SOLUTIONS

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

(Perez)

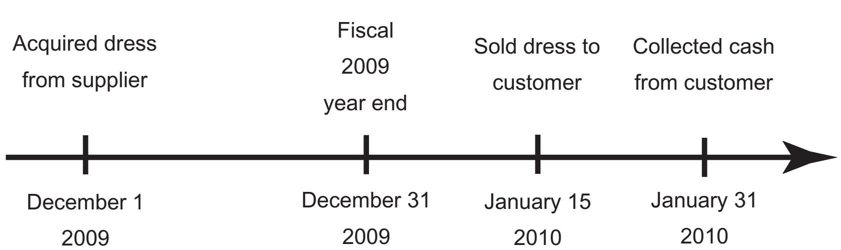
This exercise helps you connect the changes in owner's equity to the events behind income statements and balance sheets.

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.

Answers: See the illustrations on the following pages.

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

Perez met its revenue recognition criteria on January 15th and recognized $100 of revenue.

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

Perez recognized $40 cost of sales expense on January 15th.

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

Perez recognized $60 gross profit (=$100 - $40).

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.

Answers: See the illustrations on the following pages.

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

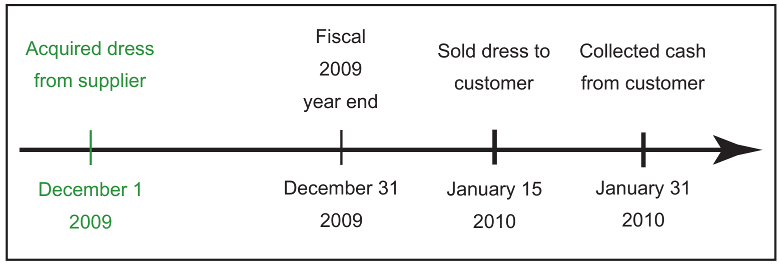
Perez met its revenue recognition criteria on January 15th and recognized $100 of revenue.

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

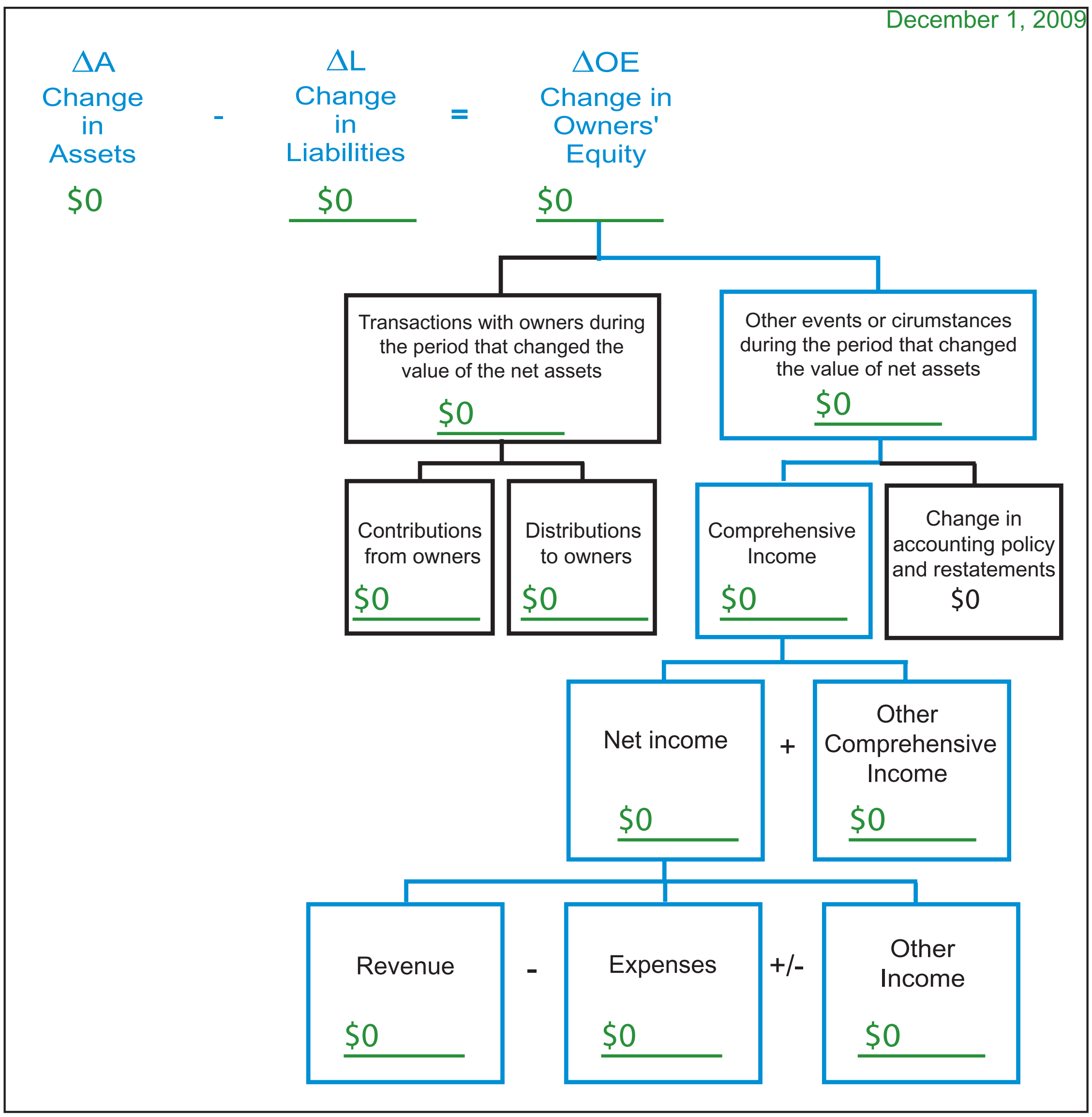
Perez recognized $40 cost of sales expense on January 15th.

