EXERCISES

## is.wbn.is.bse.050 Connecting changes in owners' equity to events behind numbers

**(Perez)**

This exercise helps you connect the changes in owner's equity to the events behind income statements and balance sheets. In particular, it helps you apply accounting judgments related to changes in net assets to recognition of income: revenues and expenses. There are two parts for this exercise. Check your answers in the provided solution.

**Judgment**

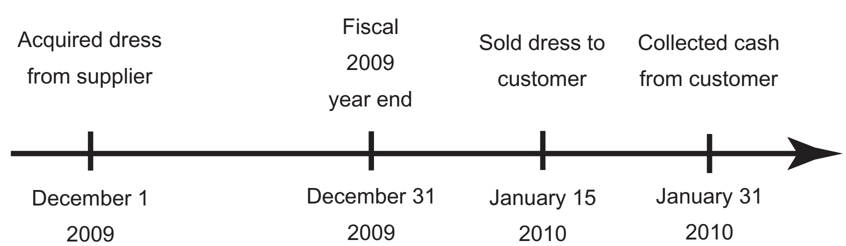
This exercise helps you learn how to analyze accounting judgments.

### Part I: Perez Fashions sells dress it had in stock

#### Facts

Perez Fashions is a high-end retail store that sells vintage women's clothes. In this exercise, it acquires a single dress and resells this one dress to a customer.

- Perez Fashions acquired a dress for $40 on December 1, 2009, paying cash at delivery to get a low price.
- Perez's fiscal year ends on December 31.
- Perez sold the dress on account for $100 on January 15, 2010. At that time, Perez concluded it was probable that it would collect the $100 on or before it was due from the customer.
- The dress was sold at a bargain price with the condition the customer could not return it at a later date.
- Perez collected the $100 from the customer on January 31, 2010.




#### Required

(a) Fill in a change in owners' equity map for the dates above. Use the three Part I templates on the following pages.

(b) When should Perez recognize revenue related to the sold dress and how much should it recognize?

(c) When should Perez recognize the cost of the sold dress as an expense?

(d) How much gross profit is associated with the sale?

*Continued on next page...*

## Part II: Perez Fashions sells dress it didn't have in stock

### Facts

In this exercise, Perez Fashions sells a dress to a customer, but it didn't have her size in stock. Consider Part II independently from Part I.

- On December 15, 2009, a customer saw a dress at Perez Fashion that she wanted to purchase at a promotional price of $100. This price was scheduled to increase to its $125 regular price a few days later.
- Perez did not have her size in inventory at that time but guaranteed delivery by January 15, 2010. Additionally, Perez offered to sell it to her for $100 if she paid for it on December 15. She agreed to this arrangement.
- Under the conditions of the promotion, the customer could not return the dress.
- Perez did not satisfy the criteria to recognize revenue until it met its obligation to deliver the dress on January 15, 2010.
- Perez's fiscal year ends on December 31.
- Perez purchased the dress on account from a supplier for $40 on January 15, 2010 and delivered it to the customer later that day.
- Perez paid the $40 owed to the supplier on January 31, 2010.


### Required

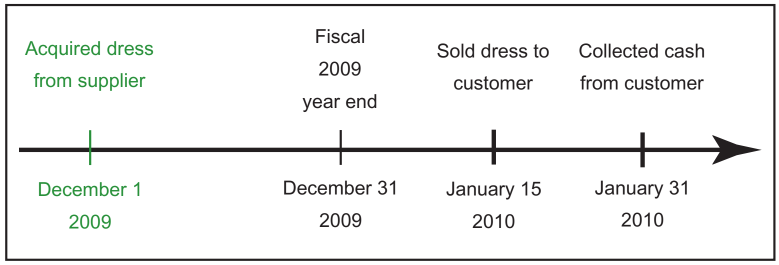
(e) Fill in a change in owners' equity map for the dates above. Use the three Part II templates on the following pages.

(f) When should Perez recognize revenue related to the sold dress and how much should it recognize?

(g) When should Perez recognize the cost of the sold dress as an expense?

