CHAPTER 6

Accounting for retailing

CONTENTS

Problem 6.1 Journal entries — periodic inventory system

The following transactions relating to product MX-5023 occurred in March. Prepare journal entries to record the transactions assuming that a periodic inventory system is used. The beginning inventory on 1 March consisted of 970 units at $4 each.

March	1	Purchased 1500 units for $4 each on credit.
	7	Returned 30 units, which were defective.
	12	Sold 600 units on account for $8 each.
	24	A customer returned 16 units.
	25	Sold 625 units on account for $8 each.
	31	A physical inventory count shows 1220 units at a total cost of $4880.

The business closes its books at the end of each month.

Required:

A. Prepare entries to close the statement of financial performance accounts for March, based on the data just given, and assuming that operating expenses for March were $2900.

B. If a perpetual inventory system had been maintained, how much would the business have recorded as inventory lost or stolen?

Solution

General Journal

March	1	Purchases	6000	
		Accounts Payable		6000
		Purchased units on credit.		
	7	Accounts Payable	1200	
		Purchases Returns & Allowances		1200
		Returned defective units.		
	12	Accounts Receivable	4800	
		Sales		4800
		Sold 600 units at $8.		
	24	Sales Returns & Allowances	128	
		Accounts Receivable		128
		Customer returns 16 units at $8.		
	25	Accounts Receivable	5000	
		Sales		5000
		Sold 625 units at $8.		
	31	No journal entry required for stocktake balance of inventory.		

(*continued*)

A

General Journal
Closing entries

March 31	Profit and Loss Summary	12 908	
	Inventory (1 March)		3 880
	Purchases		6 000
	Sales Returns and Allowances		128
	Operating Expenses		2 900
	To close debit a/cs to Profit and Loss Summary.		
	Inventory 31 March	4 880	
	Purchases Returns and Allowances	1 200	
	Sales	9 800	
	Profit and Loss Summary		15 880
	To close credit to Profit and Loss Summary.		
	Profit and Loss Summary	2 972	
	Capital		2 972
	To transfer net profit to Capital a/c.		

B.

If a perpetual inventory system was in place the inventory shortage would be 11 units @ $4 or $44.

970 units @ $4 + 1500 units @ $4 – 30 units @ $4 – 600 units @ $4 + 16 units @ $4 – 625 units @ $4 = 1231 units @ $4

Physical count 1220 units @ $4 = $4 880

Under the perpetual inventory system a record of the number of inventory units at any time is maintained. Therefore, if a physical count is conducted this can be compared to the recorded number of units on hand.

If there is a discrepancy between the recorded units on hand and the counted units on hand, this is called inventory shortage and is recorded as part of cost of goods sold.

Problem 6.2 Journal entries involving discounts, closing entries and statements of financial performance – both perpetual and periodic inventory systems

Vision Lighting buys lamps for $40 each and sells them for $60 each. The business uses the gross price method to record purchases and sales. On 1 April 2003, 24 lamps were in inventory. Vision Lighting completed the following transactions during April.

April	3	Purchased 40 lamps on account. Terms: 2/10, n/30, FOB shipping point.
	4	Paid freight cost of $60 on 3 April purchase.
	5	Sold 22 lamps on account. Terms: 3/10, n/30, FOB destination. Paid freight cost of $27.
	9	Returned 10 of the lamps purchased on 3 April and paid the amount due on the lamps retained in stock.
	10	A customer returned 3 of the lamps sold on 5 April. The lamps were not defective and were returned to stock.
	13	Purchased 20 lamps on credit. Terms: 2/10, n/30, FOB shipping point.
	14	Received payment from customer for the amount due on 5 April sale.
	19	Sold 39 lamps for cash at $60 each.
	20	Four of the lamps sold on 19 April were returned by the customer for a cash refund. The lamps were not defective.
	22	Paid the supplier the amount owed for the 13 April purchase.

A physical inventory taken on 30 April 2003 showed 20 lamps in stock.

Required:

A. In two columns, prepare general journal entries to record the transactions assuming:
   1. a perpetual inventory system is used
   2. a periodic inventory system is used.

B. Assuming Vision Lighting closes its books at month-end, prepare entries to close the accounts.

C. Prepare two separate statements of financial performance showing gross and net profit for April, assuming that:
   1. the perpetual inventory system was used
   2. the periodic inventory system was used.