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.



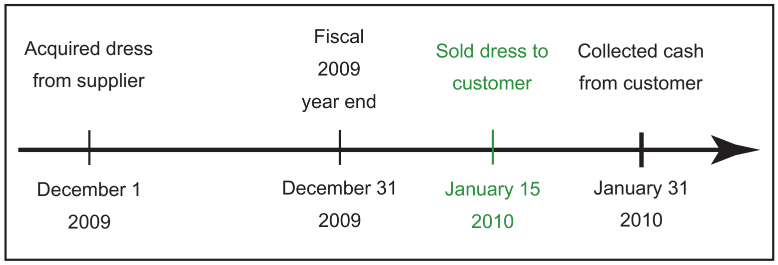
Question
Fill in the blanks. Indicate the amount by which the item was affected on December 1, 2009.



No change in net assets: the $40 increase in inventory is offset by the $40 decrease in cash.

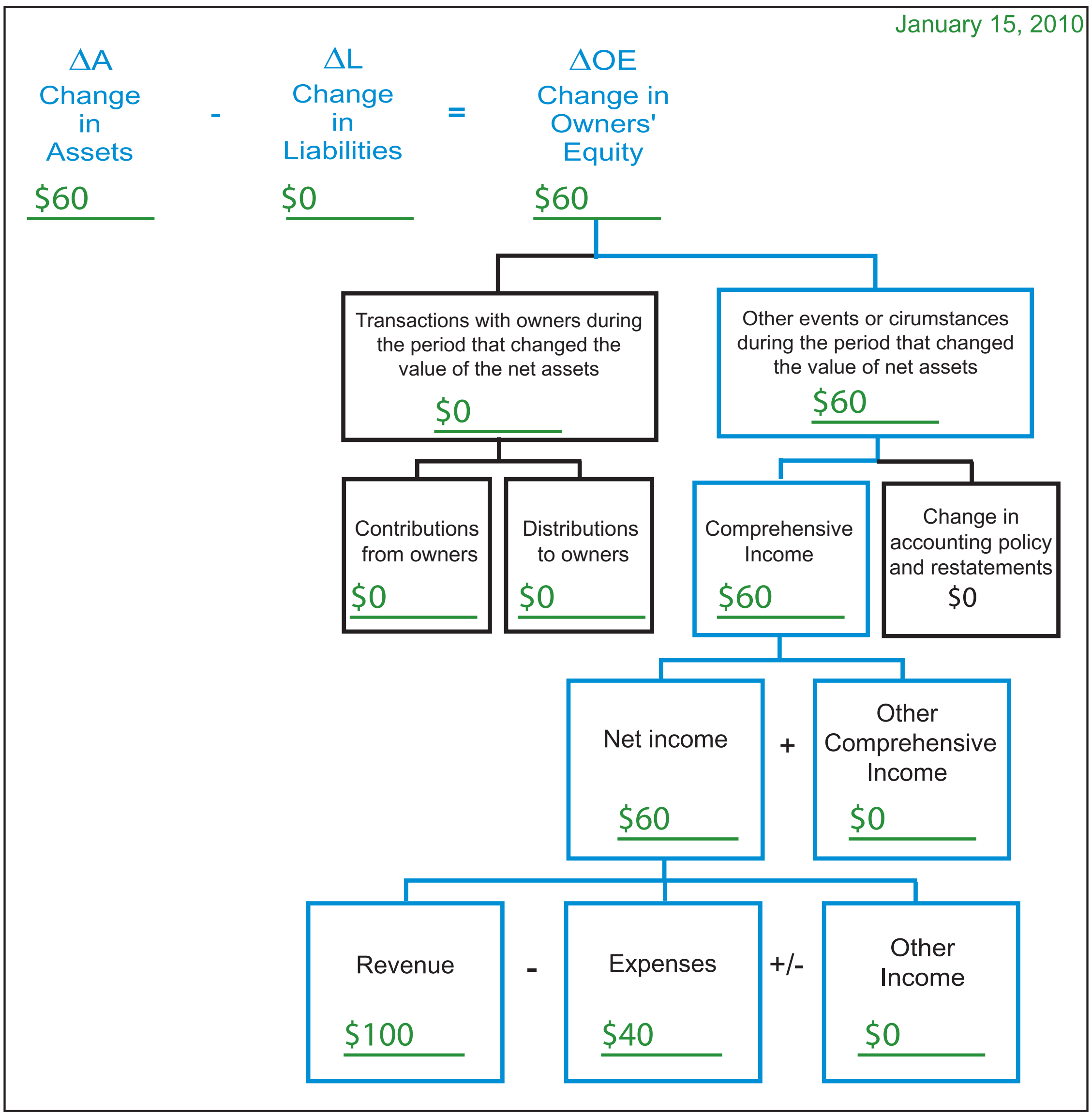
Part I Facts

- 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

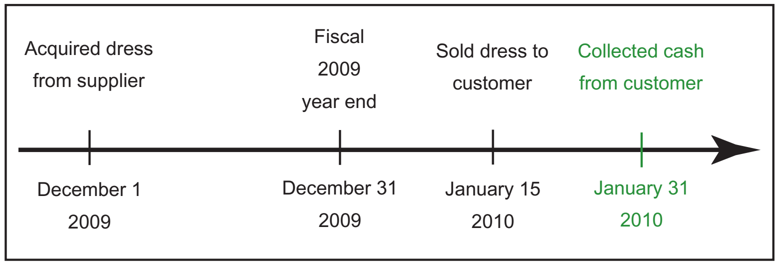
Fill in the blanks. Indicate the amount by which the item was affected on January 15, 2010.