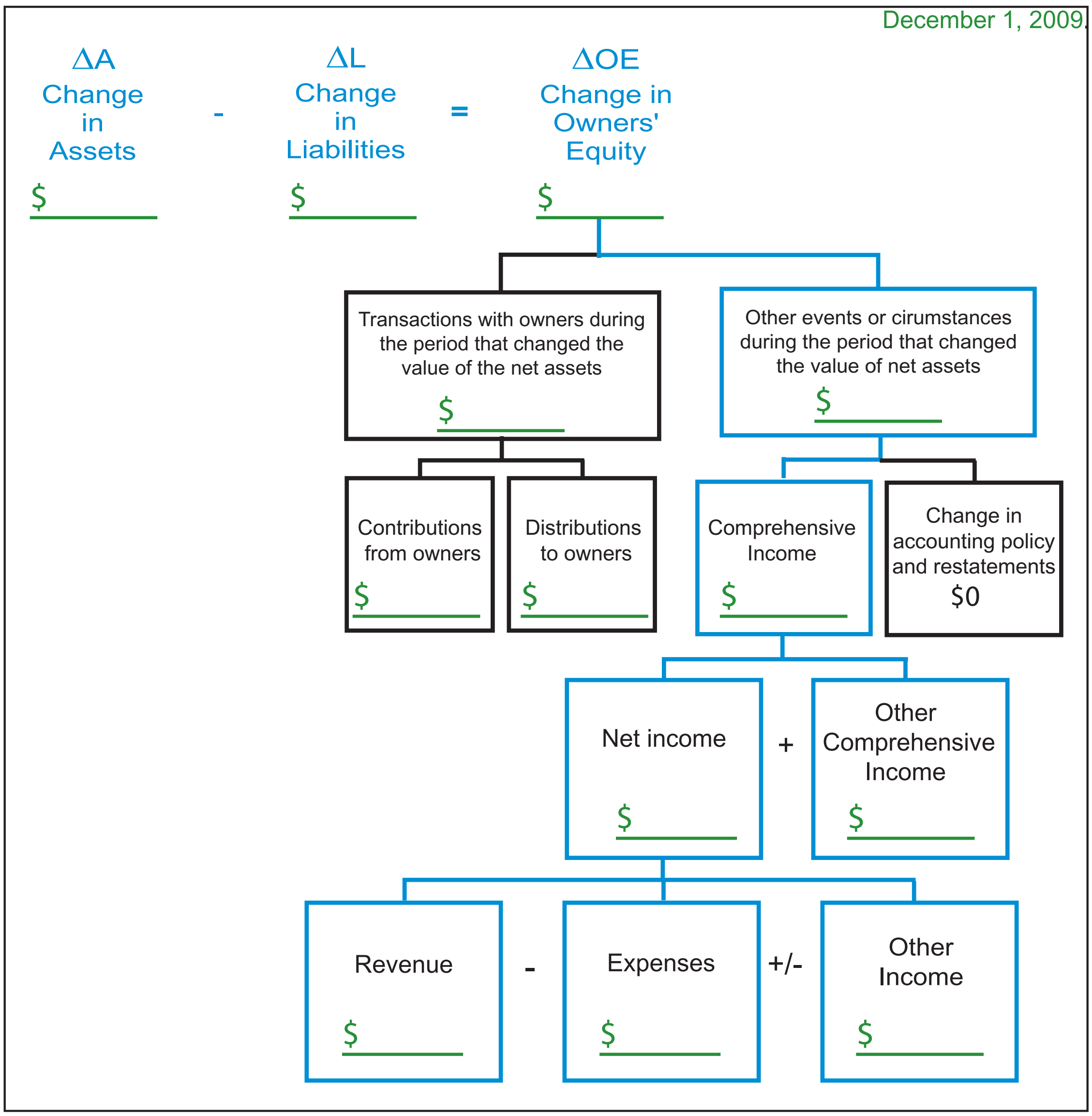
**Part I Facts**

- Perez Fashions acquired a dress from a supplier for $40 on December 1, 2009, paying cash at delivery to get a low price.
- Perez's fiscal year ends on December 31.
- Perez sold the dress on account for $100 on January 15, 2010. At that time, Perez concluded it had met all of the criteria to recognize revenue.
- Perez collected $100 from the customer on January 31, 2010.



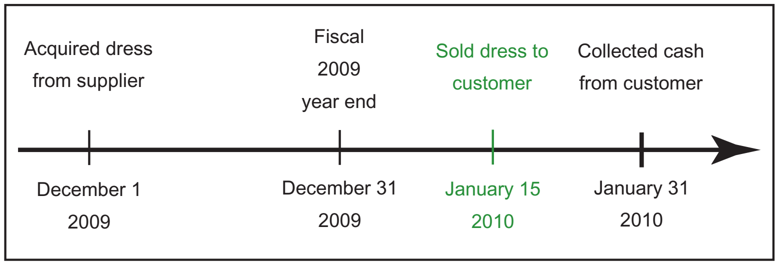

**Question**

Fill in the blanks. Indicate the amount by which the item was affected on December 1, 2009.



