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

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>REVENUE</th>
<th>COST OF GOODS SOLD</th>
<th>OPERATING EXPENSES</th>
<th>OTHER REVENUE</th>
<th>OTHER EXPENSES</th>
<th>INCOME SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Cash</td>
<td>401 Tools and Accessory Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>901 Income Summary</td>
</tr>
<tr>
<td>105 Accounts Receivable</td>
<td>402 Sales Returns and Allowances</td>
<td></td>
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<tr>
<td>109 Notes Receivable</td>
<td>403 Sales Discounts</td>
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<tr>
<td>113 Interest Receivable</td>
<td></td>
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<tr>
<td>115 Merchandise Inventory</td>
<td></td>
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<tr>
<td>121 Prepaid Insurance</td>
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<tr>
<td>123 Prepaid Rent</td>
<td>501 Cost of Goods Sold</td>
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<tr>
<td>125 Prepaid Advertising</td>
<td>502 Transportation-In</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>127 Store Supplies</td>
<td></td>
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<tr>
<td>129 Office Supplies</td>
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</tr>
<tr>
<td>131 Store Equipment and Fixtures</td>
<td></td>
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<tr>
<td>135 Office Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>136 Accum. Depre., Office Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>139 Delivery Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>140 Accum. Depre., Delivery Vehicles</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>150 Land</td>
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<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
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<tr>
<td>201 Accounts Payable</td>
<td>621 Rent Expense</td>
<td></td>
<td></td>
<td></td>
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<td>203 Short-Term Notes Payable</td>
<td>622 Insurance Expense</td>
<td></td>
<td></td>
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<tr>
<td>205 Sales Tax Payable</td>
<td>623 Professional Services Expense</td>
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<td>209 Salaries &amp; Wages Payable</td>
<td>624 Electric and Gas Expense</td>
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<tr>
<td>212 Dividends Payable</td>
<td>625 Telephone Expense</td>
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<td></td>
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<tr>
<td>215 Interest Payable</td>
<td>626 Property Tax Expense</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>218 Property Tax Payable</td>
<td>627 Bank Service Charges</td>
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<td></td>
<td></td>
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<tr>
<td>221 Revenue Received In Advance</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>231 Income Taxes Payable</td>
<td>629 Miscellaneous Expense</td>
<td></td>
<td></td>
<td></td>
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<table>
<thead>
<tr>
<th>STOCKHOLDERS’ EQUITY</th>
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<th></th>
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<tbody>
<tr>
<td>301 Common Stock</td>
<td>711 Interest Earned</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>305 Retained Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>310 Cash Dividends Declared</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

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Last Revised: April 1, 2019
### Uptight Tools, Inc.  
Customer List

<table>
<thead>
<tr>
<th>Customer Number</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>10350</td>
<td>Alex Anderson</td>
</tr>
<tr>
<td>10440</td>
<td>Bob’s Auto Repair</td>
</tr>
<tr>
<td>10760</td>
<td>Clinker’s Plumbing</td>
</tr>
<tr>
<td>10830</td>
<td>Folsom School Dist.</td>
</tr>
<tr>
<td>10900</td>
<td>Marshal Motors</td>
</tr>
<tr>
<td>11250</td>
<td>Kathy Taylor</td>
</tr>
<tr>
<td>11330</td>
<td>Robert Wise</td>
</tr>
<tr>
<td>11475</td>
<td>Ernie Young</td>
</tr>
</tbody>
</table>

### Uptight Tools, Inc.  
Vendor List

<table>
<thead>
<tr>
<th>Vendor Number</th>
<th>Vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>20650</td>
<td>Bart’s Supply</td>
</tr>
<tr>
<td>21200</td>
<td>Boot Hill Tools</td>
</tr>
<tr>
<td>22700</td>
<td>Deadwood Equipment</td>
</tr>
<tr>
<td>23400</td>
<td>Goodman Freight, Inc.</td>
</tr>
<tr>
<td>24000</td>
<td>Honker Brothers</td>
</tr>
<tr>
<td>26660</td>
<td>Locker and Sons, Inc.</td>
</tr>
<tr>
<td>27500</td>
<td>Mosetti and Company</td>
</tr>
<tr>
<td>28800</td>
<td>Videcamper Saws</td>
</tr>
</tbody>
</table>
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 x 7% = $8.7815 which rounds to $8.78).

The compound entry would appear as:

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1</td>
<td>Cash</td>
<td>134.23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tools and Accessory Sales</td>
<td></td>
<td>125.45</td>
</tr>
<tr>
<td></td>
<td>Sales Tax Payable</td>
<td></td>
<td>8.78</td>
</tr>
</tbody>
</table>

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**

**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.*

**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.


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.


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.


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.


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.


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.


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.


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.


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.


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.


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.


December 24
Purchased office supplies on account from Bart’s Supply, vendor number. Bart’s invoice lists a total of $1,456.60.


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.


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.

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


4. Print the Schedule of Accounts Receivable.

5. Print All Customers.

5. Print the Schedule of Accounts Payable.

7. Print All Vendors.


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.


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_______________________________________  ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE  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?
   $__________