

Work4Me I Accounting Simulations

3rd 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

ASSETS	REVENUE
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	COST OF GOODS SOLD
121 Prepaid Insurance	
123 Prepaid Rent	501 Cost of Goods Sold
125 Prepaid Advertising	502 Transportation-In
127 Store Supplies	
129 Office Supplies	OPERATING EXPENSES
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.
LIABILITIES	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	OTHER REVENUE
STOCKHOLDERS' EQUITY	711 Interest Earned
301 Common Stock	OTHER EXPENSES
305 Retained Earnings	
310 Cash Dividends Declared	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

**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

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, 2006

Student Analysis

December 1

Sold an assortment of tools for \$456.00 cash plus 7% sales tax of \$31.92. **U2061** is the sales invoice number for this transaction. The tools sold cost UpTight Tools \$228.00. Only one recorded entry is required for this transaction. **The program will automatically update the merchandise inventory on each sale entry and on each sales return entry. In this case, a debit to Cost of Goods Sold and a credit to Merchandise Inventory for \$228.00 is automatically recorded and posted.**

December 1

Sold on credit to customer Ernie Young (**11475**), tools and parts for \$1,540 plus 7% sales tax (sales invoice number **U2062**). Uptight Tools, Inc., extends net 15-day credit terms to all customers. The cost of the merchandise sold totaled \$770.00. **(Remember, No Inventory entry required.)**

December 2

Purchased \$13,100 worth of merchandise on credit from Boot Hill Tools (purchase invoice number **BH666**). Boot Hill Tools (**21200**) extends 2/10, n/30 terms and ships all merchandise FOB shipping point. Freight charges will be billed from a separate carrier.

December 4

Purchased on credit from Deadwood Equipment \$5,730 worth of merchandise (invoice **D4545**). Deadwood Equipment, vendor number **22700**, extends cash terms of 2/10, n/30.

TRANSACTIONS FOR DECEMBER, 2006

Student Analysis

December 6

Received a billing statement and issued check number **33332** for \$155 to Hollman Freight Company, for freight charges incurred for delivery of merchandise items from Boot Hill Tools on December 2 (invoice number **HL123**).

December 10

Paid invoice **V1425** from Videcamper Saws (**28800**) issuing check number **33333**. 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.

December 12

Issued check **33334** to Boot Hill Tools (**21200**) as payment in full of the December 2 invoice (**BH666**) for \$13,100. Terms on the invoice are listed at 2/10, *n/30*.

December 12

Issued debit memo **DM121** and returned merchandise listed at \$1,200 to Deadwood Equipment (**22700**). The merchandise was purchased on December 4 (invoice number **D4545**), and the invoice has not yet been paid.

December 12

Sold merchandise on account to the Folsom School District (customer **10830**). Sales invoice number **U2063** 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.

December 13

Received payment in full of invoice **U2040** from Clinker's Plumbing (**10760**). The November 28 invoice totals exactly \$8,000. Remember that UpTight Tools extends net-15 credit terms to all charge customers.

TRANSACTIONS FOR DECEMBER, 2006

Student Analysis

December 14

Paid with check number **33335**, the Deadwood Equipment (**22700**) invoice of December 4 (**D4545**), less the debit memo of December 12, and the cash discount. Deadwood Equipment extends 2/10, n/30 credit terms.

December 15

Issued credit memo **CM303** to the Folsom School District (**10830**) for \$1,400 in merchandise returned. Remember to include the sales tax of 7% on the amount of the returned merchandise. The original invoice number on this December 12 sale was **U2063**.

December 16

Received a check from customer Ernie Young (**11475**) for payment in full of his December 1 invoice (**U2062**). Net 15 terms are extended to all Uptight Tools customers.

December 20

It is discovered today, that invoice **D3145** from Deadwood Equipment (**22700**) 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 check number **33336** and paid the balance due in full.

December 24

Purchased \$7,350 in tools from the Honker Brothers (**24000**). Net 10 terms are extended by Honker Brothers and the merchandise is shipped FOB destination. **HB999** is the invoice number for this purchase.

TRANSACTIONS FOR DECEMBER, 2006

Student Analysis

December 24

Purchased office supplies on account from Bart's Supply, vendor number **20650**. Bart's invoice (number **B8787**) lists a total of \$1,456.60.

December 26

Received a check from the Folsom School District (**10830**) as payment in full of their December 12 invoice (**U2063**) less the credit memo (CM303) of December 15.

December 29

Salaries and wages through December 28 are paid today. Issued check number **33337** for \$3,455. At the document prompt enter **PAYRL** (for payroll).

