terms. Remember that UpTight Tools attempts to pay on time so as to lower the overall costs of merchandise inventory. Review Page 4 for treatment of discounts.

Check: **33333**. Invoice: **V1425**. Vendor: **28800**.

\*\*\*\*\*

**December 12**

Issued check **33334** to Boot Hill Tools as payment in full of the December 2 invoice for \$13,100. Terms on the invoice are listed at 2/10, n/30.

Check: **33334**. Invoice: **BH666**. Vendor: **21200**.

\*\*\*\*\*

**December 12**

Issued a debit memo and returned merchandise listed at \$1,200 to Deadwood Equipment. The merchandise was purchased on December 4 and the invoice has not yet been paid.

Invoice: **D4545**. Debit Memo: **DM121**. Vendor: **22700**.

\*\*\*\*\*

**Transactions for December continue...**

**December 12**

Sold merchandise on account to the Folsom School District. Sales invoice lists merchandise totaling **\$15,650, plus** 7% sales tax. All goods are sold FOB shipping point. The cost of the merchandise sold in this transaction totaled **\$7,825**.

Invoice: **U2063**. Customer: **10830**.

\*\*\*\*\*

**December 13**

Received payment in full from Clinker's Plumbing. The November 28 invoice totals exactly **\$8,000**. Remember that UpTight Tools extends net-15 credit terms to all charge customers.

Invoice: **U2040**. Customer: **10760**.

\*\*\*\*\*

**December 14**

Paid with check the Deadwood Equipment invoice of December 4, less the debit memo of December 12, and the cash discount. Deadwood Equipment extends 2/10, n/30 credit terms.

Check: **33335**. Invoice: **D4545**. Vendor: **22700**.

\*\*\*\*\*

**December 15**

Issued a credit memo to the Folsom School District for **\$1,400** in merchandise returned. Remember to include the sales tax of 7% on the amount of the returned merchandise. The original sale was on December 12.

Invoice: **U2063**. Credit Memo: **CM303**. Customer: **10830**.

\*\*\*\*\*

**December 16**

Received a check from customer Ernie Young for payment in full of his December 1. Net 15 terms are extended to all Uptight Tools customers.

Invoice: **U2062**. Customer: **11475**.

\*\*\*\*\*

**Transactions for December continue...**

**December 20**

It is discovered today, that an invoice from Deadwood Equipment for **\$12,500**, listing credit terms of 2/10, n/30, has been **filed incorrectly**. The November 21 invoice should have been paid on December 1. Issued a check and paid the balance due in full.

Check: **33336**. Invoice: **D3145**. Vendor: **22700**.

\*\*\*\*\*

**December 24**

Purchased **\$7,350** in tools from the Honker Brothers. Net 10 terms are extended by Honker Brothers and the merchandise is shipped FOB destination.

Invoice: **HB999**. Vendor: **24000**.

\*\*\*\*\*

**December 24**

Purchased office supplies on account from Bart's Supply, vendor number. Bart's invoice lists a total of **\$1,456.60**.

Invoice: **B8787**. Vendor: **20650**.

\*\*\*\*\*

**December 26**

Received a check from the Folsom School District as payment in full of their December 12 invoice less the credit memo of December 15.

Invoice: **U2064**. Customer: **10830**.

\*\*\*\*\*

**December 29**

Salaries and wages through December 28 are paid today. Issued a check for **\$3,455**. At the Invoice Number textbox enter **PAYRL** (for payroll).

Check: **33337**. Invoice: **PAYRL**.

\*\*\*\*\*

**December 31**

Issued a check and paid the electric bill and gas bill totaling **\$423**.

Check: **33338**. Invoice: **56667**.

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**This completes the transactions for December.**



Now that you have completed entering the daily transactions for Uptight Tools, Incorporated, it is time to check the accuracy of your work.

