CHAPTER 5

ACCOUNTING FOR MERCHANDISING OPERATIONS

CHAPTER LEARNING OBJECTIVES

1. ***Identify the differences between service and merchandising companies.*** Because of inventory, a merchandising company has sales revenue, cost of goods sold, and gross profit. To account for inventory, a merchandising company must choose between a perpetual and a periodic inventory system.

2. ***Explain the recording of purchases under a perpetual inventory system.*** The company debits the Inventory account for all purchases of merchandise and, freight-in, and credits it for purchase discounts and purchase returns and allowances.

3. ***Explain the recording of sales revenues under a perpetual inventory system.*** When a merchandising company sells inventory, it debits Accounts Receivable (or Cash) and credits Sales Revenue for the **selling price** of the merchandise. At the same time, it debits Cost of Goods Sold and credits Inventory for the **cost** of the inventory items sold. Sales returns and allowances and sales discounts are debited.

4. ***Explain the steps in the accounting cycle for a merchandising company.*** Each of the required steps in the accounting cycle for a service company applies to a merchandising company. A worksheet is again an optional step. Under a perpetual inventory system, the company must adjust the Inventory account to agree with the physical count.

5. ***Prepare an income statement for a merchandiser.*** The income statement usually has the following components: sales revenues, cost of goods sold, gross profit, operating expenses, other income and expense, and interest expense.

[a]6. ***Prepare a worksheet for a merchandising company.*** The steps in preparing a worksheet for a merchandising company are the same as for a service company. The unique accounts for a merchandising company are Inventory, Sales Revenue, Sales Returns and Allowances, Sales Discounts, and Cost of Goods Sold.

[a]7. ***Explain the recording of purchases and sales of inventory under a periodic inventory system.*** In recording purchases under a periodic system, companies must make entries for (a) cash and credit purchases, (b) purchase returns and allowances, (c) purchase discounts, and (d) freight costs. In recording sales, companies must make entries for (a) cash and credit sales, (b) sales returns and allowances, and (c) sales discounts.

TRUE-FALSE STATEMENTS

1. Retailers and wholesalers are both considered merchandisers.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

2. The steps in the accounting cycle are different for a merchandising company than for a service company.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

3. Companies using International Financial Reporting Standards (IFRS) use a perpetual inventory system, while companies using U.S. GAAP use a periodic inventory system.

Ans: F, LO: 1, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

4. Companies using a perpetual inventory system record credit purchases of inventory on the statement of financial position by increasing inventory and decreasing liabilities.

Ans: F, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. Companies using a perpetual inventory system record all credit purchases on the statement of financial position by increasing inventory and increasing liabilities.

Ans: F, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

6. Global Care uses a perpetual inventory system and purchased wheelchairs under terms FOB destination. The freight charges associated with the wheelchairs will be added to the inventory account on Global Care's statement of financial position.

Ans: F, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

7. When the buyer pays an invoice within the discount period, the amount of the discount increases the merchandise inventory account reported on the statement of financial position.

Ans: F, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

8. Inventory purchased for $2,500 subject to terms 2/10, net 30 could end up being reported on the statement of financial position at an amount greater than $2,500 if the discount isn't taken by the buyer.

Ans: F, LO: 2, Bloom: K, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

9. Purchase returns are recorded by the buyer as a decrease to inventory on the statement of financial position.

Ans: T, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

10. Under a perpetual inventory system, the cost of goods sold is determined each time a sale occurs.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

11. A periodic inventory system requires a detailed inventory record of inventory items.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

12. Freight terms of FOB Destination means that the seller pays the freight costs.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

13. Freight costs incurred by the seller on outgoing merchandise are an operating expense to the seller.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

14. Sales revenues are earned during the period cash is collected from the buyer.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. The Sales Returns and Allowances account and the Sales Discounts account are both classified as expense accounts.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

16. The revenue recognition principle applies to merchandisers by recognizing sales revenues when they are earned.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

17. Sales allowances and sales discounts are both designed to encourage customers to pay their accounts promptly.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

18. To grant a customer a sales return, the seller credits Sales Returns and Allowances.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

19. Sales returns and allowances is reported on the statement of financial position as a contra account to cost of goods sold.

Ans: F, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

20. Sales of $2,500 subject to terms 2/10, net 30 could end up being reported on the statement of financial position as an account receivable at an amount greater than $2,500 if the discount isn't taken by the buyer.

Ans: F, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

21. When goods are returned, the seller reduces the account receivable and increases the merchandise inventory accounts reported on the statement of financial position.

Ans: T, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

22. When goods are returned, the seller records the returned merchandise at its market value on the statement of financial position.

Ans: F, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

23. Closing entries impact the income statement but do not have an impact on the statement of financial position.

Ans: F, LO: 4, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

24. Under International Financial Reporting Standards (IFRS) use of a worksheet by a merchandising company is strictly optional.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

25. A company's unadjusted balance in Inventory will usually not agree with the actual amount of inventory on hand at year-end.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

26. For a merchandising company, all accounts that affect the determination of income are closed to the Income Summary account.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

27. A merchandising company has different types of adjusting entries than a service company.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

28. Net sales is sales revenue less sales returns and allowances and sales discounts.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

29. Other income and expense excludes revenues and expenses that are unrelated to the company's main line of operations.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

30. Operating expenses are different for merchandising and service companies.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

31. Merchandise inventory is classified as a current asset in a classified statement of financial position.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

32. Gain on sale of equipment and interest expense are reported under other income and expense in a merchandiser income statement.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

33. If net sales are $800,000 and cost of goods sold is $600,000, the gross profit rate is 25%.

Ans: T, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

34. Gross profit represents the merchandising profit of a company.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

35. Gross profit rate is computed by dividing cost of goods sold by net sales.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

36. Under International Financial Reporting Standards (IFRS) operating expenses may be presented by nature or by function.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

37. Under International Financial Reporting Standards (IFRS) when operating expenses are presented by nature additional disclosures are required regarding the function of certain expenses.

Ans: F, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

38. International Financial Reporting Standards allow different presentation formats for operating expenses including by magnitude.