Solution

A

VISION LIGHTING

Date	1. Perpectual	Dr	Cr	2. Periodic	Dr	Cr
April 3	Inventory	1 600		Purchases	1 600	
	Accounts Payable		1 600	Accounts Payable		1 600
4	Freight Inwards	60		Freight Inwards	60	
	Cash at Bank		60	Cash at Bank		60
5	Accounts Receivable	1 320		Accounts Receivable	1 320	
	Sales		1 320	Sales		1 320
	Cost of Goods Sold	880				
	Inventory		880			
	Freight Outwards	27		Freight Outwards (selling exp)	27	
	Cash at Bank		27	Cash at Bank		27
9	Accounts Payable	400		Accounts Payable	400	
	Inventory		400	Purchases Retns. and Allowances		400
	Accounts Payable (30 × $40)	1 200		Accounts Payable	1 200	
	Discount Received		24	Discount Received		24
	Cash at Bank		1 176	Cash at Bank		1 176
10	Sales Returns and Allowances	180		Sales Returns and Allowances	180	
	Accounts Receivable		180	Accounts Receivable		180
	Inventory	120				
	Cost of Goods sold		120			
13	Inventory	800		Purchases	800	
	Accounts Payable		800	Accounts Payable		800
	Cash at Bank	1105.80		Cash at Bank	1105.80	
	Discount Allowed	34.20		Discount Allowed	34.20	
	Accounts Receivable (19 lamps × $60)		1 140	Accounts Receivable		1 140
19	Cash at Bank	2 340		Cash at Bank	2 340	
	Sales		2 340	Sales		2 340
	Cost of Goods Sold	1 560				
	Inventory		1 560			
20	Sales Returns and Allowances	240		Sales Returns and Allowances	240	
	Cash at Bank		240	Cash at Bank		240
	Inventory	160				
	Cost of Goods Sold		160			
22	Accounts Payable	800		Accounts Payable	800	
	Discount Received		16	Discount Received		16
	Cash at bank		784	Cash at bank		784

(*continued*)

B

April 30 Profit and Loss Summary 2701.20			Profit and Loss Summary 3901.20		
Sales Ret and Allow.		420	Inventory		960
Cost of Goods Sold		2 160	Sales Ret. and Allow.		420
Freight Inwards		60	Purchases		2 400
Freight Out		27	Freight Inwards		60
Discount Allowed		34.20	Freight Out		27
			Discount Allowed		34.20
Sales	3 660		Sales	3 660	
Discount Received	40		Purchases Ret. & Allow.	400	
Profit and Loss Summary		3 700	Inventory	800	
			Discount Received	40	
			Profit and Loss Summary		4 900
Profit and Loss Summary	998.80		Profit and Loss Summary	998.80	
Capital		998.80	Capital		998.80

C. 1. **Perpetual**

VISION LIGHTING
Statement of Financial Performance
for the month ended 30 April 2003

OPERATING REVENUE			
Gross sales revenue		$3 660	
Less: sales returns and allowances		420	
Net sales revenue		3 240	
Less: Cost of goods sold (2160 + 60)		2 220	
Gross profit		$1 020	
OPERATING EXPENSES			
Freight out	27.00		
Discount allowed	34.20	61.20	
		958.80	
Add: Discount received		40.00	
NET PROFIT			$998.80

2. **Periodic**

VISION LIGHTING
Statement of Financial Performance
for the month ended 30 April 2003

OPERATING REVENUE			
Gross sales revenue			$3 660
Less: Sales returns and allowances			420
Net sales revenue			3 240
Cost of goods sold:			
Beginning inventory		$960	
Add: Cost of purchases	$2 400		
Freight inwards	60		
	2 460		
Less: Purchases returns and allowances	400		
Cost of net purchases		2 060	
Cost of goods available for sale		3 020	
Less: Cost of ending inventory		800	
Cost of goods sold			2 220
GROSS PROFIT			$1 020
OPERATING EXPENSES			
Freight out	27.00		
Discount allowed	34.20		61.20
			958.80
Add: Discount received			40.00
NET PROFIT			$998.80

Problem 6.3 Worksheet and completion of accounting cycle – periodic inventory system

The unadjusted trial balance of Coronet Office Furniture is shown below.