December 31

Issued check **33338** and paid the electric bill and gas bill totaling \$423 (invoice **56667**).

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

1. **Click on the Journal/Ledger/Financial Statements, select General Ledger and print the Trial Balance.**
2. **Check your balances against the totals shown in the "Check It Out" box.**

IF ALL OF YOUR TOTALS MATCH THE CHECK FIGURES, you are ready to proceed to the Adjusting Entries portion of this problem. If you DO NOT match the check figures, proceed to the instructions 1-4 below the "Check It Out" box on page 9.

"CHECK IT OUT" BOX NUMBER ONE FOR THE DECEMBER 31, TRIAL BALANCE.

"CHECK IT OUT"		
101	Cash	\$12,986.82
105	Accounts Receivable	350.00
115	Merchandise Inventory	100,839.40
129	Office Supplies	1,828.60
201	Accounts Payable	12,331.60
401	Tools and Accessories Sales	147,146.00
402	Sales Returns and Allowances	7,550.00
501	Cost of Goods Sold	69,798.00
502	Transportation-In	1,355.00
601	Salaries and Wages Expense	10,005.00
604	Advertising Expense	1,250.00
624	Electric and Gas Expense	1,098.00
	TRIAL BALANCE TOTAL	\$347,745.82

IF ANY OF YOUR BALANCES DO NOT MATCH THE CORRECT FIGURES, YOU HAVE ONE OR MORE ERRORS THAT MUST BE CORRECTED BEFORE YOU CAN CONTINUE. THE MOST EFFICIENT METHOD OF LOCATING AND CORRECTING THE ERROR/S IS TO PRINT A COPY OF THE TRIAL BALANCE AND A COPY OF THE GENERAL JOURNAL.

- 1. Print the Trial Balance.**
- 2. Click on the Journal/Ledgers/ Statements, select General Journal and print the General Journal.**
- 3. Check your journal entries for error/s. Make the necessary corrections by backing out each error entry and then recording the correct entry.**
- 4. When your balances match the "Check It Out" Box totals, you are ready to enter the December 31, adjusting entries.**

Adjusting Entries For The Quarter Ended, December 31, 2006

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.

- A. The ending inventory of store supplies totals **\$355**.

- B. The total office supplies used during the quarter totals **\$305**.

- 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.

With the completion of the adjusting entries for UpTight Tools, it is time to check the accuracy of your work. In the “Check It Out” box are the correct balances of some of the key accounts from the Adjusted Trial Balance.

1. **Click on Journal/Ledgers/Statements, select General Ledger and print a copy of the Adjusted Trial Balance**
2. **Check your balances against the totals shown in the “Check It Out” box on page 12.**

IF ALL OF YOUR TOTALS MATCH THE CHECK FIGURES, proceed to instructions 3-6 below. If any of the totals DO NOT match the check figures, proceed to instructions 1-4 that follow the “Check It Out” Box.

3. **Print the Income Statement, Retained Earnings Statement, and the Balance Sheet.**
4. **Print the Schedule of Accounts Receivable and all of the customer accounts.**
5. **Print the Schedule of Accounts Payable and all the vendor accounts.**
6. **Print the General Journal.**

Using your printed documents, answer the questions on the Problem 9, analysis form.

"CHECK IT OUT" BOX NUMBER TWO FOR THE ADJUSTED TRIAL BALANCE

"CHECK IT OUT"		
101	Cash	\$12,986.82
105	Accounts Receivable	350.00
121	Prepaid Insurance	600.00
123	Prepaid Rent	4,350.00
129	Office Supplies	1,523.60
136	Accum. Deprec., Office Equip.	9,585.00
209	Salaries and Wages Payable	424.00
218	Property Taxes Payable	321.00
602	Store Supplies Expense	510.00
604	Advertising Expense	1,250.00
610	Depre., Expense, Store Eq., & Fix.	315.00
612	Depre., Expense, Delivery Vehicles	4,368.00
626	Property Tax Expense	321.00
811	Interest Expense	270.00
ADJUSTED TRIAL BALANCE TOTAL		\$353,728.82

IF YOUR ADJUSTED TRIAL BALANCE TOTALS DO NOT MATCH THE CHECK FIGURES:

1. **Print the Adjusted Trial Balance.**
2. **Print the General Journal.**
3. **Check your general journal adjusting entries carefully for the error/s. Make the required correction/s.**
4. **When your balances match the "Check It Out" box totals, print a copy of the Adjusted Trial Balance. Then print the final documents outlined in instructions 3-6 on the previous page.**

WORK4ME I - 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? \$ _____