

Harold Frieze owns Euro Lighting, a lighting products store that specializes in energy efficient and aesthetically pleasing fixtures. Sales have grown rapidly due to recent consumer interest in reducing energy consumption for economic and environmental reasons.

Increased sales have brought new challenges. First, the "modern" styling of the fixtures looks great in the store, but consumers often find they clash with other fixtures once they take them home. This has brought about a high rate of return. Harold accepts returns of undamaged goods with original packaging.

Second, many of the fixtures are rather technical and require care when installing them. Customers frequently damage the products (and packaging) when attempting to do an installation. Harold does not accept such goods for return, but has established a policy of refunding a portion of the purchase price as an "allowance" for customers who complain of such problems.

(a) Prepare a journal entry for each of the following scenarios.

A customer purchased a lighting fixture for cash of €350.

A customer purchased a lighting fixture on account for €500.

A customer returned a lighting fixture for a cash refund of €275.

A customer returned a fixture for a credit on account of €600.

A complaining customer received a €100 allowance in cash.

A complaining customer received a €70 credit on account.

A customer paid their balance on account of €475.

(b) Calculate Euro Lighting's net sales and gross profit based on the following information, and show how such information would appear on the upper portion of the income statement for the year ending December 31, 20X3.

Gross sales, €760,000

Sales returns and allowances, €42,500

Cost of goods sold, €312,000