CORONET OFFICE FURNITURE
Unadjusted Trial Balance
as at 30 June 2003

Account title	Debit	Credit
Cash at bank	$ 35 205	
Accounts receivable	46 815	
Inventory	88 950	
Prepaid insurance	5 100	
Office equipment	83 190	
Accumulated depreciation—office equipment		$ 18 900
Delivery van	24 750	
Accumulated depreciation—delivery van		6 420
Accounts payable		44 100
Loan payable, due December 2004		27 000
G. Simpson, Capital		150 000
G. Simpson, Drawings	57 000	
Sales		584 220
Sales returns and allowances	10 950	
Purchases	306 450	
Purchases returns and allowances		9 600
Discount received		1 470
Freight inwards	6 525	
Freight outwards	3 000	
Salaries expense—sales	54 000	
Sales commissions expense	16 500	
Rent expense—store	69 750	
Salaries expense—administrative	29 250	
Discount allowed	1 725	
Interest expense	2 550	
	$ 841 710	$ 841 710

Required:

A. Prepare a worksheet for Coronet Office Furniture. Use the following information to make year-end adjustments.
   1. $3600 of the prepaid insurance has expired during the year.
   2. Depreciation on the office equipment was $5940 for the year.
   3. Depreciation on the delivery truck was $3015 for the year.
   4. Accrued interest on the loan payable is $803.

   Use the following additional accounts for making adjustments: Interest Payable, Depreciation Expense—Office Equipment, Depreciation Expense—Van, and Insurance Expense. The ending inventory determined by a physical count was $71 085.

B. Prepare a statement of financial performance, a statement of owner's equity, and a classified statement of financial position for the year ended 30 June 2003. Expired insurance is reported as an administrative expense.

C. Prepare adjusting and closing entries.

Solution

A.

CORONET OFFICE FURNITURE
Worksheet for the year ended 30 June 2003

	Unadjusted trial balance		Adjustments		Adjusted trial balance		Statement of Financial Performance		Statement of Financial Position	
Account title	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash at Bank	35 205				35 205				35 205	
Accounts Receivable	46 815				46 815				46 815	
Inventory (1/7)	88 950				88 950		88 950	71 085	71 085	
Prepaid Insurance	5 100			(1) 3 600	1 500				1 500	
Office Equipment	83 190				83 190				83 190	
Acc. Depr. Office Equip.		18 900		(2) 5 940		24 840				24 840
Delivery Truck	24 750				24 750				24 750	
Acc. Depr. - Del. Van		6 420		(2) 3 015		9 435				9 435
Accounts Payable		44 100				44 100				44 100
Loan Payable		27 000				27 000				27 000
G. Simpson, Capital		150 000				150 000				150 000
G. Simpson, Drawings	57 000				57 000				57 000	
Sales		584 220				584 220		584 220		
Sales Returns & Allow	10 950				10 950		10 950			
Purchases	306 450				306 450		306 450			
Purchases Ret. & Allow		9 600				9 600		9 600		
Discount Received		1 470				1 470		1 470		
Freight Inwards	6 525				6 525		6 525			
Freight Outwards	3 000				3 000		3 000			
Salaries Expense – sales	54 000				54 000		54 000			
Sales Commissions Expense	16 500				16 500		16 500			
Rent Expense – store	69 750				69 750		69 750			
Salaries Expense - admin	29 250				29 250		29 250			
Discount Allowed	1 725				1 725		1 725			
Interest Expense	2 550		(4) 803		3 353		3 353			
	841 710	841 810								
Insurance Expense			(1) 3 600		3 600		3 600			
Depr. Exp. – Office Equip.			(2) 5 940		5 940		5 940			
Depr.Exp – Del. Van			(2) 3 015		3 015		3 015			
Interest Payable				(3) 803		803				803
			13 358	13 358	851 468	851 468				
							603 008	666 375	319 545	256 178
Net profit							63 367			63 367
							666 375	666 375	319 545	319 545

B.