- 1) Move the pointer to **Check Figures** and click.
- 2) Move the pointer down to **Problem Check Figures** and click.
- 3) Click on **Daily**.
- 4) **Print** the **Daily** Check Figures for Problem 9 – Accounts Receivable and Accounts Payable..

Should you have any Incorrect Balances, follow the instructions in the **Error Correction Procedures** from **Module 1 – Demonstration Problem**.

If all of your balances are correct, move the pointer to **Administration/Files: Reset and Backup/Backup Data Files**, then continue with Instructions 1 to 3, below.

1. **Print the Trial Balance.**
2. **Click on the Journal/Ledgers/ Statements, select General Journal and print the General Journal.**
3. **Use the printouts as guide to complete the Adjusting Entries on the next page.**

# Adjusting Entries For The Quarter Ended, December 31

The adjusting entries procedure (Click on Adjusting JE) must be used to record (and correct) all adjusting entries. Remember that all adjustments are being made for the Quarter Ended, December 31.

Hint: Move the Pointer to Help on the Menu Bar and Print the topics: “[Adjusting Prepaid Assets Recorded as Prepaid Assets or as Expenses](#),” and “[Unearned Revenue, End-of-Period Adjusting Entries](#).” You will find them helpful.

- A. The ending inventory of store supplies totals **\$355**.
- B. The total office supplies used during the quarter totals **\$305**.
- Note:** Use the ‘D’ key to repeat a date...very convenient for adjusting entries .
- C. Two insurance policies provide the insurance coverage for Uptight Tools. Policy one was purchased on July 1, last year for **\$2,400** and provides 24 months of liability coverage. Policy two was purchased on December 31, last year for **\$3,600** and is a 12 month policy.
- D. Rent was prepaid for six months on October 1, of this year.
- E. Accrued interest on the **short-term notes payable** is **9% per year** or **\$90 per month**. The balance of the Notes Payable account has not changed during the past quarter.
- F. Accrued property taxes for the quarter total **\$321**.
- G. Accrued salaries and wages total **\$424**.
- H. Depreciation of store equipment and fixtures totals **\$1,260** per year.
- L. Depreciation of office equipment totals **\$95 per month**.
- J. The two delivery vehicles used by the business cost **\$21,000 each**. They are depreciated on a per mile basis (**30 cents per mile**) and were driven a combined total of **14,560** miles during the quarter.

**This ends the Adjusting Entries.**

Now that you have completed entering the adjusting entries for Uptight Tools, Incorporated, it is time to check the accuracy of your work.

- 5) Move the pointer to **Check Figures** and click.
- 6) Move the pointer down to **Problem Check Figures** and click.
- 7) Click on **Adjusted**.
- 8) **Print** the **Adjusted** Check Figures for Problem 8 – Accounts Payable with Perpetual Inventory.

Should you have any Incorrect Balances, follow the instructions in the **Error Correction Procedures** from **Module 1 – Demonstration Problem**.

If all of your balances are correct, move the pointer to **Administration/Files: Reset and Backup/Backup Data Files**, then continue with Instructions 1 to 11, below.

1. **Print** the Adjusted Trial Balance
3. Print the **Income Statement, Retained Earnings Statement, and the Balance Sheet**.
4. **Print** the **Schedule of Accounts Receivable**.
5. **Print All Customers**.
5. **Print** the **Schedule of Accounts Payable**.
7. **Print All Vendors**.
6. **Print** the **General Journal**.
7. **Exit** the Program.
8. Using the required documents, **complete the Work4Me Accounts Receivable and Accounts Payable** evaluation at the end of this Module.
9. Log On to your program and move the pointer to **Evaluations**, select **Exam 8: Accounts Receivable and Accounts Payable** and click.
10. Complete the Evaluation, using your completed Evaluation as a guide.
11. Follow the instructions at the top of the text box to **Save, Score, and Print** the Evaluation.