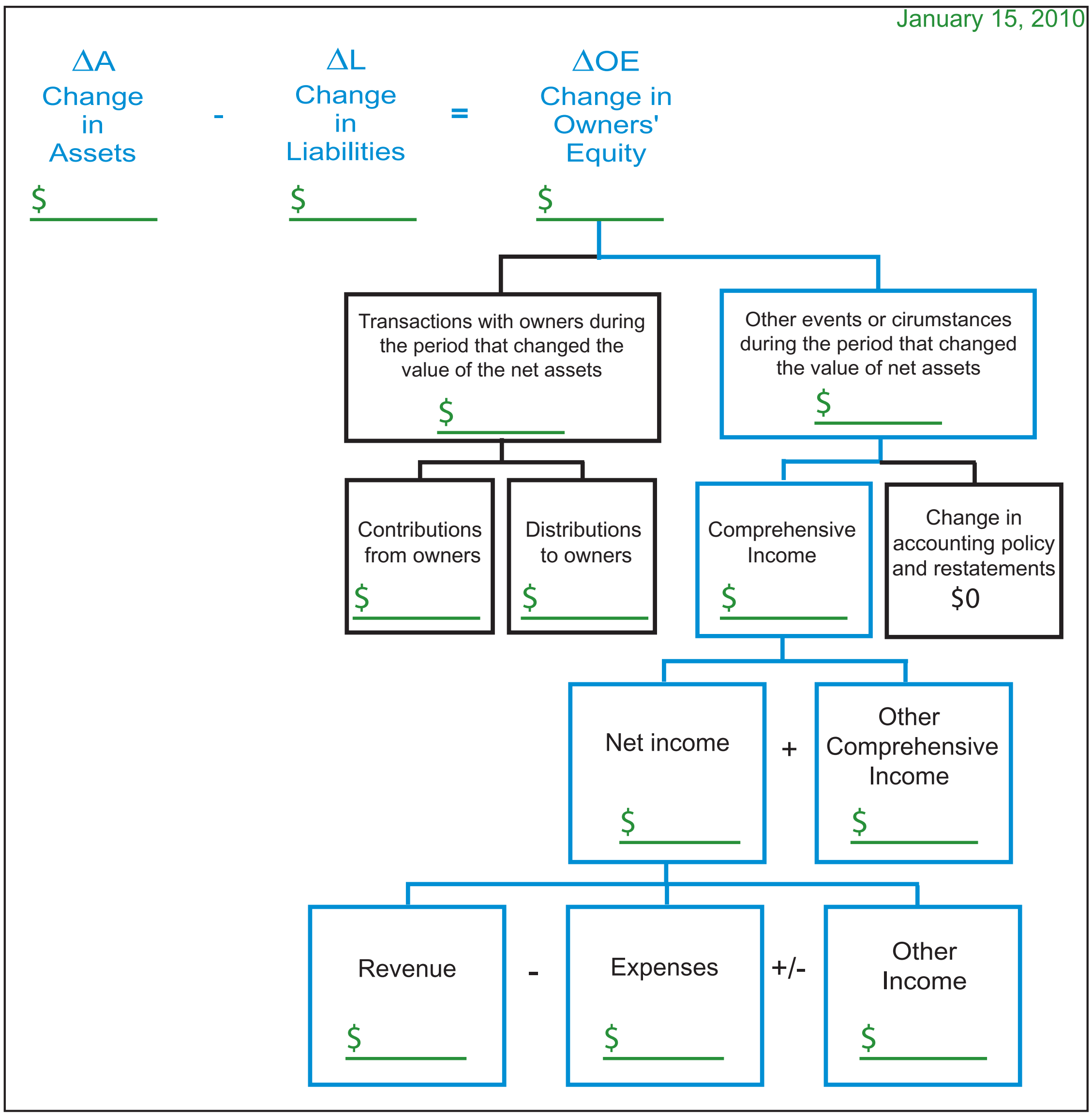
**Part I Facts**

- Perez Fashions acquired a dress from a supplier for $40 on December 1, 2009, paying cash at delivery to get a low price.
- Perez's fiscal year ends on December 31.
- Perez sold the dress on account for $100 on January 15, 2010. At that time, Perez concluded it had met all of the criteria to recognize revenue.
- Perez collected $100 from the customer on January 31, 2010.