CORONET OFFICE FURNITURE
Statement of Financial Performance
for the year ended 30 June 2003

OPERATING REVENUE			
Gross sales revenue			$584 220
Less: Sales returns and allowances			10 950
Net sales revenue			573 270
Cost of goods sold:			
Beginning inventory		$88 950	
Purchases	$306 450		
Freight inwards	6 525		
	312 975		
Less: Purchases returns & allowances	9 600		
Net cost of purchases		303 375	
Cost of goods available for sale		392 325	
Less: ending Inventory		71 085	
Cost of goods sold			321 240
GROSS PROFIT			252 030
Other operating revenue: Discount received			1 470
			253 500
OPERATING EXPENSES			
Selling expenses:			
Sales salaries expense	54 000		
Sales commissions expense	16 500		
Rent expense – store	69 750		
Freight outwards	3 000		
Depr. exp. – store equipment	5 940		
Depr. exp. – delivery van	3 015	152 205	
Administrative expenses:			
Office salaries expense	29 250		
Insurance expense	3 600	32 850	
Financial expenses:			
Interest expense	3 353		
Discount allowed	1 725	5 078	190 133
NET PROFIT AFTER TAX			$63 367

CORONET OFFICE FURNITURE
Statement of Owner's Equity
for the year ended 30 June 2003

G.Simpson, Capital – 1 July 2002	$150 000
Net profit for the year	63 367
	213 367
Less G.Simpson, Drawings	57 000
Retained profits – 30 June 2003	$156 367

(*continued*)

CORONET OFFICE FURNITURE
Statement of Financial Position
as at 30 June 2003

CURRENT ASSETS:		
Cash at bank	$35 205	
Accounts receivable	46 815	
Inventory	71 085	
Prepaid insurance	1 500	$154 605
NON-CURRENT ASSETS:		
Office equipment	83 190	
Less: Accumulated depreciation	(24 840)	58 350
Delivery van	24 750	
Less: Accumulated depreciation	(9 435)	15 315
TOTAL ASSETS		228 270
CURRENT LIABILITIES:		
Accounts payable	44 100	
Interest payable	803	44 903
NON-CURRENT LIABILITIES:		
Loan Payable		27 000
TOTAL LIABILITIES		71 903
NET ASSETS		$156 367
OWNER'S EQUITY		
G.Simpson, Capital	156 367	
		156 367
TOTAL OWNER'S EQUITY		$156 367

C.

General Journal
Adjusting entries

1.	Insurance Expense	3 600	
	Prepaid Insurance		3 600
	To adjust for expired insurance.		
2.	Depr. Expense - Office Equipment	5 940	
	Accum. Depr. – Office Equip.		5 940
	To depreciate store equipment.		
3.	Depr. Expense - Delivery Van	3 015	
	Accum. Depr. - Delivery Van		3 015
	To depreciate delivery van.		
4.	Interest Expense	803	
	Interest Payable		803
	To record accrued interest on bill.		

(*continued*)

Closing entries

Profit and Loss Summary	603 008	
Inventory 1 April		88 950
Sales Returns and Allowances		10 950
Purchases		306 450
Freight Inwards		6 525
Freight Outwards		3 000
Sales Salaries Expense		54 000
Sales Commissions Expense		16 500
Salaries expense – Admin		29 250
Rent expense – store		69 750
Insurance Expense		3 600
Depr. Expense – Office Equipment		5 940
Depr. Expense – Delivery Van		3 015
Interest Expense		3 353
Discount Allowed		1 725
To close debit accounts.		
Inventory 30 April	71 085	
Sales	584 220	
Purchases Returns and Allowances	9 600	
Discount Received	1 470	
Profit & Loss Summary		666 375
To close credit accounts.		
Profit and Loss Summary	63 367	
G. Simpson, Capital		63 367
To close net profit to capital a/c.		
G. Simpson, Capital	57 000	
G. Simpson, Drawings		57 000
To close drawings to capital a/c.		

Problem 6.4 Worksheet and completion of accounting cycle – perpetual inventory system

The unadjusted trial balance of Hayden's Sporting Goods is shown below:

HAYDEN'S SPORTING GOODS
Unadjusted Trial Balance
as at 30 June 2003

Account title	Debit	Credit
Cash at bank	$ 21 900	
Accounts receivable	26 230	
Inventory	47 930	
Prepaid insurance	2 400	
Store equipment	29 060	
Accumulated depreciation—store equipment		$ 11 560
Delivery van	19 800	
Accumulated depreciation—delivery van		4 100
Accounts payable		12 780
Bill payable		15 000
Simon Hayden, Capital		78 620
Simon Hayden, Drawings	21 780	
Sales		357 960
Sales returns and allowances	14 610	
Discount received		1 070
Cost of goods sold	198 010	
Freight inwards	4 120	
Discount allowed	1 800	
Interest expense	2 130	
Freight outwards	2 000	
Sales salaries expense	43 100	
Office salaries expense	46 220	
	$481 090	$481 090

Required:

A. Prepare a worksheet for Hayden's Sporting Goods. Use the following information to make the year-end adjustments.
   1. Prepaid insurance expired during the year, $1700.
   2. Depreciation on the store equipment, $4100; and on delivery van, $3300.
   3. Accrued interest on the bill payable, $980.