Ans: F, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

39. IFRS requires companies to mark the recorded values of certain types of assets and liabilities to their historical cost at the end of each reporting period.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

40. IFRS requires a single-step income statement, but U.S GAAP allows either the single-step or the multiple-step income statement.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

41. IFRS requires 3 years of income statements, U.S. GAAP requires 2 years of income statements.

Ans: F, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

42. The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are undertaking a project to rework the structure of financial statements. The proposed structure will adopt the major groupings used on the statement of financial position: current and non-current assets and liabilities, followed by equity.

Ans: F, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]43. In a worksheet, cost of goods sold will be shown in the trial balance (Dr.), adjusted trial balance (Dr.) and income statement (Dr.) columns.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]44. Freight-in is an account that is subtracted from the Purchases account to arrive at cost of goods purchased.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]45. Under a periodic inventory system, the acquisition of inventory is charged to the Purchases account.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]46. Under a periodic inventory system, freight-in on merchandise purchases should be charged to the Inventory account.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]47. Purchase Returns and Allowances and Purchase Discounts are subtracted from Purchases to produce net purchases.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

48. Merchandise inventory is reported as a long-term asset on the statement of financial position.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

49. Under a perpetual inventory system, inventory shrinkage and lost or stolen goods are more readily determined.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

50. The terms 2/10, n/30 state that a 2% discount is available if the invoice is paid within the first 10 days of the next month.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

51. Sales should be recorded in accordance with the expense recognition principle.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

52. Sales returns and allowances and sales discounts are subtracted from sales revenue in reporting net sales in the income statement.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

53. A merchandising company using a perpetual inventory system will usually need to make an adjusting entry to ensure that the recorded inventory agrees with physical inventory count.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

54. If a merchandising company sells land at more than its cost, the gain should be reported in the sales revenue section of the income statement.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

55. The major difference between the statement of financial position of a service company and a merchandising company is inventory.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	9.	T	17.	F	25.	T	33.	T	41.	F	49.	T
2.	F	10.	T	18.	F	26.	T	34.	T	42.	F	50.	F
3.	F	11.	F	19.	F	27.	F	35.	F	[a]43.	T	51.	F
4.	F	12.	T	20.	F	28.	T	36.	T	[a]44.	F	52.	T
5.	F	13.	T	21.	T	29.	F	37.	F	[a]45.	T	53.	T
6.	F	14.	F	22.	F	30.	F	38.	F	[a]46.	F	54.	F
7.	F	15.	F	23.	F	31.	T	39.	F	[a]47.	T	55.	T
8.	F	16.	T	24.	T	32.	F	40.	F	48.	F		

MULTIPLE CHOICE QUESTIONS

56. Net income from operations is gross profit less
   a. financing expenses.
   b. operating expenses.
   c. other income and expense.
   d. other expenses.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

57. Which of the following would **not** be considered a merchandising company?
    a. Retailer
    b. Wholesaler
    c. Service firm
    d. Dot Com firm

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

58. A merchandising company that sells directly to consumers is a
    a. retailer.
    b. wholesaler.
    c. broker.
    d. service company.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

59. Two categories of expenses for merchandising companies are
    a. cost of goods sold and financing expenses.
    b. operating expenses and financing expenses.
    c. cost of goods sold and operating expenses.
    d. sales and cost of goods sold.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

60. The primary source of revenue for merchandising companies is
    a. investment income.
    b. service fees.
    c. the sale of merchandise.
    d. the sale of fixed assets the company owns.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

61. Sales revenue less cost of goods sold is called
    a. gross profit.
    b. net profit.
    c. net income.
    d. marginal income.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

62. After gross profit is calculated, operating expenses are deducted to determine
    a. gross margin.
    b. net income.
    c. gross profit on sales.
    d. net margin.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Cost of goods sold is determined only at the end of the accounting period in
    a. a perpetual inventory system.
    b. a periodic inventory system.
    c. both a perpetual and a periodic inventory system.
    d. neither a perpetual nor a periodic inventory system.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

64. Which of the following expressions is **incorrect?**
    a. Gross profit – operating expenses = net income
    b. Sales – cost of goods sold – operating expenses = net income
    c. Net income + operating expenses = gross profit
    d. Operating expenses – cost of goods sold = gross profit

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

65. Detailed records of the cost of each inventory purchase and sale are **not** maintained under a
    a. perpetual inventory system.
    b. periodic inventory system.
    c. double entry accounting system.
    d. single entry accounting system.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

66. Which of the following is a true statement about inventory systems?
    a. Periodic inventory systems require more detailed inventory records.
    b. Perpetual inventory systems require more detailed inventory records.
    c. A periodic system requires cost of goods sold be determined after each sale.
    d. A perpetual system determines cost of goods sold only at the end of the accounting period.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

67. In a perpetual inventory system, cost of goods sold is recorded
    a. on a daily basis.
    b. on a monthly basis.
    c. on an annual basis.
    d. with each sale.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

68. If a company determines cost of goods sold each time a sale occurs, it
    a. must have a computer accounting system.
    b. uses a combination of the perpetual and periodic inventory systems.
    c. uses a periodic inventory system.
    d. uses a perpetual inventory system.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

69. Under a perpetual inventory system, acquisition of merchandise for resale is debited to the
    a. Inventory account.
    b. Purchases account.
    c. Supplies account.
    d. Cost of Goods Sold account.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

70. The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
    a. Accounts Payable.
    b. Purchase Returns and Allowances.
    c. Sales.
    d. Inventory.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

71. The Inventory account is used in each of the following **except** the entry to record
    a. goods purchased on account.
    b. the return of goods purchased.
    c. payment of freight on goods sold.
    d. payment within the discount period.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

72. A buyer would record a payment within the discount period under a perpetual inventory system by crediting
    a. Accounts Payable.
    b. Inventory.
    c. Purchase Discounts.
    d. Sales Discounts.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

73. If a purchaser using a perpetual system agrees to freight terms of FOB shipping point, then the
    a. Inventory account will be increased.
    b. Inventory account will not be affected.
    c. seller will bear the freight cost.
    d. carrier will bear the freight cost.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

74. Freight costs paid by a seller on merchandise sold to customers will cause an increase
    a. in the selling expense of the buyer.
    b. in operating expenses for the seller.
    c. to the cost of goods sold of the seller.
    d. to a contra-revenue account of the seller.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

