



# Horngren's Accounting

## *The Financial Chapters*

ELEVENTH EDITION

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ALWAYS LEARNING

PEARSON

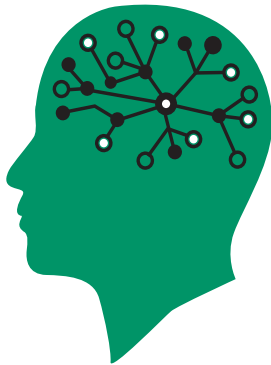
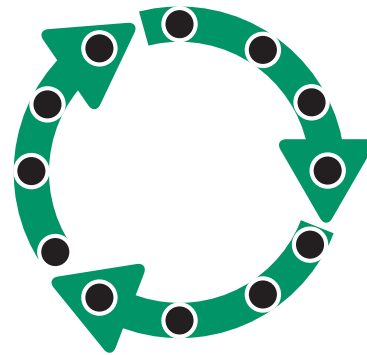


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**Requirements**

1. Journalize the closing entries at December 31. Post to the Income Summary account as an accuracy check on net income. Recall that the credit balance closed out of Income Summary should equal net income as computed on the income statement. Also post to Cornelius, Capital, whose balance should agree with the amount reported on the balance sheet.
2. Prepare the company's multi-step income statement, statement of owner's equity, and balance sheet in report form for year ended December 31, 2016. Note: King Cornelius doesn't separate its operating expenses as either selling or administrative and Cornelius made no contributions during the year.
3. Compute the gross profit percentage for 2016.

**Requirement 1**

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Sales Revenue	244,000	
	Interest Revenue	2,000	
	Income Summary		246,000
	<i>To close revenue accounts.</i>		
31	Income Summary	193,000	
	Sales Returns and Allowances		10,000
	Sales Discounts		8,000
	Cost of Goods Sold		81,000
	Salaries Expense		72,700
	Rent Expense		7,700
	Utilities Expense		5,800
	Depreciation Expense—Furniture		2,700
	Supplies Expense		2,200
	Interest Expense		2,900
	<i>To close expenses and other debit accounts.</i>		
31	Income Summary	53,000	
	Cornelius, Capital		53,000
	<i>To close Income Summary.</i>		
31	Cornelius, Capital	48,000	
	Cornelius, Withdrawals		48,000
	<i>To close withdrawals.</i>		

Income Summary			
Clos. 2	193,000	246,000	Clos. 1
		53,000	Bal.
Clos. 3	53,000		
		<b>0</b>	<b>Bal.</b>

Cornelius, Capital			
		22,200	Adj. Bal.
Clos. 4	48,000	53,000	Clos. 3
		<b>27,200</b>	<b>Bal.</b>

Cornelius, Withdrawals			
Adj. Bal.	48,000		
		48,000	Clos. 4
<b>Bal.</b>	<b>0</b>		

**Requirement 2**

KING CORNELIUS COMPANY Income Statement Year Ended December 31, 2016	
Sales Revenue	\$ 244,000
Less: Sales Discounts	8,000
Sales Returns and Allowances	<u>10,000</u>
Net Sales Revenue	\$ 226,000
Cost of Goods Sold	<u>81,000</u>
Gross Profit	145,000
Operating Expenses:	
Salaries Expense	72,700
Rent Expense	7,700
Utilities Expense	5,800
Depreciation Expense—Furniture	2,700
Supplies Expense	<u>2,200</u>
Total Operating Expenses	91,100
Operating Income	53,900
Other Revenues and (Expenses):	
Interest Revenue	2,000
Interest Expense	<u>(2,900)</u>
Total Other Revenues and (Expenses)	(900)
Net Income	<u><u>\$ 53,000</u></u>

KING CORNELIUS COMPANY Statement of Owner's Equity Year Ended December 31, 2016	
Cornelius, Capital, January 1, 2016	\$ 22,200
Owner contribution	0
Net income for the year	<u>53,000</u>
	75,200
Owner withdrawal	<u>(48,000)</u>
Cornelius, Capital, December 31, 2016	<u><u>\$ 27,200</u></u>

KING CORNELIUS COMPANY	
Balance Sheet	
December 31, 2016	
Assets	
Current Assets:	
Cash	\$ 5,600
Accounts Receivable	37,100
Merchandise Inventory	25,800
Office Supplies	1,300
Prepaid Rent	1,000
Total Current Assets	\$ 70,800
Plant Assets:	
Furniture	26,500
Less: Accumulated Depreciation—Furniture	(23,800)
Total Plant Assets	2,700
Total Assets	<b>\$ 73,500</b>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 6,300
Salaries Payable	2,000
Interest Payable	600
Unearned Revenue	2,400
Total Current Liabilities	\$ 11,300
Long-term Liabilities:	
Notes Payable	35,000
Total Liabilities	46,300
Owner's Equity	
Cornelius, Capital	27,200
Total Liabilities and Owner's Equity	<b>\$ 73,500</b>

**Requirement 3**

Gross profit percentage = Gross profit / Net sales revenue = \$145,000 / \$226,000 = 0.642 = 64.2%

