

Problem 5

Blacksmith Hardware Company provides the following alphabetic list of accounts and their respective balances. All accounts have normal balances, and income statement account balances are for the year ending December 31, 20X5. A physical count of merchandise inventory on hand at year end revealed a balance of \$1,386,950. Use this information to prepare a comprehensive income statement.

Accounts payable	\$	331,995
Accounts receivable		414,450
Accumulated depreciation		832,770
Beginning inventory, Jan. 1		1,224,780
Capital stock		720,000
Cash		127,210
Depreciation expense		329,950
Dividends		60,000
Equipment		1,622,780
Freight-in		217,205
Freight-out		17,830
Insurance expense		43,500
Marketing expense		559,955
Purchase discounts		8,940
Purchase returns & allowances		33,325
Purchases		2,167,215
Rent expense		211,675
Retained earnings, Jan. 1		121,635
Salaries expense		1,169,990
Salaries payable		49,775
Sales		4,889,660
Sales discounts		44,085
Sales returns and allowances		69,990
Utilities expense		94,435

Solution 5

BLACKSMITH HARDWARE COMPANY			
Income Statement			
For the Year Ending December 31, 20X5			
Revenues			
Sales			\$ 4,889,660
Less: Sales discounts		\$ 44,085	
Sales returns and allowances		69,990	114,075
Net sales			\$ 4,775,585
Cost of goods sold			
Beginning inventory, Jan 1		\$ 1,224,780	
Add: Purchases		\$ 2,167,215	
Freight-in		217,205	
		<u>\$ 2,384,420</u>	
Less: Purchase discounts	\$ 8,940		
Purchase returns & allowances	33,325	42,265	
Net purchases			2,342,155
Goods available for sale			\$ 3,566,935
Less: Ending inventory, Dec. 31			1,386,950
Cost of goods sold			2,179,985
Gross profit			\$ 2,595,600
Expenses			
Salaries		\$ 1,169,990	
Marketing		559,955	
Rent		211,675	
Insurance		43,500	
Utilities		94,435	
Freight-out		17,830	
Depreciation		329,950	2,427,335
Net income			\$ 168,265