75. Hicks Company purchased merchandise from Beyer Company with freight terms of FOB shipping point. The freight costs will be paid by the
    a. seller.
    b. buyer.
    c. transportation company.
    d. buyer and the seller.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

76. Geran Company purchased merchandise inventory with an invoice price of $15,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Geran Company pays within the discount period?
    a. $15,000
    b. $14,700
    c. $13,500
    d. $13,800

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

77. Reese Company purchased merchandise with an invoice price of $3,000 and credit terms of 1/10, n/30. Assuming a 360 day year, what is the implied annual interest rate inherent in the credit terms?
    a. 10%
    b. 12%
    c. 18%
    d. 36%

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

78. If a company is given credit terms of 2/10, n/30, it should
    a. hold off paying the bill until the end of the credit period, while investing the money at 10% annual interest during this time.
    b. pay within the discount period and recognize a savings.
    c. pay within the credit period but don't take the trouble to invest the cash while waiting to pay the bill.
    d. recognize that the supplier is desperate for cash and withhold payment until the end of the credit period while negotiating a lower sales price.

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

79. In a perpetual inventory system, the amount of the discount allowed for paying for merchandise purchased within the discount period is credited by the buyer to
    a. Inventory.
    b. Purchase Discounts.
    c. Purchase Allowance.
    d. Sales Discounts.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

80. Tony's Market recorded the following events involving a recent purchase of merchandise:

    Received goods for $90,000, terms 2/10, n/30.
    Returned $1,800 of the shipment for credit.
    Paid $450 freight on the shipment.
    Paid the invoice within the discount period.

    As a result of these events, the company's inventory
    a. increased by $86,436.
    b. increased by $88,650.
    c. increased by $86,877.
    d. increased by $86,886.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

81. Stan's Market recorded the following events involving a recent purchase of merchandise:
    Received goods for $50,000, terms 2/10, n/30.
    Returned $1,000 of the shipment for credit.
    Paid $250 freight on the shipment.
    Paid the invoice within the discount period.

    As a result of these events, the company's inventory
    a. increased by $48,020.
    b. increased by $49,250.
    c. increased by $48,265.
    d. increased by $48,270.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

82. Under the perpetual system, cash freight costs incurred by the buyer for the transporting of goods are recorded in
    a. Freight Expense.
    b. Freight-In.
    c. Inventory.
    d Freight-Out.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

83. Rasner Co. returned defective goods costing $9,000 to Markum Company on April 19, for credit. The goods were purchased April 10, on credit, terms 3/10, n/30. The entry by Rasner Co. on April 19, in receiving full credit is:

a.	Accounts Payable	9,000	
	Inventory		9,000
b.	Accounts Payable	9,000	
	Inventory	270	
	Cash		9,270
c.	Accounts Payable	9,000	
	Purchase Discounts		270
	Inventory		8,730
d.	Accounts Payable	9,000	
	Inventory		270
	Cash		8,730

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

84. Mather Company made a purchase of merchandise on credit from Underwood Company on August 8, for $8,000, terms 3/10, n/30. On August 17, Mather makes the appropriate payment to Underwood. The entry on August 17 for Mather Company is:

a.	Accounts Payable	8,000	
	Cash		8,000
b.	Accounts Payable	7,760	
	Cash		7,760
c.	Accounts Payable	8,000	
	Purchase Returns and Allowances		240
	Cash		7,760
d.	Accounts Payable	8,000	
	Inventory		240
	Cash		7,760

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

85. Computers For You is a retailer specializing in selling computers and related equipment. Which of the following would not be reported in the merchandise inventory account reported on the statement of the financial position for Computers For You at December 31, 2017?
    a. Computers purchased for resale during November 2017.
    b. Shelving materials purchased during December 2017.
    c. Freight costs related to the computers purchased in November.
    d All of these answer choices are correct.

Ans: B, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

86. Computers For You is a retailer specializing in selling computers and related equipment. During 2017, Computers For You sells $200,000 of merchandise to Sandcastles, Inc. Computers For You incurs $24,000 of freight costs associated with these sales. Which of the following is true regarding how this $24,000 is treated on the financial statements?
    a. Computers For You will report the $24,000 as part of inventory on the statement of financial position.
    b. Sandcastles, Inc. will report the $24,000 as part of inventory on the statement of financial position.
    c. Computers For You will report the $24,000 as part of operating expenses on the income statement.
    d. Sandcastles, Inc. will report the $24,000 as an accounts receivable on the statement of financial position.

Ans: C, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

87. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. During December 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Advanced Communications, Inc. was dissatisfied with 25% of the merchandise it received due to inferior quality. On December 21, 2017, Advanced Communications, Inc. returns the goods to Touch Tronix, Inc. for credit. Which of the following is true regarding the statement of financial position for Advanced Communications, Inc. at December 31, 2017?
 a. Assets will increase by €425,000 and liabilities will increase by €425,000.
 b. Assets will decrease by €425,000 and liabilities will decrease by €425,000.
 c. Assets will decrease by €550,000 and liabilities will decrease by €550,000.
 d Assets will increase by €550,000 and liabilities will increase by €550,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

88. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. On December 10, 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Terms of the sale were 2/10, net 30. On December 18, 2017, Advanced Communications, Inc. paid the account in full. Advanced Communications, Inc. uses a perpetual inventory system. Which of the following is true regarding the impact on the statement of financial position for Advanced Communications, Inc. when the payment is made on December 18, 2017?
 a. Cash decreased by €1,666,000.
 b. Inventory decreased by €34,000.
 c. Accounts payable decreases by €1,700,000.
 d Inventory decreased by €44,000.

Ans: D, LO: 2, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

89. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. On December 10, 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Terms of the sale were 2/10, net 30. On December 18, 2017, Advanced Communications, Inc. paid the account in full. Advanced Communications, Inc. uses a perpetual inventory system. Which of the following is true regarding the impact on the statement of financial position for Advanced Communications, Inc. when the payment is made on December 18, 2017?
 a. Assets decreased by €2,200,000.
 b. Assets increased by €44,400.
 c. Liabilities decreased by €2,156,000.
 d Liabilities decreased by €1,700,000.