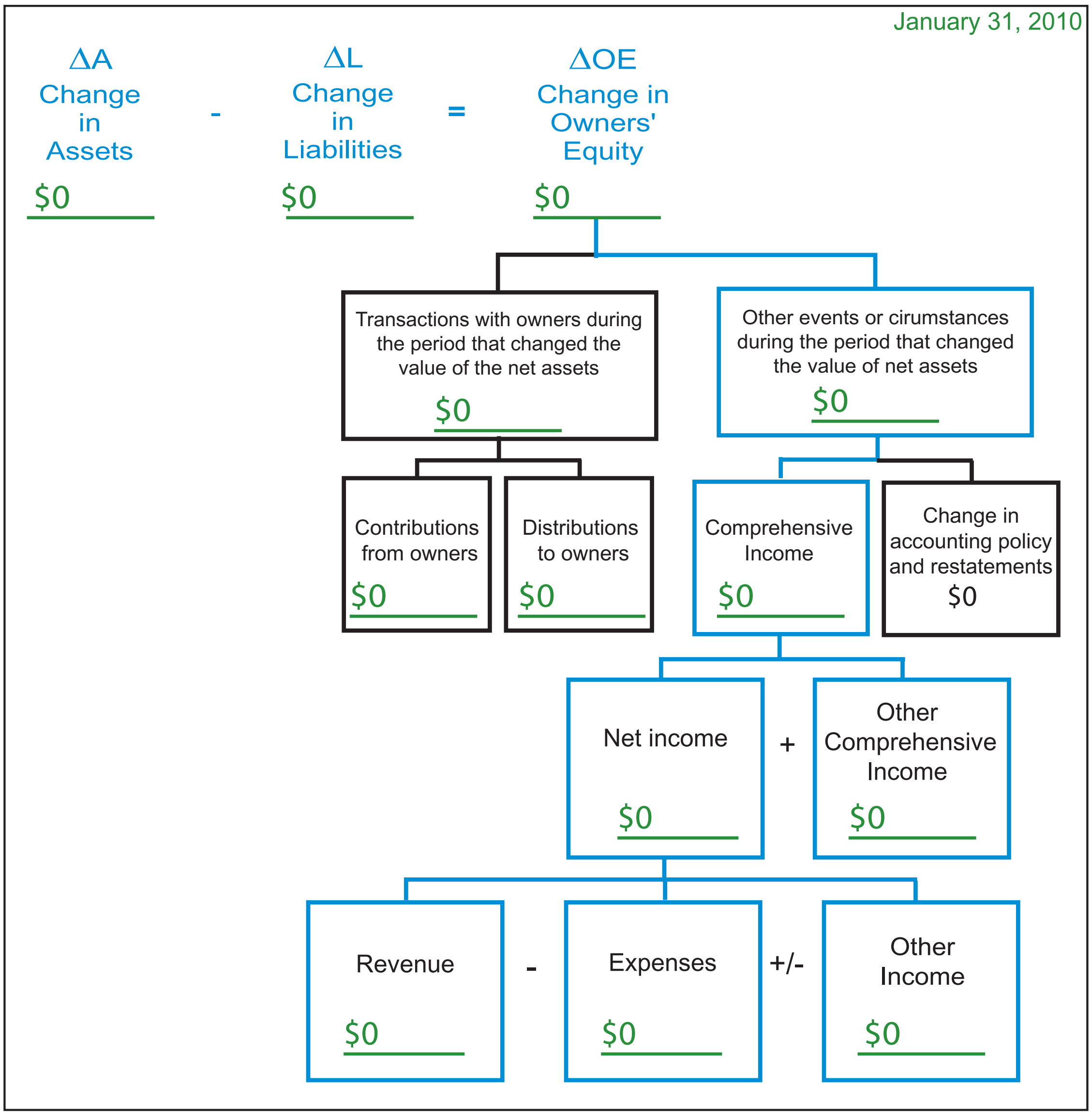
$60 change in net assets: $100 increase in accounts receivable is offset by $40 decrease in inventory.

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 31, 2010.



