

**Chapter 4: Activity 1: Recording Merchandising Transactions for the Buyer and Seller**

The following transactions occurred in November and December of 2023 between Purple Co. (Buyer) and Gray Company (Seller). Using a perpetual inventory system and the gross method as studied, prepare the journal entries for each. (Hint: Prepare t-accounts for each separate purchase/sale.)

1-Nov	Purple purchases \$1,000 of merchandise from Gray for cash. Gray's cost of the merchandise was \$700.
8-Nov	Purple purchases 3,000 of merchandise from Gray on credit, terms 2/10, n30. Gray's cost of the merchandise was \$2,100.
12-Nov	Purple purchases \$10,000 of merchandise from Gray on credit, terms 2/10, n30. Gray's cost of the merchandise was \$7,000.
14-Nov	Purple returns \$2,000 of the nondefective inventory purchased on Nov 12 because it was not the item ordered. Gray agrees to accept the return.
16-Nov	Purple pays Gray for the net amount due from the Nov. 8 purchase only. (Hint: Always consider any returns and discounts earned).
18-Nov	Purple pays Gray for the net amount due from the Nov. 12 purchase. (Hint: Always consider any returns and discounts earned).
2-Dec	Purple purchases \$2,000 of merchandise from Gray on credit, terms 1/10, n30. Purple agrees to pay for the shipping directly to UPS. The cost of the inventory was \$1,400.
2-Dec	Purple pays UPS cash of \$100 to ship the merchandise purchased on Dec. 2nd
4-Dec	Purple purchases \$3,000 from Gray, terms 1/10, n30. The gross margin on the inventory is the same for Gray as previous sales to Purple.
4-Dec	Gray pays UPS cash of \$120 to ship the Dec. 4th merchandise to Purple.
30-Dec	Purple pays Gray for both the Dec. 2nd and Dec. 4th purchases. (Note the date --are these payments within the discount periods?)

**Solution:**

Purple Company (Buyer)				Gray Company (Seller)			
Date	Account	Debit	Credit	Date	Account	Debit	Credit
1-Nov				1-Nov			
8-Nov				8-Nov			
					continue Nov 8th entries on the next page		

Purple Company (Buyer)			
Date	Account	Debit	Credit
8-Nov			
12-Nov			
14-Nov			
14-Nov			
16-Nov			
18-Nov			
2-Dec			

Gray Company (Seller)			
Date	Account	Debit	Credit
8-Nov			
12-Nov			
14-Nov			
14-Nov			
16-Nov			
18-Nov			
2-Dec			

Purple Company (Buyer)			
Date	Account	Debit	Credit
4-Dec			
4-Dec			
4-Dec			
30-Dec			

Gray Company (Seller)			
Date	Account	Debit	Credit
4-Dec			
4-Dec			
4-Dec			
30-Dec			