Ans: A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

90. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. On December 10, 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Terms of the sale were 2/10, net 30. Advanced Communications, Inc. paid €32,500 in freight charges. On December 13, 2017, Advanced Communications, Inc. returned 5% of the goods due to inferior quality. On December 18, 2017, Advanced Communications, Inc. paid the account in full. Advanced Communications, Inc. uses a perpetual inventory system. If Advanced Communications, Inc. has not yet sold any of these goods, what is the ending balance in the inventory account after the payment is made?
    a. €0
    b. €1,615,200.
    c. €2,080,700.
    d €2,164,300.

Ans: C, LO: 2, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

91. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. During December 10, 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Advanced Communications, Inc. was dissatisfied with 25% of the merchandise it receives due to inferior quality. On December 21, 2017, Advanced Communications, Inc. returns the goods to Touch Tronix, Inc. for credit. Which of the following is true regarding the statement of financial position and the income statement for Touch Tronix, Inc. at December 31, 2017?
    a. Assets will decrease by €125,000 and income will decrease by €125,000.
    b. Assets will decrease by €425,000 and income will decrease by €425,000.
    c. Assets will increase by €425,000 and income will decrease by €425,000.
    d Assets will increase by €550,000 and income will decrease by €550,000.

Ans: A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

92. Touch Tronix, Inc. sells component parts to Advanced Communications, Inc. a cell phone manufacturer. On December 10, 2017, Touch Tronix, Inc. sold €1,700,000 of goods to Advanced Communications, Inc. on account for €2,200,000. Terms of the sale were 2/10, net 30. On December 18, 2017, Advanced Communications, Inc. paid the account in full. Which of the following is true regarding the impact on the statement of financial position for Touch Tronix, Inc. when the payment is made on December 18, 2017?
    a. Assets decreased by €2,200,000.
    b. Assets decreased by €44,000.
    c. Assets increased by €2,156,000.
    d Assets decreased by €32,500.

Ans: B, LO: 3, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

93. On July 9, Neal Company sells goods on credit to Al Dolan for $9,000, terms 1/10, n/60. Neal receives payment on July 18. The entry by Neal on July 18 is:

a.	Cash	9,000	
	Accounts Receivable		9,000
b.	Cash	9,000	
	Sales Discounts		90
	Accounts Receivable		8,910
c.	Cash	8,910	
	Sales Discounts	90	
	Accounts Receivable		9,000
d.	Cash	9,090	
	Sales Discounts		90
	Accounts Receivable		9,000

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

94. On November 2, 2017, Griffey Company has cash sales of €7,000 from merchandise having a cost of €5,000. The entries to record the day's cash sales will include:
a. a €5,000 credit to Cost of Goods Sold.
b. a €7,000 credit to Cash.
c. a €5,000 credit to Inventory.
d a €7,000 debit to Accounts Receivable.

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

95. A credit sale of ₤6,400 is made on April 25, terms 2/10, n/30, on which a return of ₤400 is granted on April 28. What amount is received as payment in full on May 4?
a. ₤5,880
b. ₤6,272
c. ₤6,400
d ₤6,000

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

96. The entry to record the receipt of payment within the discount period on a sale of ¥17,500 with terms of 2/10, n/30 will include a credit to
a. Sales Discounts for ¥350.
b. Cash for ¥1,715.
c. Accounts Receivable for ¥17,500.
d. Sales Revenue for ¥17,500.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

97. The collection of a ¥12,000 account within the 2 percent discount period will result in a
a. debit to Sales Discounts for ¥240.
b. debit to Accounts Receivable for ¥11,760.
c. credit to Cash for ¥11,760.
d. credit to Accounts Receivable for ¥11,760.

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

98. Company X sells $1,000 of merchandise on account to Company Y with credit terms of 2/10, n/30. If Company Y remits a check taking advantage of the discount offered, what is the amount of Company Y's check?
a. $700
b. $980
c. $900
d. $800

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

99. Birk Company sells merchandise on account for $8,000 to Kiner Company with credit terms of 2/10, n/30. Kiner Company returns $1,600 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?
a. $7,840
b. $7,872
c. $6,400
d. $6,272

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

100. The collection of a $1,500 account after the 2 percent discount period will result in a
a. debit to Cash for $1,470.
b. debit to Accounts Receivable for $1,500.
c. debit to Cash for $1,500.
d. debit to Sales Discounts for $30.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

101. The collection of a ¥12,000 account after the 2 percent discount period will result in a
a. debit to Cash for ¥11,760.
b. credit to Accounts Receivable for ¥12,000.
c. credit to Cash for ¥12,000.
d. debit to Sales Discounts for ¥240.

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

102. In a perpetual inventory system, the Cost of Goods Sold account is used
a. only when a cash sale of merchandise occurs.
b. only when a credit sale of merchandise occurs.
c. only when a sale of merchandise occurs.
d. whenever there is a sale of merchandise or a return of merchandise sold.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

103. Sales revenues are usually considered earned when
a. cash is received from credit sales.
b. an order is received.
c. goods have been transferred from the seller to the buyer.
d. adjusting entries are made.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

104. A sales invoice is a source document that
   a. provides support for goods purchased for resale.
   b. provides evidence of incurred operating expenses.
   c. provides support for credit sales.
   d. serves only as a customer receipt.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

105. Sales revenue
   a. may be recorded before cash is collected.
   b. will always equal cash collections in a month.
   c. only results from credit sales.
   d. is only recorded after cash is collected.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

106. The journal entry to record a credit sale is
   a. Cash
         Sales Revenue
   b. Cash
         Service Revenue
   c. Accounts Receivable
         Service Revenue
   d. Accounts Receivable
         Sales Revenue

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

107. The Sales Returns and Allowances account is classified as a(n)
   a. asset account.
   b. contra–asset account.
   c. expense account.
   d. contra–revenue account.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

108. A credit sale of $3,600 is made on July 15, terms 2/10, n/30, on which a return of $200 is granted on July 18. What amount is received as payment in full on July 24?
   a. $3,600
   b. $3,332
   c. $3,400
   d $3,528