B. Prepare a statement of financial performance, a statement of owner's equity and a statement of financial position for the year ended 30 June 2003.

C. Prepare adjusting and closing entries.

D. Prepare a post-closing trial balance.

Solution

A.

HAYDEN'S SPORTING GOODS
Worksheet for the year ended 30 June 2003

Account title	Unadjusted trial balance		Adjustments		Adjusted trial balance		Statement of financial performance		Statement of financial position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash at Bank	21 900				21 900				21 900	
Accounts Receivable	26 230				26 230				26 230	
Inventory	47 930				47 930				47 930	
Prepaid Insurance	2 400			(1) 1 700	700				700	
Store Equipment	29 060				29 060				29 060	
Accum. Depreciation – Store Equipment		11 560		(2) 4100		15 660				15 660
Delivery van	19 800				19 800				19 800	
Accum. Depr – Delivery Van		4 100		(2) 3 300		7 400				7 400
Accounts Payable		12 780				12 780				12 780
Bill payable		15 000				15 000				15 000
Simon Hayden, Capital		78 620				78 620				78 620
Simon Hayden, Drawings	21 780				21 780				21 780	
Sales		357 960				357 960		357 960		
Sales Returns & Allow.	14 610				14 610		14 610			
Discount Received		1 070				1 070		1 070		
Cost of Goods Sold	198 010				198 010		198 010			
Freight Inwards	4 120				4 120		4 120			
Discount Allowed	1 800				1 800		1 800			
Interest Expense	2 130		(3) 980		3 110		3 110			
Freight Outwards	2 000				2 000		2 000			
Sales Salaries Expense	43 100				43 100		43 100			
Office Salaries Expense	46 220				46 220		46 220			
	481 090	481 090								
Depr. Exp. – Store Equip.			(2) 4 100		4 100		4 100			
Depr. Exp. – Delivery Van			(2) 3 300		3 300		3 300			
Insurance Expense			(1) 1 700		1 700		1 700			
Interest Payable				(3) 980		980				980
			10 080	10 080	489 470	489 470	322 070	359 030		130 440
Net profit							36 960			36 960
							359 030	359 030	167 400	167 400

WILEY

B.

HAYDEN'S SPORTING GOODS
Statement of Financial Performance
for the year ended 30 June 2003

OPERATING REVENUE			
Gross sales revenue			$357 960
Less: Sales returns and allowances			14 610
Net sales revenue			343 350
Cost of goods sold (198 010 + 4 120)			202 130
GROSS PROFIT			141 220
Other operating revenue: Discount received			1 070
			142 290
OPERATING EXPENSES			
Selling expenses:			
Freight outwards	$2 000		
Sales salaries expense	43 100		
Depr. exp. – store equip	4 100		
Depr. exp. – delivery van	3 300	$52 500	
Administrative expenses:			
Office salaries expense	46 220		
Insurance expense	1 700	47 920	
Financial expenses:			
Interest expense	3 110		
Discount allowed	1 800		
		4 910	105 330
Net profit			$36 960

HAYDEN'S SPORTING GOODS
Statement of Owner's Equity
for the year ended 30 June 2003

S. Hayden, Capital – 1 July 2002	$78 620
Net profit	36 960
	115 580
Less: S. Hayden, Drawings	21 780
S. Hayden, Capital – 30 June 2003	$93 800

HAYDEN'S SPORTING GOODS
Statement of Financial Position
as at 30 June 2003

CURRENT ASSETS:			
Cash at Bank	$21 900		
Accounts receivable	26 230		
Inventory	47 930		
Prepaid insurance	700		$96 760
NON-CURRENT ASSETS:			
Store equipment	29 060		
Less: Accumulated depreciation	15 660	13 400	
Delivery van	19 800		
Less: Accumulated depreciation	7 400	12 400	
		25 800	
TOTAL ASSETS:			122 560
CURRENT LIABILITIES:			
Accounts payable	12 780		
Interest payable	980		
TOTAL CURRENT LIABILITIES		13 760	
NON-CURRENT LIABILITIES:			
Bill payable	15 000		
TOTAL NON-CURRENT LIABILITIES		15 000	
TOTAL LIABILITIES			28 760
NET ASSETS			$93 800
OWNER'S EQUITY:			
S. Hayden, Capital			93 800
TOTAL OWNER'S EQUITY			$93 800

C.

