I. LOGIC OF DEBITS AND CREDITS

Instructions: In the space provided, write the letter of the account on the right which is opposite the account on the left. In Part II, journalize given the transaction descriptions.

| A | Accounts Receivable |
| B | Sales Returns and Allowances |
| C | Purchases |
| D | Purchase Discounts |

II. JOURNAL ENTRIES

Note: Linda Smith's new business is Linda's Video Showcase.

Jan. 3 Purchases

Transaction---> Merchandise purchased for $5,000 on credit
Description from A. Company invoice dated 1/1, terms 2/10,n30.

Jan. 7 Accounts Payable, A. Company

Purchase Returns and Allowances
Returned $400 of defected merchandise to A. Company purchased 1/1.

Jan. 11 Accounts Payable, A. Company

Purchase Discounts
Cash
Paid A. Company for purchase of 1/1 less return and discount.

Jan. 12 Cash

Sales
Recorded cash sales of $3,000.

Jan. 14 Accounts Receivable, B. Company

Sales
Recorded credit sale of $6,000 to B. Company terms 2/10,n30.

Jan. 18 Sales Returns and Allowances

Accounts Receivable, B. Company
B. Company returned $200 of merchandise purchased 1/14.

Jan. 24 Cash

Sales Discounts
Accounts Receivable, B. Company
Received payment from B. Company less return, less discount.

Feb. 2 Purchases

Accounts Payable
Merchandise purchased from Z. Company with a value of $4,000, terms 1/10,n30 - Net Method.

Feb. 28 Accounts Payable

Purchase Discount Lost
Cash
Paid Z. Company for purchase of 2/2 plus discount lost.

Feb. 28 Transportation-In

Cash
Paid Transportation charges of $30 for merchandise purchased 2/2.

III. LOGIC OF INCOME STATEMENT

Instruction: Fill in the missing Account Categories.

| Net Sales |
| - Cost of Goods Sold |
| Gross Profit |
| - Operating Expenses |
| Income from Operations |

Part I Answers B, C, D, A
IV. INCOME STATEMENT AND BALANCE SHEET

Instructions: From these randomly ordered accounts prepare an Income Statement, Balance Sheet, and Closing Entries. Data is in thousands and balances are as of 12/31/95.

INCOME STATEMENT

Linda's Video Showcase

Income Statement
For the Year Ended December 31, 1995

Sales Revenue:
- Gross Sales
- Sales Returns and Allowances
- Sales Discounts
  - Net Sales

Cost of Goods Sold:
- Merchandise Inventory, January 1, 1995
- Purchases
- Purchase Returns and Allowances
- Purchase Discounts
- Net Purchases
- Plus Transportation-In
  - Goods Available for Sale
- Merchandise Inventory, December 31, 1995
- Cost of Goods Sold

Operating Expenses:
- Selling Expenses
- General and Administrative Expense
  - Total Operating Expenses
  - Net Income from Operation

BALANCE SHEET

Linda's Video Showcase

Balance Sheet
December 31, 1995

Current Assets:
- Cash
- Accounts Receivable
- Office Supplies
- Prepaid Rent
- Inventory

Total Current Assets

Plant and Equipment:
- Office Equipment
- Accumulated Depreciation

Total Assets

Liabilities

Current Liabilities:
- Accounts Payable
- Notes Payable

Total Liabilities

Owner's Equity

Capital, Linda Smith

Net Income

Increase in Capital

Total Liabilities and Owner's Equity

V. CLOSING ENTRIES

Dec. 31 Income Summary

Sales Returns and Allowances
Sales Discounts
Beginning Inventory
Purchases
Transportation-In
Selling Expenses
General and Administrative Expenses

Dec. 31 Ending Inventory

Sales
Purchase Returns
Purchase Discounts
Income Summary

Dec. 31 Income Summary

Capital, Linda Smith
Withdrawals, Linda Smith

Note: Journal Entries are becoming more complicated. See page A40 on Understanding Journal Entries for a logical approach to follow when recording Journal Entries.