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

109. When goods are returned that relate to a prior cash sale,
   a. the Sales Returns and Allowances account should not be used.
   b. the Cash account will be credited.
   c. Sales Returns and Allowances will be credited.
   d. Accounts Receivable will be credited.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

110. The Sales Returns and Allowances account does **not** provide information to management about
   a. inferior merchandise.
   b. the percentage of credit sales versus cash sales.
   c. inefficiencies in filling orders.
   d. errors in billing customers.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

111. As an incentive for customers to pay their accounts promptly, a business may offer its customers
   a. a sales discount.
   b. free delivery.
   c. a sales allowance.
   d. a sales return.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

112. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
   a. the customer must pay the bill within 10 days.
   b. the customer can deduct a 2% discount if the bill is paid between the 10th and 30th day from the invoice date.
   c. the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice date.
   d. two sales returns can be made within 10 days of the invoice date and no returns thereafter.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

113. Company A sells ¥9,000 of merchandise on account to Company B with credit terms of 2/10, n/30. If Company B remits a check taking advantage of the discount offered, what is the amount of Company B’s check?
   a. ¥6,300
   b. ¥8,820
   c. ¥8,100
   d. ¥7,200

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

114. Ball Company sells merchandise on account for ₤5,000 to Edds Company with credit terms of 2/10, n/30. Edds Company returns ₤1,000 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?
   a. ₤4,900
   b. ₤4,920
   c. ₤4,000
   d. ₤3,920

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

115. Moses Company sells merchandise on account for $8,000 to Lane Company with credit terms of 2/10, n/30. Lane Company returns $1,200 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Moses Company make upon receipt of the check?

a. Cash	6,800	
Accounts Receivable		6,800
b. Cash	6,664	
Sales Returns and Allowances	1,336	
Accounts Receivable		8,000
c. Cash	6,664	
Sales Returns and Allowances	1,200	
Sales Discounts	136	
Accounts Receivable		8,000
d. Cash	7,840	
Sales Discounts	160	
Sales Returns and Allowances		1,200
Accounts Receivable		6,800

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

116. Which of the following would **not** be classified as a contra account?
   a. Sales Revenue
   b. Sales Returns and Allowances
   c. Accumulated Depreciation
   d. Sales Discounts

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

117. Which of the following accounts has a normal credit balance?
   a. Sales Returns and Allowances
   b. Sales Discounts
   c. Sales
   d. Freight-Out

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

118. When a seller grants credit for returned goods, the account that is credited is
   a. Sales Revenue.
   b. Sales Returns and Allowances.
   c. Inventory.
   d. Accounts Receivable.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

119. The respective normal account balances of Sales Revenue, Sales Returns and Allowances, and Sales Discounts are
   a. credit, credit, credit.
   b. debit, credit, debit.
   c. credit, debit, debit.
   d. credit, debit, credit.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

120. A merchandising company using a perpetual system will make
   a. the same number of adjusting entries as a service company does.
   b. one more adjusting entry than a service company does.
   c. one less adjusting entry than a service company does.
   d. different types of adjusting entries compared to a service company.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

121. In preparing closing entries for a merchandising company, the Income Summary account will be credited for the balance of
   a. sales revenue.
   b. inventory.
   c. sales discounts.
   d. freight-out.

Ans: A, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

122. A merchandising company using a perpetual system may record an adjusting entry by
   a. debiting Income Summary.
   b. crediting Income Summary.
   c. debiting Cost of Goods Sold.
   d. debiting Sales Revenue.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

123. When the physical count of RNA Company inventory had a cost of $3,500 at year end and the unadjusted balance in Inventory was $3,600, RNA will have to make the following entry:

a.	Cost of Goods Sold	100	
	Inventory		100
b.	Inventory	100	
	Cost of Goods Sold		100
c.	Income Summary	100	
	Inventory		100
d.	Cost of Goods Sold	3,600	
	Inventory		3,600

Ans: A, LO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

124. Mineral Makers (MM) Company keeps its inventory records using a perpetual system. At December 31, 2017 the unadjusted balance in the Inventory account is $64,000. Through a physical count on December 31, 2017, MM determines that its actual inventory at year-end is $62,500. Which of the following is true regarding the statement of financial position and the income statement of MM at December 31, 2017?
   a. Inventory is increased and cost of goods sold is decreased by $1,500.
   b. Inventory is decreased and cost of goods sold is increased by $1,500.
   c. Inventory is increased and cost of goods sold is increased by $1,500.
   d. Inventory is decreased and cost of goods sold is decreased by $1,500.

Ans: B, LO: 4, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

125. The sales revenue section of an income statement for a retailer would **not** include
   a. Sales discounts.
   b. Sales revenue.
   c. Net sales.
   d. Gross profit.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

126. Rowland Company reported the following balances at June 30, 2017:

Sales Revenue	$32,000
Sales Returns and Allowances	1,000
Sales Discounts	500
Cost of Goods Sold	15,500

Net sales for the month is
   a. $32,000.
   b. $31,000.
   c. $30,500.
   d. $16,500.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

127. Maxwell Company's financial information is presented below.

Sales Revenue	€ ????	Cost of Goods Sold	€450,000
Sales Returns and Allowances	50,000	Gross Profit	????
Net Sales	780,000		

The missing amounts above are:

	Sales Revenue	Gross Profit
a.	€830,000	€330,000
b.	€730,000	€330,000
c.	€830,000	€380,000
d.	€730,000	€380,000

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

128. The operating expense section of an income statement for a wholesaler would **not** include
   a. freight-out.
   b. utilities expense.
   c. cost of goods sold.
   d. insurance expense.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

129. Income from operations will always result if
   a. the cost of goods sold exceeds operating expenses.
   b. revenues exceed cost of goods sold.
   c. revenues exceed operating expenses.
   d. gross profit exceeds operating expenses.