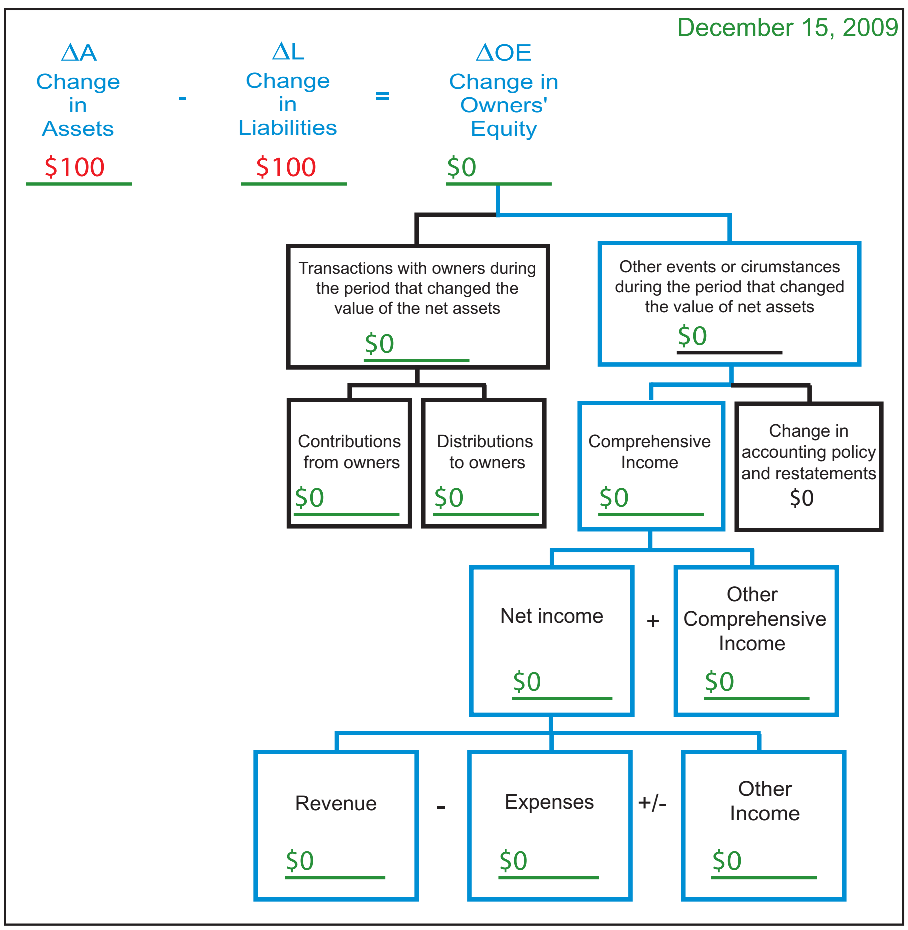
No change in net assets: the $100 increase in cash is offset by the $100 decrease in accounts receivable.

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

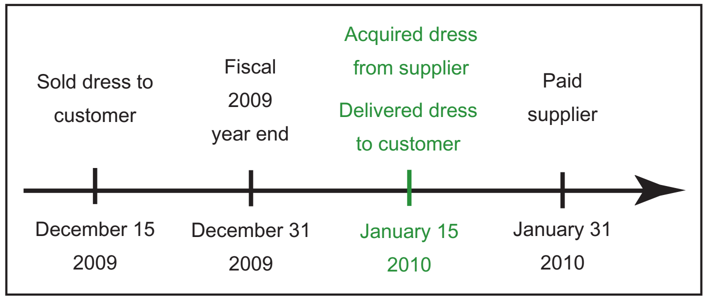
Fill in the blanks. Indicate the amount by which the item was affected on December 15, 2009.



No change in net assets: $100 increase in cash is offset by the $100 increase in deferred revenue liability.

