The cost of gold sold for the 1,400 units during the month of July.

500 @ $20 = 10000

800 @ $24 =19200

100 @ $26 = 2600

Total Cost of gold sold 31800

**Answer to Q2:**

1- Explain the purpose of the acid-test ratio.

The acid-test ratio is a more stringent measure than the current ratio. We calculate the ratio by dividing quick assets by current liabilities. Quick assets include cash, marketable securities, current accounts and notes receivable. You can see that Norton’s only quick assets are cash and accounts receivable.

2- Calculate the acid-test ratio for ALPHA Company

acid-test ratio = **Quick assets**

  **Current liabilities**

 **Quick assets**

|  |  |
| --- | --- |
| Cash | $ 52,000 |
| Short-term investments | 12,000 |
| Accounts receivable | 54,000 |
| Inventory | (325,000) |
| Prepaid expenses | 17,500)) |
|  Total Quick assets  | 224500 |

**Current liabilities**

|  |  |
| --- | --- |
| Accounts payable | 106,500 |
| Other current payables | 25,000 |
| Total Current liabilities | 131500 |

acid-test ratio = **Quick assets**

  **Current liabilities**

224500/131500 = 1.70 : 1

**Answer to Q3:**

Prepare the required journal entries that Maia's Bike Shop must make to record these transactions.

|  |  |  |  |
| --- | --- | --- | --- |
| **Credit** | **Debit**  | **transactions** | **Date** |
| 600 | 600 | Account Receivable Sales Sold merchandise to a customer on credit | May 3 |
| 350 | 350 | Cost of goods sold Merchandise inventory | May 3 |
| 425 | 425 | Cash SalesSold merchandise to a customer for cash | May 4 |
| 250 | 250 | Cost of goods sold Merchandise inventory | May 4 |
| 1300 | 1300 | Account Receivable Sales | May 6 |
| 750 | 750 | Cost of goods sold Merchandise inventory | May 6 |
| 100 | 100 | Sales Return Account Receivable May3 | May 8 |
| 55 | 55 |  Merchandise inventory Cost of goods sold | May 8 |
| 1300 | 127226 | 1300\*2%= 26 discount1300-26 = 1272CashSales Discount Account Receivable  | May 15 |
| 500 | 49010 | 600-100= 500\*2/100=500-10=490CashSales Discount Account ReceivableReceived payment less discount | May 31 |

**Answer to Q4:**

What does FOB stand for? Differentiate between FOB shipping point (or FOB factory) and FOB destination?

FOB stands for “free on board” or “freight on board.” The shipping terms that follow “FOB” dictate who pays for shipping and when the ownership of goods is transferred. The FOB shipping terms have both legal and accounting implications for the buyer and seller.

Transportation costs are sometimes included in the cost of merchandise inventory. For example, when buyers pay transportation costs to get merchandise inventory to them, the transportation costs are included in the merchandise inventory cost.

FOB terms designate when title passes and who pays the transportation cost. FOB stands for free on board. So, if the shipping terms are free on board shipping point, that means that ownership transfers from the seller to the buyer when the seller provides the goods to the carrier. It also means that the buyer will pay the transportation cost.

On the other hand, if the shipping terms are free on board destination, that means that ownership transfers from the seller to the buyer when the buyer receives the goods. It also means that seller will pay the transportation cost.

So, if goods are shipped FOB shipping point, then the buyer owns the goods in transit and will pay the transportation costs. This transportation cost will be added to the Merchandise Inventory account.