Ans: D, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

130. All of the following items would be reported as other income and expense **except**
    a. interest expense.
    b. casualty losses.
    c. dividend revenue.
    d. loss from employees' strikes.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

131. If a company has net sales of $800,000 and cost of goods sold of $520,000, the gross profit rate is
    a. 65%.
    b. 35%.
    c. 46%.
    d. 54%.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

132. A company shows the following balances:

Sales Revenue	¥1,500,000
Sales Returns and Allowances	270,000
Sales Discounts	30,000
Cost of Goods Sold	900,000

What is the gross profit rate?
    a. 60%
    b. 75%
    c. 40%
    d. 25%

Ans: D, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

133. The gross profit rate is computed by dividing gross profit by
    a. cost of goods sold.
    b. net income.
    c. net sales.
    d. sales revenue.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

134. In terms of liquidity, inventory is
    a. more liquid than cash.
    b. more liquid than accounts receivable.
    c. more liquid than prepaid expenses.
    d. less liquid than store equipment.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

135. On a classified statement of financial position, inventory is classified as
    a. an intangible asset.
    b. property, plant, and equipment.
    c. a current asset.
    d. a long-term investment.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

136. Gross profit for a merchandiser is net sales minus
   a. operating expenses.
   b. cost of goods sold.
   c. sales discounts.
   d. cost of goods available for sale.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

137. During 2017, Yoder Enterprises generated revenues of $180,000. The company's expenses were as follows: cost of goods sold of $90,000, operating expenses of $36,000 and a loss on the sale of equipment of $6,000.

   Yoder's gross profit is
   a. $180,000.
   b. $90,000.
   c. $54,000.
   d. $48,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

138. During 2017, Yoder Enterprises generated revenues of $180,000. The company's expenses were as follows: cost of goods sold of $90,000, operating expenses of $36,000 and a loss on the sale of equipment of $6,000.

   Yoder's income from operations is
   a. $180,000.
   b. $90,000.
   c. $54,000.
   d. $36,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

139. During 2017, Yoder Enterprises generated revenues of $180,000. The company's expenses were as follows: cost of goods sold of $90,000, operating expenses of $36,000 and a loss on the sale of equipment of $6,000.

   Yoder's net income is
   a. $180,000.
   b. $90,000.
   c. $54,000.
   d. $48,000.

Ans: D, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

140. Financial information is presented below:

Operating Expenses	€ 90,000
Net Sales	300,000
Cost of Goods Sold	165,000

Gross profit would be
a. €210,000.
b. €45,000.
c. €135,000.
d. €300,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

141. Financial information is presented below:

Operating Expenses	€ 90,000
Net Sales	300,000
Cost of Goods Sold	165,000

The gross profit rate would be
a. .70.
b. .15.
c. .30.
d. .45.

Ans: D, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

142. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	900,000
Cost of Goods Sold	402,000

Gross profit would be
a. €462,000.
b. €384,000.
c. €420,000.
d. €498,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

143. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	900,000
Cost of Goods Sold	402,000

The gross profit rate would be
a. .535.
b. .489.
c. .511.
d. .553.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

144. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	960,000
Cost of Goods Sold	462,000

The amount of net sales on the income statement would be
a. €924,000.
b. €846,000.
c. €960,000.
d. €996,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

145. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	960,000
Cost of Goods Sold	462,000

Gross profit would be
a. €462,000.
b. €420,000.
c. €384,000.
d. €498,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

146. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	960,000
Cost of Goods Sold	462,000

The gross profit rate would be
a. .454.
b. .546.
c. .500.
d. .538.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

147. If a company has sales of $630,000, net sales of $600,000, and cost of goods sold of $450,000, the gross profit rate is
a. 71%.
b. 75%
c. 25%.
d. 29%.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

148. Murray's Fashions sold merchandise for $152,000 cash during the month of July. Returns that month totaled $3,200. If the company's gross profit rate is 40%, Murray's will report monthly net sales revenue and cost of goods sold of
a. $152,000 and $60,800.
b. $148,800 and $59,520.
c. $148,800 and $89,280.
d. $152,000 and $89,280.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

149. During August, 2017, Joe's Supply Store generated revenues of $150,000. The company's expenses were as follows: cost of goods sold of $60,000 and operating expenses of $10,000. The company also had rent revenue of $2,500 and a gain on the sale of a delivery truck of $5,000.

Joe's gross profit for August, 2017 is
a. $150,000.
b. $95,000.
c. $90,000.
d. $80,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

150. During August, 2017, Joe's Supply Store generated revenues of $150,000. The company's expenses were as follows: cost of goods sold of $60,000 and operating expenses of $10,000. The company also had rent revenue of $2,500 and a gain on the sale of a delivery truck of $5,000.

Joe's other income and expense (loss) for the month of August, 2017 is
a. $0.
b. $2,500.
c. $5,000.
d. $7,500.

Ans: D, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

151. During August, 2017, Joe's Supply Store generated revenues of $150,000. The company's expenses were as follows: cost of goods sold of $60,000 and operating expenses of $10,000. The company also had rent revenue of $2,500 and a gain on the sale of a delivery truck of $5,000.

Joe's income from operations for the month of August, 2017 is
a. $150,000.
b. $97,500.
c. $92,500.
d. $80,000.

Ans: D, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

152. During August, 2017, Joe's Supply Store generated revenues of $150,000. The company's expenses were as follows: cost of goods sold of $60,000 and operating expenses of $10,000. The company also had rent revenue of $2,500 and a gain on the sale of a delivery truck of $5,000.

Joe's net income for August, 2017 is
a. $90,000.
b. $87,500.
c. $82,500.
d. $80,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

153. Operating expenses include salaries, utilities, advertising, and depreciation. International Financial Reporting Standards allow different presentation formats including by
a. magnitude.
b. nature.
c. position.
d. classification.

Ans: B, LO: 5, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

154. Operating expenditures include salaries, utilities, advertising, and depreciation. Presentation of operating expenses by nature
   a. provides very detailed information, with numerous line items.
   b. aggregates costs into groupings based on the primary functional activities in which the company engages.
   c. requires disclosures of additional details regarding the nature of certain expenses.
   d. All of these answer choices are correct.

Ans: A, LO: 5, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

155. International Financial Reporting Standards call for companies to mark the recorded values of certain types of assets and liabilities to fair value each period. These unrealized gains and losses are excluded from net income but included in comprehensive income and include all of the following **except**
   a. adjustments to pension plan assets.
   b. gains from foreign currency translation.
   c. unrealized losses on certain types of investments.
   d. adjustment to fixed assets for depreciation.