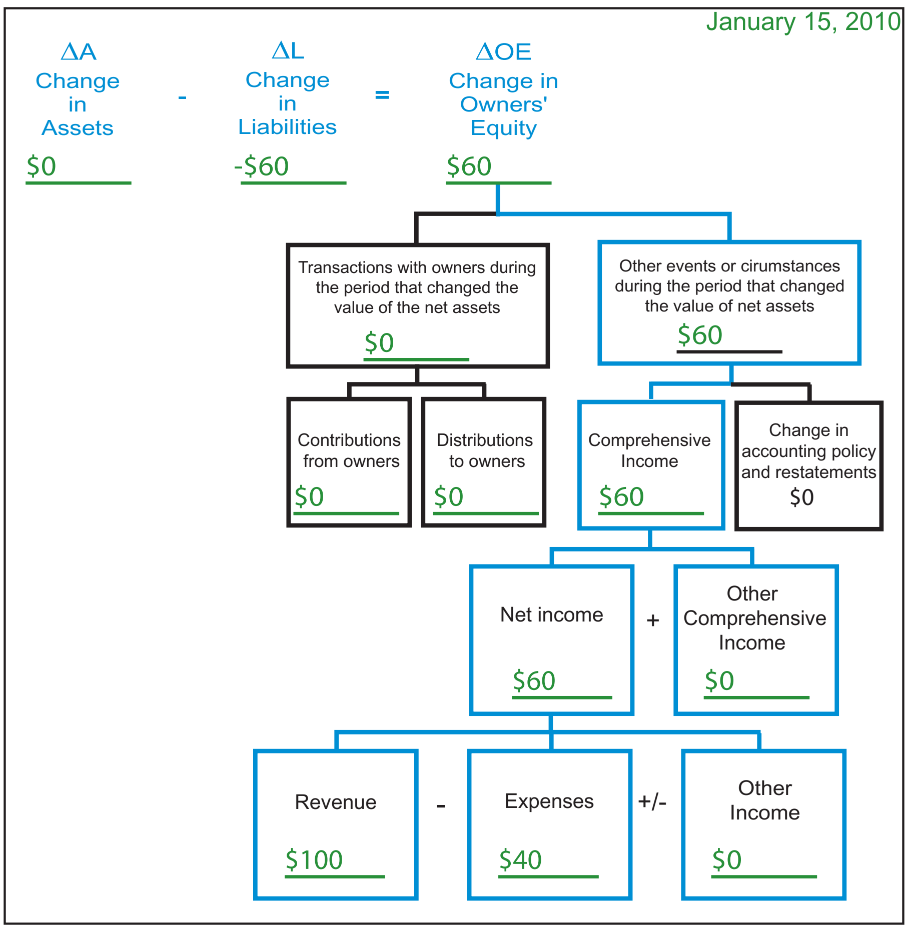
Part II Facts

- 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 January 15, 2010.



$0 change in assets: $40 increase in inventory when acquired is immediately offset with $40 decrease in inventory when delivered.

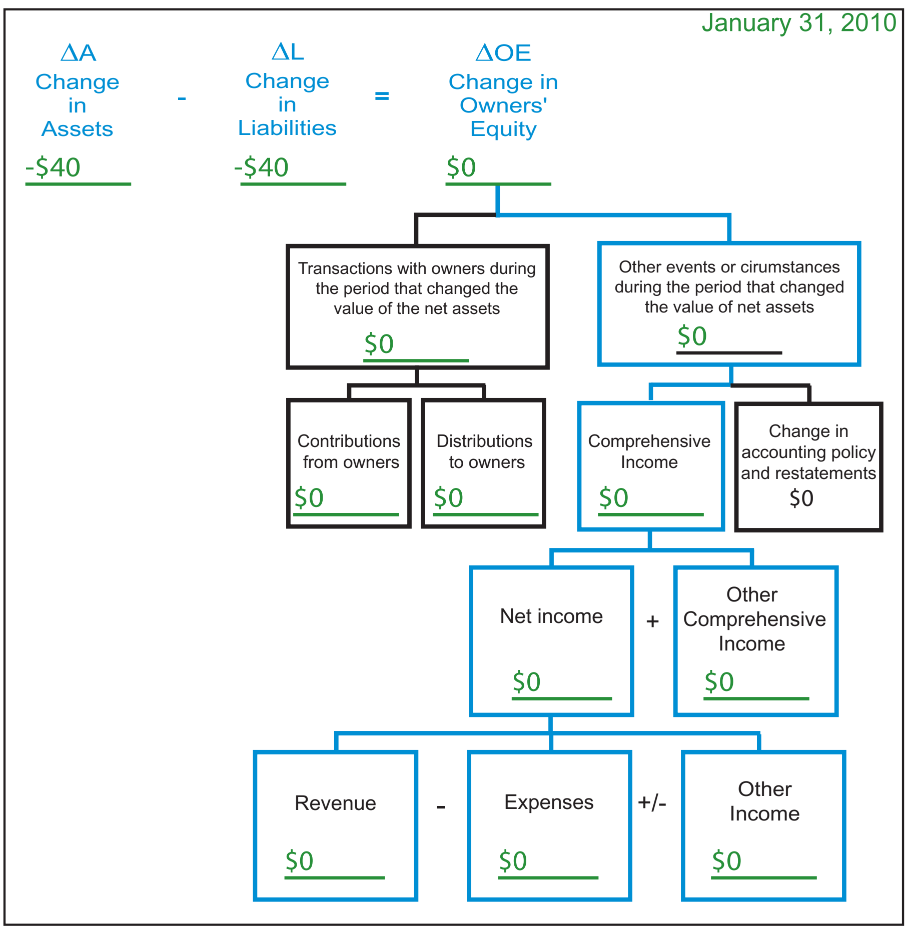
-$60 change in liabilities: $40 increase in accounts payable when inventory was acquired on account and $100 decrease in deferred revenue liability because Perez met its obligation to the customer.

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 January 31, 2010.



No change in net assets: $40 decrease in cash is offset by the $40 decrease in accounts payable.