**WORK4ME - PROBLEM NINE**  
**ACCOUNTS RECEIVABLE AND**  
**ACCOUNTS PAYABLE**

**NAME** \_\_\_\_\_  
**CLASS DAY AND TIME** \_\_\_\_\_ **DATE** \_\_\_\_\_

1. Cash terms of 2/10, 1/20, n/30 means that as much as 3% discount can be earned by paying this invoice within the discount period. \_\_\_\_\_  
**Answer only T for True or F for False.**
  
2. Is the Marshal Motors account past due (over 15 days)? \_\_\_\_\_  
**Answer only Y for Yes or N for No on questions 2, and 3.**
  
3. Does the Schedule of Accounts Receivable total match the balance of the Accounts Receivable control account? \_\_\_\_\_
  
4. What is the customer number of the only customer with a current balance owed to Uptight Tools? \$ \_\_\_\_\_
  
5. The Deadwood Equipment accounts payable balance is now zero. What was the highest correct balance owed on this account during the month of December? \_\_\_\_\_
  
6. On what date will the balance owed to Bart's Supply be due and payable? \_\_\_\_\_  
**A. January 23**  
**B. December 23**  
**C. December 31**  
**D. January 24**  
**E. None of the above**
  
7. If due to an accounting error, the balance of the Cost of Goods Sold account was overstated, this error would cause the Net Income for the period to be: \_\_\_\_\_  
**A. Overstated**  
**B. Understated**  
**C. Unchanged**  
**D. None of the above**
  
8. If, in error, a delivery expense invoice was not recorded, the Net Income for the period would be: \_\_\_\_\_  
**A. Overstated**  
**B. Understated**  
**C. The Same**  
**D. None of the above**

9. Failure to record an adjusting entry for accrued expenses would cause the Income from Operations for the period to be: \_\_\_\_\_  
**A. Overstated**  
**B. Understated**  
**C. The Same**
10. Income from Operations is what percent of Net Sales? **Round all percentage answers to two decimal places. In your answer do NOT write percent or use the % sign. Example: 45.23** \_\_\_\_\_%
11. Salaries and Wages Expense is what percent of Net Sales? \_\_\_\_\_%  
**Remember to use 2 decimal places for all percentage answers. Do NOT write percent or use the % sign in your answer.**
12. Last quarter the Salaries and Wages were 8.01% of Net Sales. Has there been any improvement in Salaries and Wages Expense for this quarter? **Answer only Y for Yes or N for No.** \_\_\_\_\_
13. Uptight Tools management attempts to keep the total operating expenses at not more than 18% of the Net Sales. Have they been successful in reaching this goal this quarter?  
**Answer only Y for Yes or N for No.** \_\_\_\_\_
14. If the total operating expenses for the quarter could have been reduced by just 10%, **to the nearest dollar**, what would have been the new total of the Income from Operations? \$ \_\_\_\_\_
15. Cost of Goods Sold (not Total Cost of Goods Sold) is what Percent of Net Sales? (2 decimal places and Do NOT write percent or use the % sign in your answer) \_\_\_\_\_%
16. If the cost of paying freight charges for merchandise purchased and freight charges for delivering goods to customers could be cut by 50%, what effect would this have on the Income from Operations of the business? \_\_\_\_\_  
**A. Net Income would decrease by \$982.50.**  
**B. There would be no change in Net Income.**  
**C. Net Income would increase by \$1,965**  
**D. None of the above.**
17. Calculate the current ratio of Uptight Tools, Inc. (2 decimal places) \_\_\_\_\_

18. If necessary, research the text for the formula for the acid-test or quick ratio. Use this ratio to evaluate the ability of Uptight Tools, Inc., to meet its current debt. \_\_\_\_\_
- A. Excellent
  - B. Good
  - C. Fair
  - D. Poor
19. In general, are the Plant and Equipment items of Uptight Tools, Inc., relatively: \_\_\_\_\_
- A. New
  - B. Old
20. What amount (historical cost) was spent to acquire the Office Equipment? \$ \_\_\_\_\_