

# ***Work4Me I Accounting Simulations***

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

## ***Problem Eight***

***Accounting for Accounts Payable and  
Merchandise Inventory using a Perpetual  
Inventory System***

**UPTIGHT TOOLS, INCORPORATED**  
**CHART OF ACCOUNTS**  
**Problem 8**

<b>ASSETS</b>	<b>REVENUE</b>
101 Cash	401 Tools and Accessory Sales
105 Accounts Receivable	402 Sales Returns and Allowances
109 Notes Receivable	
113 Interest Receivable	<b>COST OF GOODS SOLD</b>
115 Merchandise Inventory	
121 Prepaid Insurance	501 Cost of Goods Sold
123 Prepaid Rent	
125 Prepaid Advertising	<b>OPERATING EXPENSES</b>
127 Store Supplies	
129 Office Supplies	601 Salaries and Wages Expense
131 Store Equipment and Fixtures	602 Store Supplies Expense
132 Accum. Depre., Store Equip. and Fix.	603 Office Supplies Expense
135 Office Equipment	604 Advertising Expense
136 Accum. Depre., Office Equipment	606 Delivery Expense
139 Delivery Vehicles	608 Vehicle Operating Expense
140 Accum. Depre., Delivery Vehicles	610 Depre. Exp., Store Equip. and Fix.
150 Land	611 Depre. Exp., Office Equip.
	612 Depre. Exp., Delivery Vehicles
<b>LIABILITIES</b>	621 Rent Expense
	622 Insurance Expense
201 Accounts Payable	623 Professional Services Expense
203 Short-Term Notes Payable	624 Electric and Gas Expense
205 Sales Tax Payable	625 Telephone Expense
209 Salaries & Wages Payable	626 Property Tax Expense
212 Dividends Payable	627 Bank Service Charges
215 Interest Payable	629 Miscellaneous Expense
218 Property Tax Payable	
221 Revenue Received In Advance	<b>OTHER REVENUE</b>
231 Income Taxes Payable	
251 Long-Term Notes Payable	711 Interest Earned
<b>STOCKHOLDERS' EQUITY</b>	<b>OTHER EXPENSES</b>
301 Common Stock	811 Interest Expense
305 Retained Earnings	821 Income Taxes Expense
310 Cash Dividends Declared	
	<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 8

## *UPTIGHT TOOLS, INCORPORATED*

### *ACCOUNTING FOR ACCOUNTS PAYABLE, AND MERCHANDISE INVENTORY USING A PERPETUAL INVENTORY SYSTEM*

In Problem 8, Uptight Tools, Incorporated, is purchasing merchandise (tools for inventory), as a wholesale distributor, direct from manufacturers or from large distributors. **The management will attempt to pay all invoices in time to take advantage of every purchase discount extended by the sellers.** This will lower the cost of the merchandise purchased and contribute to improved gross profit and net income totals.

1. Go to [www.pklsoftware.com](http://www.pklsoftware.com), select Work4Me, and log in. Select Problem 8, Accounts Payable with Perpetual Inventory and click.

Using the Chart of Accounts and the Customer List and Vendor List for Uptight Tools, Incorporated, (page 2 and 3) journalize, verify, and post the December sales and related transactions for Uptight Tools, Incorporated.

## TRANSACTIONS FOR DECEMBER

Student Analysis

### December 1

Issued check number **41002** for **\$1,375** to Goodman Freight, Inc. (**23400**), for transportation fees incurred for the delivery of merchandise from vendors under FOB shipping point terms. The November 16 invoice was recorded as a debit to Merchandise Inventory and a credit to Accounts Payable. The invoice number is **G5001**.

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### December 2

Purchased merchandise (**\$12,500** worth of tools), on credit from Boot Hill Tools (purchased invoice number **BH545**). Boot Hill Tools (**21200**) extends 2/10, n/30 terms and ships all merchandise FOB destination.

# TRANSACTIONS FOR DECEMBER

Student Analysis

## December 3

Issued check number **41003** to Tucker Enterprises and purchased **\$11,000** worth of tools for cash. The Tucker invoice number is **T0101** and the goods are shipped FOB destination.

\*\*\*\*\*

## December 9

Purchased on credit from Deadwood Equipment (**22700**), tools and parts listed on invoice **D3267** at **\$4,600**. Deadwood Equipment extends cash terms of 2/10, n/30, and ships the merchandise FOB destination.

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## December 10

Paid invoice **V1555** from Videcamper Saws (**28800**) issuing check number **41004**. The invoice was dated November 30, listed merchandise totaling **\$9,000**, and 1/10, net/30 credit terms. **The Merchandise Inventory account (115) is credited for the amount of the discount earned.**

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## December 11

Issued check **41005** to Boot Hill Tools (**21200**) as payment in full of the December 1 invoice (**BH545**) for **\$12,500**. Terms of 2/10, n/30, are offered by Boot Hill Tools. Do not forget to account for the discount earned.