Ans: D, LO: 5, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

156. Which of the following statements is true regarding International Financial Reporting Standards (IFRS) and U.S. GAAP?
   a. IFRS allows both the perpetual and periodic systems, but U.S GAAP permits only the perpetual system.
   b. IFRS requires a single-step income statement, but U.S. GAAP allows either the single-step or the multiple-step income statement.
   c. U.S. GAAP allows operating expenses to be reported by either function or nature, IFRS requires reporting by function.
   d. IFRS requires 2 years of income statements, U.S. GAAP requires 3 years of income statements.

Ans: D, LO: 5, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

157. Which of the following statements is true regarding the project to rework the structure of financial statements undertaken by the International Accounting Standard Board (IASB) and the Financial Accounting Standards Board (FASB)?
   a. The proposed changes to the financial statements would result in considerably more detail than currently seen under IFRS and U.S. GAAP.
   b. The proposed structure is meant to draw attention away from net income.
   c. The proposed structure will adopt major groupings similar to those currently used by the statement of cash flows (operating, investing, and financial).
   d. All of these answer choices are correct.

Ans: D, LO: 5, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]158. Sampson Company's accounting records show the following for the year ending December 31, 2017:

Purchase Discounts	£ 28,000
Freight-In	39,000
Purchases	1,000,050
Beginning Inventory	117,500
Ending Inventory	144,000
Purchase Returns	32,000

Using the periodic system, the cost of goods purchased is
a. £901,050.
b. £1,021,050.
c. £1,043,050.
d. £979,050.

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]159. Sampson Company's accounting records show the following for the year ending December 31, 2017:

Purchase Discounts	£ 28,000
Freight-In	39,000
Purchases	1,000,050
Beginning Inventory	117,500
Ending Inventory	144,000
Purchase Returns	32,000

Using the periodic system, the cost of goods sold is
a. £1,005,550.
b. £994,550.
c. £952,550.
d. £1,047,550.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]160. The following information is available for Norton Company:

Sales Revenue	$390,000	Freight-In	$30,000
Ending Inventory	36,000	Purchase Returns and Allowances	15,000
Purchases	290,000	Beginning Inventory	45,000

Norton's cost of goods sold is
a. $365,000.
b. $350,000.
c. $314,000.
d. $305,000.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]161. At the beginning of September, 2017, GLF Company reported Inventory of $8,000. During the month, the company made purchases of $28,400. At September 30, 2017, a physical count of inventory reported $9,600 on hand. Cost of goods sold for the month is

a. $1,600.
b. $28,400.
c. $26,800.
d. $36,400.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]162. At the beginning of the year, Meng Company had an inventory of ¥500,000. During the year, the company purchased goods costing ¥2,000,000. If Meng Company reported ending inventory of ¥600,000 and sales of ¥2,500,000, the company's cost of goods sold and gross profit rate must be

a. ¥1,250,000 and 50%.
b. ¥1,900,000 and 24%.
c. ¥1,250,000 and 24%.
d. ¥1,900,000 and 76%.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]163. During the year, Carla's Pet Shop's merchandise inventory decreased by $40,000. If the company's cost of goods sold for the year was $650,000, purchases must have been

a. $690,000.
b. $610,000.
c. $570,000.
d. Unable to determine.

Ans: B, LO: 7, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]164. Cost of goods available for sale is computed by adding

a. beginning inventory to net purchases.
b. beginning inventory to the cost of goods purchased.
c. net purchases and freight-in.
d. purchases to beginning inventory.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]165. The Freight-In account

a. increases the cost of merchandise purchased.
b. is contra to the Purchases account.
c. is a permanent account.
d. has a normal credit balance.

Ans: A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]166. Net purchases plus freight-in determines

a. cost of goods sold.
b. cost of goods available for sale.
c. cost of goods purchased.
d. total goods available for sale.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]167. Powers Company has the following account balances:

Purchases	$99,000
Sales Returns and Allowances	12,800
Purchase Discounts	8,000
Freight-In	6,000
Delivery Expense	8,000

The cost of goods purchased for the period is
a. $107,000.
b. $97,000.
c. $105,000.
d. $92,200.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]168. Gould Shoe Store has a beginning inventory of €45,000. During the period, purchases were €250,000; purchase returns, €6,000; and freight-in €15,000. A physical count of inventory at the end of the period revealed that €30,000 was still on hand. The cost of goods available for sale was
a. €286,000.
b. €274,000.
c. €304,000.
d. €316,000.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]169. In a periodic inventory system, a return of defective merchandise to a supplier is recorded by crediting
a. Accounts Payable.
b. Inventory.
c. Purchases.
d. Purchase Returns and Allowances.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]170. Which one of the following transactions is recorded with the same entry in a perpetual and a periodic inventory system?
a. Cash received on account with a discount
b. Payment of freight costs on a purchase
c. Return of merchandise sold
d. Sale of merchandise on credit

Ans: A, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]171. The journal entry to record a return of merchandise purchased on account under a periodic inventory system would be

a. Accounts Payable
    Purchase Returns and Allowances

b. Purchase Returns and Allowances
    Accounts Payable

c. Accounts Payable
    Inventory

d. Inventory
    Accounts Payable

Ans: A, LO: 7, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]172. Under a periodic inventory system, acquisition of merchandise is debited to the

a. Inventory account.
b. Cost of Goods Sold account.
c. Purchases account.
d. Accounts Payable account.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

[a]173. Which of the following accounts has a normal credit balance?

a. Purchases
b. Sales Returns and Allowances
c. Freight-In
d. Purchase Discounts

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]174. The respective normal account balances of Purchases, Purchase Discounts, and Freight-In are

a. credit, credit, debit.
b. debit, credit, credit.
c. debit, credit, debit.
d. debit, debit, debit.