**Question**

Fill in the blanks. Indicate the amount by which the item was affected on January 15, 2010.



**Part I Facts**

- Perez Fashions acquired a dress from a supplier for $40 on December 1, 2009, paying cash at delivery to get a low price.
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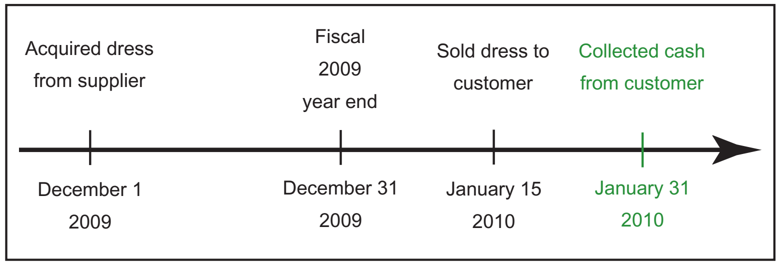
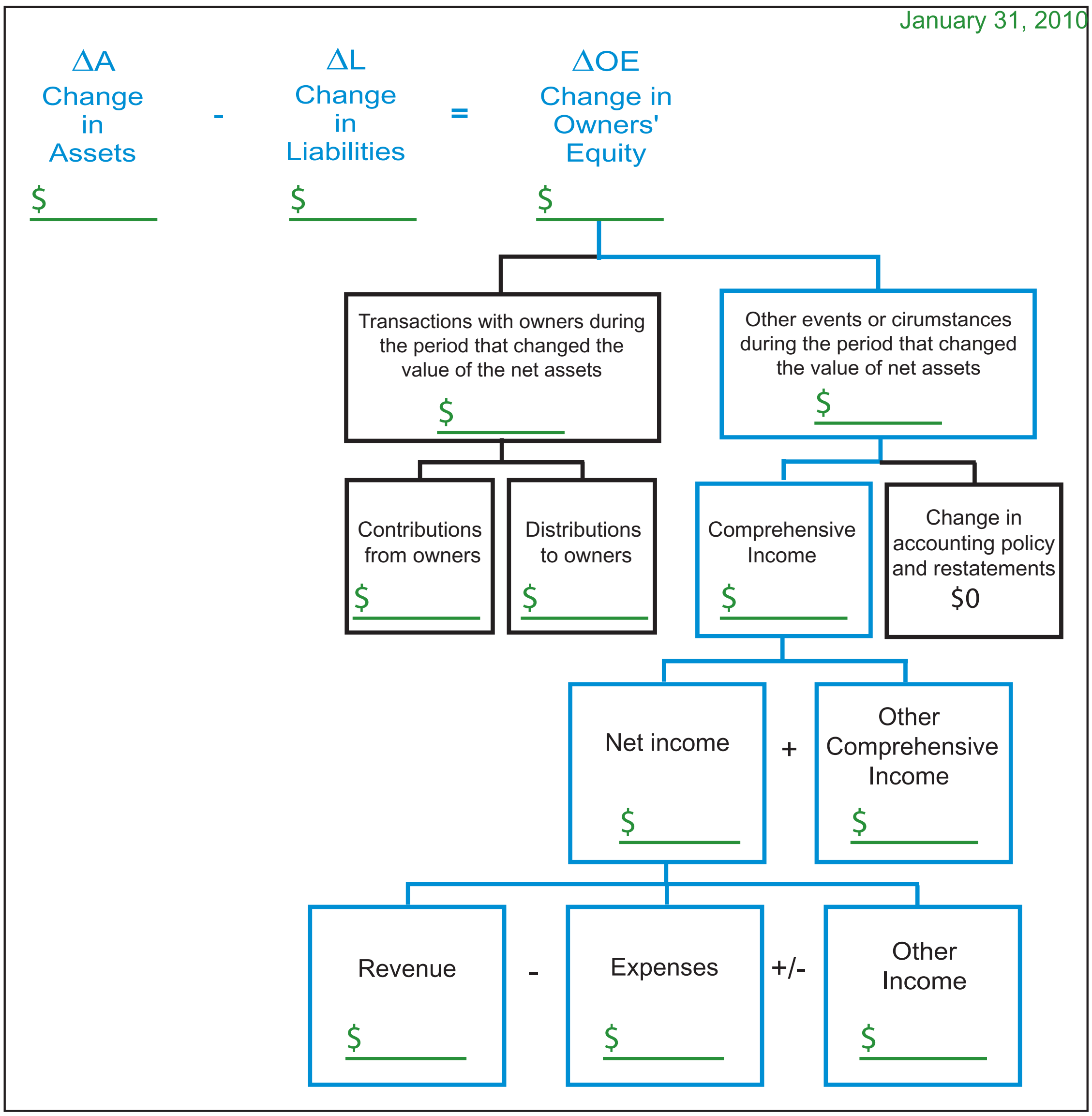