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## December 13

Issued Debit Memo **DM303** and returned merchandise listed at **\$1,200** to Deadwood Equipment (**22700**). The merchandise was purchased on December 9 and the invoice number is **D3267**.

# TRANSACTIONS FOR DECEMBER

Student Analysis

## December 19

Paid with check number **41006**, the Deadwood Equipment invoice (**D3267**) of December 9, **less the debit memo of December 13 and the cash discount.**

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## December 21

Purchased from Locker and Sons, Inc., (**26660**), tools and parts listed at \$8,000 (invoice **L3003**). Locker extends credit terms of 2/10, n/30. Shipping terms are FOB shipping point and the invoice shows an additional charge of **\$200 for freight charges**. Be sure to include the freight charges in your journal entry.

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## December 28

Purchased **\$4,350** in tools from Honker Brothers (**24000**). Net 10 terms are extended by Honker Brothers and the merchandise is shipped FOB destination. **HB876** is the invoice number for this purchase.

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## December 31

Issued check **41007** and paid invoice **L3003** from Locker and Sons, Incorporated (**26660**), in full. Carefully check the original December 21 invoice for totals, credit terms, and shipping terms before making this final entry for December.

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**Now that you have completed entering the December transactions, it is time to check the accuracy of your work. The “Check It Out” box has the correct balances of several of the accounts that you have been working with so far this period.**

**“CHECK IT OUT”**

<b>101</b>	<b>Cash</b>	<b>\$24,543.00</b>
<b>105</b>	<b>Accounts Receivable</b>	<b>7,315.00</b>
<b>115</b>	<b>Merchandise Inventory</b>	<b>113,882.00</b>
<b>201</b>	<b>Accounts Payable</b>	<b>22,300.00</b>
<b>401</b>	<b>Tools and Accessories Sales</b>	<b>156,500.00</b>
<b>501</b>	<b>Cost of Goods Sold</b>	<b>93,625.00</b>
<b>606</b>	<b>Delivery Expense</b>	<b>1,550.00</b>
	<b>TRIAL BALANCE TOTAL</b>	<b>\$367,240.00</b>

If any of your account totals do not match the check figures, make the necessary corrections. If all of your totals match the check figures, you are ready to print the following selected documents.

- 1. Trial Balance for December 31**
- 2. Schedule of Accounts Payable**
- 3. A copy of all vendor accounts**

Using your printed documents, answer the Uptight Tools, Incorporated, Problem 8 Analysis Questions.

**WORK4ME I - PROBLEM EIGHT**    **NAME** \_\_\_\_\_  
**ACCOUNTS PAYABLE**                      **CLASS DAY AND TIME** \_\_\_\_\_ **DATE** \_\_\_\_\_  
**PERPETUAL INVENTORY**

1. The issuance of a debit memo for the return of merchandise to a vendor requires that the Sales Returns and Allowances account be debited. **Answer only T for True or F for False for questions 1-4.** \_\_\_\_\_
  
2. A purchase of merchandise on credit requires that a credit entry to be recorded to the Accounts Payable account. \_\_\_\_\_
  
3. Cash terms of 2/10, 1/15, net 60 means that the balance of the invoice must be paid in full within 15 days of the invoice date to qualify for a 2 percent discount. \_\_\_\_\_
  
4. Cash terms of 3/10, net 30 means that the balance of the invoice must be paid within 10 days of the invoice date to qualify for the full discount. \_\_\_\_\_
  
5. If paid on time, what is the last day to pay the Honker Brothers invoice? \_\_\_\_\_  
**A. January 7**  
**B. December 7**  
**C. January 5**  
**D. January 6**  
**E. None of the above**
  
6. What amount will be saved by paying the Honker Brothers invoice on time? \_\_\_\_\_  
**A. \$100.00**  
**B. \$0.00**  
**C. \$20.00**  
**D. \$10.00**  
**E. None of the above**
  
7. What are the credit terms offered by Mosetti and Company? \_\_\_\_\_  
**A. 2/10, n/30**  
**B. net 30**  
**C. 01/10, n/30**  
**D. None of the above**



8. What is the problem with the Mosetti and Company account balance? \_\_\_\_\_
- A. no problem
  - B. not yet due
  - C. past due
  - D. due in 5 days
  - E. None of the above
9. If the Deadwood Equipment Company balance, that is currently past due, had been paid on time, what would have been the reduction in the cost of inventory if the invoice had been paid within the discount period? \$ \_\_\_\_\_
10. The Boot Hill Tools invoice of December 2, was paid on time to take the discount. What was the reduction in the cost of inventory for paying this invoice within the discount period? \$ \_\_\_\_\_