

Example 5-1: Seller Perspective

Feb 5, 20X1	A/R	9,225	
	Sales Revenue		9,225
	FOB Shipping - No entry		

If the payment is received on Feb 10, 20X1, then the buyer can take the discount:

Feb 10, 20X1	Cash	8,948.25	
	Sale Discount	276.75	
	A/R		9,225

If they use FOB Destination and the payment is received on Feb 28, 20X1:

Feb 5, 20X1	A/R	9,225	
	Sales Revenue		9,225
	Freight out	38	
	Cash/AP		38
Feb 28, 20X1	Cash	9,225	
	A/R		9,225

Example 5-2: Buyer Perspective

Feb 5, 20X1	Inventory	9,225	
	A/P		9,225
	Inventory	38	
	Cash/AP		38

If the payment is made on Feb 10, 20X1:

Feb 10, 20X1	A/P	9,225	
	Cash		8,948.25
	Inventory		276.75

If they use FOB Destination & the payment is made on Feb 28, 20X1:

Feb 5, 20X1	Inventory	9,225	
	A/P		9,225
	FOB Shipping - No entry		
Feb 28, 20X1	A/P	9,225	
	Cash		9,225

Example 5-3: Buyer Perspective

Jan 5, 20x1	Inventory A/P	37,500	37,500
	FOB destination - No entry		
Jan 10, 20X1	A/P Inventory	3,000	3,000

Example 5-4: Seller Perspective

Jan 5, 20x1	A/R Sale Revenue	37,500	37,500
	COGS Inventory	25,000	25,000
	Freight out Cash	35	35
Jan 10, 20x1	Sales R&A A/R	3,000	3,000
	Inventory COGS	2,000	2,000

6-1

Date	Units	Cost	
Beginning	150	2	300
08-Jan	50	3	150
16-Jan	-80	2	-160
21-Jan	30	4	120
27-Jan	-70	2	-140
	-40	3	-120

COGS 420

Ending Inventory 150

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Date	Units	Cost	
Beginning	150	2	300
08-Jan	50	3	150
	200	2.25	450
16-Jan	-80	2.25	-180
	120	2.25	270
21-Jan	30	4	120
	150	2.6	390
27-Jan	-110	2.6	-286
	40	2.6	104

COGS -466

Ending Inventory 104

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BI + P - EI = COGS

Inventory Overstated by \$5000

COGS Understated by \$5000

Gross Profit	Overstated
Profit, before income tax	Overstated
Income tax	Overstated
Net Income	Overstated
Retained Earnings	Overstated
Accounts Payable	No effect

Example 7-1

Start with the adjusted cash balance per bank from June 30 because the prior months adjusted cash balance per bank should equal the adjusted cash balance per book. Add the deposits that the company recorded during the month. Subtract the cheques that the company recorded during the month. The deposits shown on the bank statement, and cheques cleared the bank are not used in calculating the unadjusted balance per books.

$$\$5360 + \$2700 - \$1555 = \$6,505$$

1. Start by listing the adjusted cash balance per bank from June 30. The adjusted balance from the previous month is always the starting point for the bank reconciliation of the current month.
2. Note that in this question the unadjusted balance per books is asked for. This means that only the information relating to what the company is required. In this situation, only information points 3 and 4 will be used.
 - a. Points 2 and 5 would only be used if the adjusted balance for the bank is required.
3. Deposits increase the cash balance, so \$2,700 is added to the June 30 adjusted balance. Cheques decrease the cash balance, so \$1,555 is subtracted from the June 30 adjusted balance.
4. Total these amounts to get the unadjusted balance per books of \$6,505
 - a. $\$5,360 + \$2,700 - \$1,555 = \$6,505$

Other notes

- Make sure to read carefully whether the bank balance or book balance is asked for
 - Helps to start by separating bank items and book items before starting calculations

Example 8-1

20X1	Total	Number of Days Outstanding			
		0-30	31-60	61-90	Over 90
Accounts receivable	\$170,000	\$40,000	\$60,000	\$15,000	\$55,000
% uncollectible		10%	20%	30%	50%
Estimated bad debts	\$48,000	\$4,000	\$12,000	\$4,500	\$27,500

Journal Entry:

Dr. Bad Debt Expense 48,000
 Cr.Allowance for doubtful accounts 48,000

Example 8-2

Dr. Allowance for doubtful accounts 20,000
 Cr. Bad debt expense 20,000