> Key Terms

Administrative Expenses (p. 289)	Merchandise (p. 269)	Purchase Discount (p. 274)
Cost of Goods Sold (COGS) (p. 270)	Multi-Step Income Statement (p. 289)	Purchase Return (p. 275)
Credit Terms (p. 274)	Net Purchases (p. 294) (Appendix 5A)	Retailer (p. 269)
FOB Destination (p. 277)	Net Sales Revenue (p. 283)	Sales Discounts (p. 281)
FOB Shipping Point (p. 277)	Operating Expenses (p. 271)	Sales Returns and Allowances (p. 281)
Freight In (p. 277)	Operating Income (p. 289)	Sales Revenue (p. 280)
Freight Out (p. 277)	Other Revenues and Expenses (p. 290)	Selling Expenses (p. 289)
Gross Profit (p. 271)	Periodic Inventory System (p. 271)	Single-Step Income Statement (p. 288)
Gross Profit Percentage (p. 291)	Perpetual Inventory System (p. 271)	Vendor (p. 270)
Inventory Shrinkage (p. 285)	Purchase Allowance (p. 275)	Wholesaler (p. 269)
Invoice (p. 272)		
Merchandise Inventory (p. 269)		

> Quick Check

Learning Objective 1

1. Which account does a merchandiser use that a service company does not use?
- a. Cost of Goods Sold

b. Merchandise Inventory

c. Sales Revenue

d. All of the above

Learning Objective 1

2. An inventory system that keeps a running computerized record of merchandised inventory is called
- a. periodic inventory system

b. perpetual inventory system

c. merchandise inventory system

d. operating expenses system

Learning Objective 2

3. The journal entry for the purchase of inventory on account *using the perpetual inventory system* is

Date	Accounts and Explanation	Debit	Credit
a.	Merchandise Inventory	XXX	
	Accounts Receivable		XXX
b.	Accounts Payable	XXX	
	Merchandise Inventory		XXX
c.	Merchandise Inventory	XXX	
	Accounts Payable		XXX
d.	Merchandise Inventory	XXX	
	Cash		XXX

Learning Objective 2

4. An amount granted to the purchaser as an incentive to keep goods that are not 'as ordered' is also known as
- a. purchase return

b. purchase allowance

c. purchase discount

d. purchase refund

5. Which of the following is not recorded at the time of sale in a perpetual inventory system?
- Sales revenue
  - Cash or account receivable
  - Cost of goods sold
  - Depreciation
6. Suppose Dave's Discount's Merchandise Inventory account showed a balance of \$8,000 before the year-end adjustments. The physical count of goods on hand totaled \$7,400. Dave uses a perpetual inventory system. To adjust the accounts, which entry would the company make?

Date	Accounts and Explanation	Debit	Credit
a.	Cost of Goods Sold	600	
	Merchandise Inventory		600
b.	Merchandise Inventory	600	
	Accounts Receivable		600
c.	Accounts Payable	600	
	Merchandise Inventory		600
d.	Merchandise Inventory	600	
	Cost of Goods Sold		600

7. A loss of inventory because of theft, damage, or errors is called
- Inventory shrinkage
  - Stocks shrinkage
  - Assets turnover
  - Inventory depreciation
8. What are the two formats for an income statement?
- The report and account format
  - Debit and credit format
  - Single and multi-step format
  - Assets and equity format
9. The measure of the probability of each sales dollar above the cost of goods sold refers to
- Gross profit percentage
  - Gross profit margin
  - Net sales percentage
  - Net sales profit
- 10A. The journal entry for the purchase of inventory on account *using the periodic inventory system* is

Date	Accounts and Explanation	Debit	Credit
a.	Purchases	XXX	
	Accounts Receivable		XXX
b.	Accounts Payable	XXX	
	Merchandise Inventory		XXX
c.	Merchandise Inventory	XXX	
	Accounts Payable		XXX
d.	Purchases	XXX	
	Accounts Payable		XXX

**Learning Objective 3**

**Learning Objective 4**

**Learning Objective 4**

**Learning Objective 5**

**Learning Objective 6**

**Learning Objective 7**  
**Appendix 5A**

**Check your answers at the end of the chapter.**

## ASSESS YOUR PROGRESS

### > Review Questions

1. What is a merchandiser, and what is the name of the merchandise that it sells?
2. What are the two types of merchandisers? How do they differ?
3. Describe the operating cycle of a merchandiser.
4. What is Cost of Goods Sold (COGS), and where is it reported?
5. How is gross profit calculated, and what does it represent?
6. What are the two types of inventory accounting systems? Briefly describe each.
7. What is the main difference between the *perpetual inventory system* and the *periodic inventory system*?
8. What account is debited when recording a purchase of inventory when using the perpetual inventory system?
9. What is the merchandise inventory account used for?
10. What is a purchase return? How does a purchase allowance differ from a purchase return?
11. Why is the purchase discount credited in the merchandise inventory account when the buyer took the discount?
12. How is the net cost of inventory calculated?
13. What are the two journal entries involved when recording the sale of inventory when using the perpetual inventory system?
14. When granting a sales allowance, is there a return of merchandise inventory from the customer? Describe the journal entry(ies) that would be recorded.
15. Briefly explain the difference between freight in and freight out.
16. How is net sales revenue calculated?
17. What is inventory shrinkage? Describe the adjusting entry that would be recorded to account for inventory shrinkage.
18. What are the four steps involved in the closing process for a merchandising company?
19. Describe the single-step income statement.
20. Describe the multi-step income statement.
21. What are the categories reported in the operating expenses of the multi-step income statement?
22. What does the gross profit percentage measure, and how is it calculated?
- 23A. What account is debited when recording a purchase of inventory when using a periodic inventory system?
- 24A. When recording purchase returns and purchase allowances under the periodic inventory system, what account is used?
- 25A. What account is debited when recording the payment of freight in when using the periodic inventory system?
- 26A. Describe the journal entry(ies) when recording a sale of inventory using the periodic inventory system.
- 27A. Is an adjusting entry needed for inventory shrinkage when using the periodic inventory system? Explain.