General Journal
Adjusting entries

1.	Insurance Expense	1 700	
	Prepaid Insurance		1 700
	To record insurance expired.		
2.	Depreciation Expense - Store Equipment	4 100	
	Accumulated Depreciation - Store Equipment		4 100
	To adjust for depreciation on store equip.		
	Depreciation Expense – Del. Van	3 300	
	Accumulated Depreciation – Del. Van		3 300
	To adjust for depreciation on store equip.		
3.	Interest Expense	980	
	Interest Payable		980
	To record accrued interest on bill payable.		

General Journal
Closing entries

1.	Profit and Loss Summary		322 070
	Sales Returns and Allowances		4 120
	Cost of Goods Sold		198 010
	Freight Inwards		4 120
	Freight Outwards		2 000
	Sales Salaries Expense		43 100
	Office Salaries Expense		46 220
	Interest Expense		2 130
	Insurance Expense		1 700
	Depreciation Expense - Store Equipment		4 100
	Depreciation Expense - Del. Van		3 300
	Discount Allowed		1 800
	To close debit accounts.		
2.	Sales	357 960	
	Discount Received	1 070	
	Profit and Loss Summary		359 030
	To close credit accounts.		
3.	Profit and Loss Summary	36 960	
	S. Hayden, Capital		36 960
	To transfer net profit.		
4.	S. Hayden, Capital	21 780	
	S. Hayden, Drawings		21 780
	To transfer drawings to capital a/c.		

(*continued*)

D.

HAYDEN'S SPORTING GOODS
Post Closing Trial Balance
as at 30 June 2003

	Debit	**Credit**
Cash at bank	$21 900	
Accounts receivable	26 230	
Inventory	47 930	
Prepaid insurance	700	
Store equipment	29 060	
Accum. depr. - store equipment		$15 660
Delivery van	19 800	
Accum depr. – delivery van		7 400
Accounts payable		12 780
Interest payable		980
Bill payable		15 000
Simon Hayden, Capital		93 800
	$145 620	$145 620

Problem 6.5 Profitability analysis

The following data have been extracted from the profit and loss statement of Trendy Electronics Store Ltd, retailers of Homeburg:

	2003	2002
Net sales	$392 000	$357 000
Cost of goods sold	266 560	225 500
Net profit	78 400	89 600
Inventory	60 000	50 000

Required:

A. Calculate the gross profit ratio, profit margin, and operating expenses to sales for the years 2002 and 2003.

B. Assuming that the merchandise inventory at the beginning of 2002 is $44 000, calculate the inventory turnover for 2002 and 2003.

C. Advise management on any trends in these ratios, and any actions you consider necessary.

Solution

A. & B.

	2003	2002
Gross profit	$125 440	$131 500
Gross profit ratio	32%	37%
Profit Margin	20%	25%
Operating expenses	$47 040	$41 900
Operating exp. to net sales	12%	11.7%
Inventory turnover	4.8 times	4.8 times

C.

There was a decline in the gross profit margin from 37% to 32%. Even though total net sales increased in absolute dollars the corresponding gross profit on those net sales decreased. This was due to the reported increase in cost of goods sold. So even though there was an increase in total net sales this increase resulted in an increased cost in selling those items.

The profit margin also decreased from 25% to 20%. This was caused through lower gross profit figures and an increase in operating expenses from $41 900 to $47 040. Again the increased sales activity resulted in higher operating costs.

Operating expenses to sales percentage and inventory turnover ratios remained the same. Therefore operating expenses did not increase at too large a rate compared with net sales and the times inventory purchased and sold were the same for both accounting cycles.

Recommendations are to negotiate better prices for inventory bought for resale. Even though sales increased in absolute dollars, we were not able to achieve the same gross profit margin. There is a necessity to reduce cost of goods sold expense. This would be achieved by negotiating lower prices for larger inventory purchases.