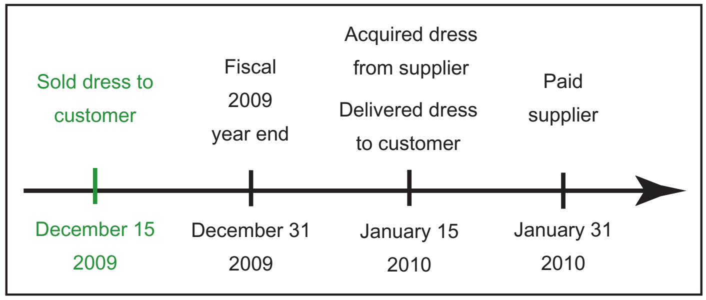

**Question**

Fill in the blanks. Indicate the amount by which the item was affected on January 31, 2010.



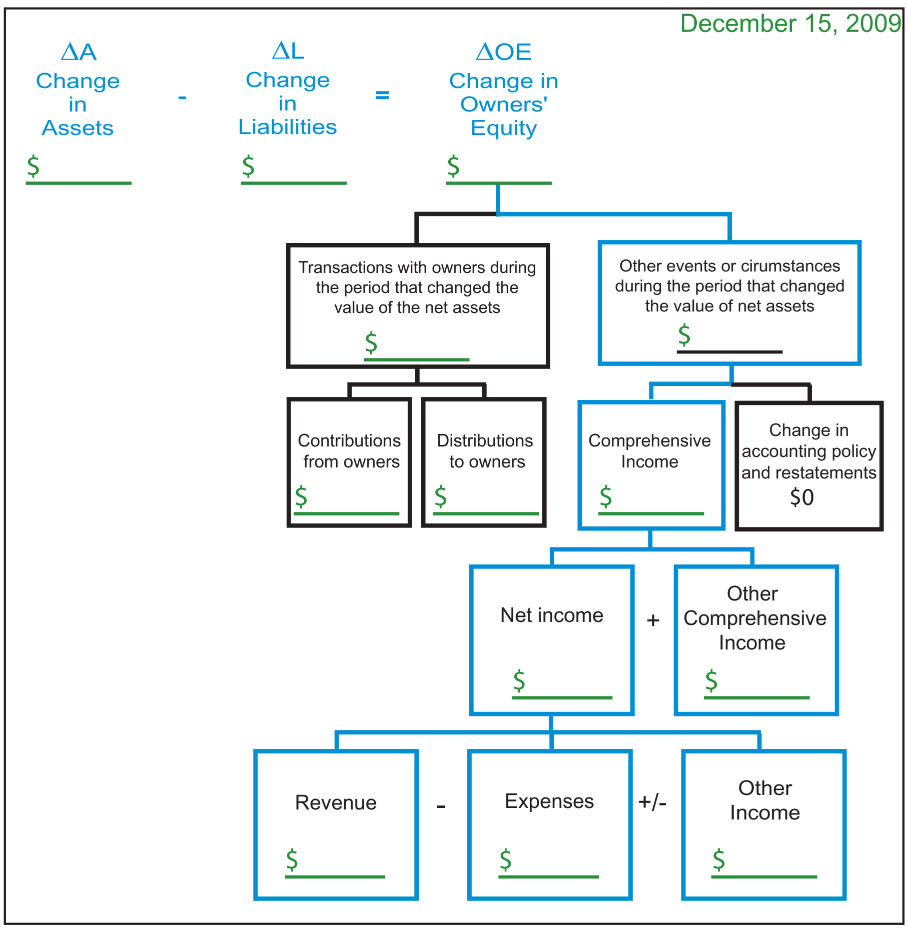
**Part II Facts**

- On December 15, 2009, a customer saw a dress at Perez Fashion that she wanted to purchase at a promotional price of $100. This price was scheduled to increase to its $125 regular price a few days later.
- Perez did not have her size in inventory at that time but guaranteed delivery by January 15, 2010. Additionally, Perez offered to sell it to her for $100 if she paid for it on December 15. She agreed to this arrangement.
- Perez did not satisfy the criteria to recognize revenue until it met its obligation to deliver the dress on January 15, 2010.
- Perez's fiscal year ends on December 31.
- Perez purchased the dress on account from a supplier for $40 on January 15, 2010 and delivered it to the customer later that day.
- Perez paid the $40 owed to the supplier on January 31, 2010.




**Question for each date**

Fill in the blanks. Indicate the amount by which the item was affected on December 15, 2009.



**Part II Facts**

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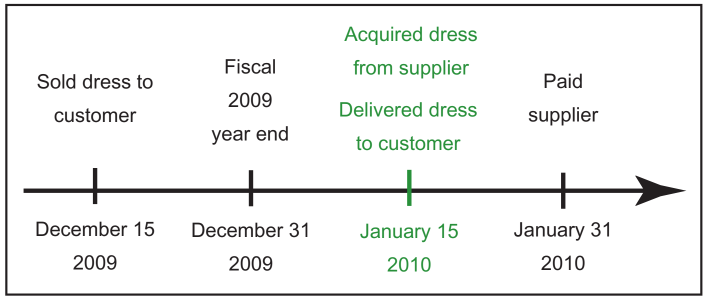
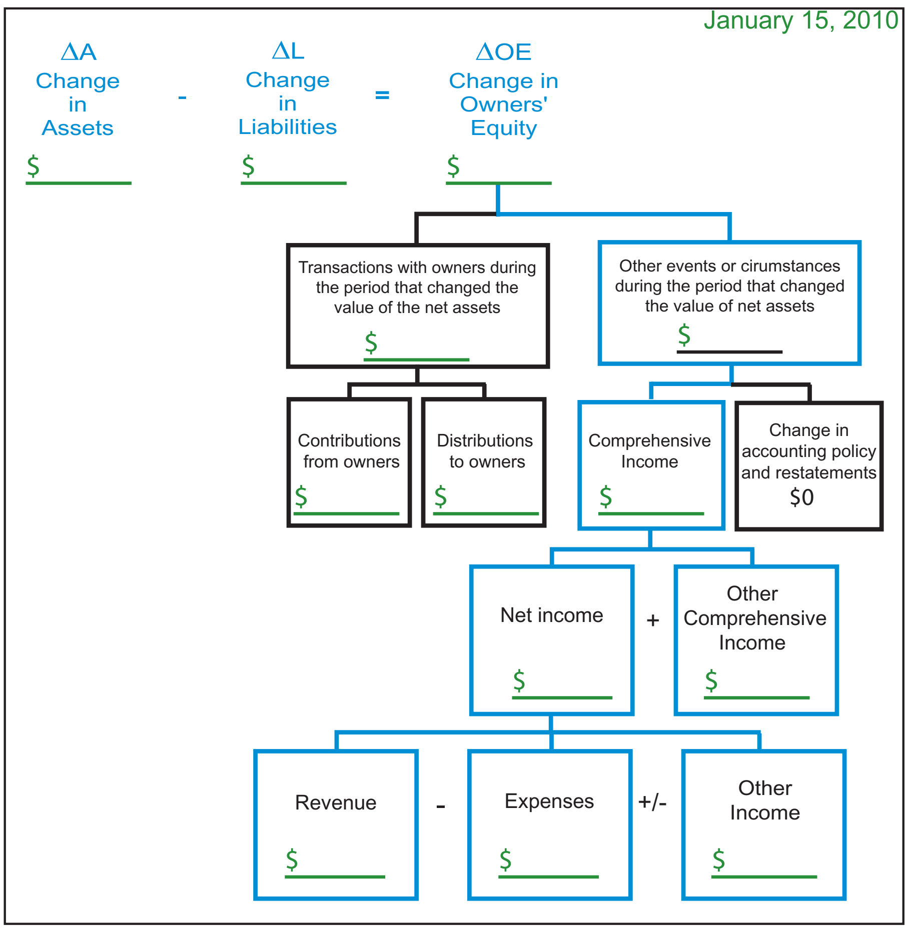



**Question for each date**

Fill in the blanks. Indicate the amount by which the item was affected on January 15, 2010.



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- Perez did not satisfy the criteria to recognize revenue until it met its obligation to deliver the dress on January 15, 2010.
- Perez's fiscal year ends on December 31.
- Perez purchased the dress on account from a supplier for $40 on January 15, 2010 and delivered it to the customer later that day.
- Perez paid the $40 owed to the supplier on January 31, 2010.


**Question for each date**

Fill in the blanks. Indicate the amount by which the item was affected on January 31, 2010.