Ans: C, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]175. In a worksheet for a merchandising company, Inventory would appear in the

a. trial balance and adjusted trial balance columns only.
b. trial balance and statement of financial position columns only.
c. trial balance, adjusted trial balance, and statement of financial position columns.
d. trial balance, adjusted trial balance, and income statement columns.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]176. The Inventory account balance appearing in a worksheet represents the

a. ending inventory.
b. beginning inventory.
c. cost of merchandise purchased.
d. cost of merchandise sold.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

177. Cole Company has sales revenue of ₤24,000, cost of goods sold of ₤16,000 and operating expenses of ₤6,000 for the year ended December 31. Cole's gross profit is
   a. ₤18,000.
   b. ₤8,000.
   c. ₤2,000.
   d. ₤0.

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

178. Logan Company made a purchase of merchandise on credit from Claude Corporation on August 3, for $7,500, terms 2/10, n/45. On August 10, Logan makes the appropriate payment to Claude. The entry on August 10 for Logan Company is

a.	Accounts Payable	7,500	
	Cash		7,500
b.	Accounts Payable	7,350	
	Cash		7,350
c.	Accounts Payable	7,500	
	Purchase Returns and Allowances		150
	Cash		7,350
d.	Accounts Payable	7,500	
	Inventory		150
	Cash		7,350

Ans: D, LO: 2, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

179. Cartier Company purchased inventory from Pissaro Company. The shipping costs were $400 and the terms of the shipment were FOB shipping point. Cartier would have the following entry regarding the shipping charges:
   a. There is no entry on Cartier's books for this transaction.

b.	Freight Expense	400	
	Cash		400
c.	Freight-Out	400	
	Cash		400
d.	Inventory	400	
	Cash		400

Ans: D, LO: 2, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

180. In a perpetual inventory system, a return of defective merchandise by a purchaser is recorded by crediting
   a. Purchases.
   b. Purchase Returns.
   c. Purchase Allowance.
   d. Inventory.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

181. On October 4, 2017, Terry Corporation had credit sales transactions of $2,800 from merchandise having cost $1,900. The entries to record the day's credit transactions include a
   a. debit of $2,800 to Inventory.
   b. credit of $2,800 to Sales Revenue.
   c. debit of $1,900 to Inventory.
   d. credit of $1,900 to Cost of Goods Sold.

Ans: B, LO: 3, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

182. Which of the following accounts is **not** closed to Income Summary?
   a. Cost of Goods Sold
   b. Inventory
   c. Sales Revenue
   d. Sales Discounts

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

183. In the Clark Company, sales were $480,000, sales returns and allowances were $30,000, and cost of goods sold was $315,000. The gross profit rate was
   a. 70%.
   b. 30%.
   c. 34%.
   d. 66%.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

184. Net sales is sales revenue less
   a. sales discounts.
   b. sales returns.
   c. sales returns and allowances.
   d. sales discounts and sales returns and allowances.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

185. In the statement of financial position, ending inventory is reported
   a. in current assets immediately following prepaid expenses.
   b. in current assets immediately following accounts receivable.
   c. in current assets immediately following cash.
   d. under property, plant, and equipment.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]186. Cost of goods purchased is computed by adding
   a. beginning inventory to freight-in.
   b. beginning inventory to net purchases.
   c. beginning inventory to purchases and freight-in.
   d. freight-in to net purchases.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
56.	b	75.	b	94.	c	113.	b	132.	d	151.	d	[a]170.	a
57.	c	76.	b	95.	a	114.	d	133.	c	152.	b	[a]171.	a
58.	a	77.	c	96.	c	115.	c	134.	c	153.	b	[a]172.	c
59.	c	78.	b	97.	a	116.	a	135.	c	154.	a	[a]173.	d
60.	c	79.	a	98.	b	117.	c	136.	b	155.	d	[a]174.	c
61.	a	80.	d	99.	d	118.	d	137.	b	156.	d	[a]175.	c
62.	b	81.	d	100.	c	119.	c	138.	c	157.	d	[a]176.	a
63.	b	82.	c	101.	b	120.	b	139.	d	[a]158.	d	177.	b
64.	d	83.	a	102.	d	121.	a	140.	c	[a]159.	c	178.	d
65.	b	84.	d	103.	c	122.	c	141.	d	[a]160.	c	179.	d
66.	b	85.	b	104.	c	123.	a	142.	b	[a]161.	c	180.	d
67.	d	86.	c	105.	a	124.	b	143.	b	[a]162.	b	181.	b
68.	d	87.	c	106.	d	125.	d	144.	b	[a]163.	b	182.	b
69.	a	88.	d	107.	d	126.	c	145.	c	[a]164.	b	183.	b
70.	d	89.	a	108.	b	127.	a	146.	a	[a]165.	a	184.	d
71.	c	90.	c	109.	b	128.	c	147.	c	[a]166.	c	185.	a
72.	b	91.	a	110.	b	129.	d	148.	c	[a]167.	b	[a]186.	d
73.	a	92.	b	111.	a	130.	a	149.	c	[a]168.	c		
74.	b	93.	c	112.	c	131.	b	150.	d	[a]169.	d		

BRIEF EXERCISES

BE 187

Presented here are the components in Ferrell Company's income statement. Determine the missing amounts.

Sales Revenue	Cost of Goods Sold	Gross Profit	Operating Expenses	Net Income
€75,000	(a)	€40,000	(b)	€17,000
(c)	€56,000	€59,000	€48,000	(d)

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 187 (5 min.)

a. €35,000
b. €23,000
c. €115,000
d. €11,000

BE 188

Prepare the necessary journal entries on the books of Jayhawk Carpet Company to record the following transactions, assuming a perpetual inventory system (you may omit explanations):

(a) Jayhawk purchased $45,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $4,000 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 188 (5 min.)

(a)	Inventory	45,000	
	Accounts Payable		45,000
(b)	Accounts Payable	4,000	
	Inventory		4,000
(c)	Accounts Payable ($45,000 – $4,000)	41,000	
	Inventory ($41,000 × .02)		820
	Cash ($41,000 – $820)		40,180

BE 189

Bryant Company sold goods on account to Kolmer Enterprises with terms of 2/10, n/30. The goods had a cost of $600 and a selling price of $900. Both Bryant and Kolmer use a perpetual inventory system. Record the sale on the books of Bryant and the purchase on the books of Kolmer.

Ans: N/A, LO: 2,3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 189 (3 min.)

Journal entry on Bryant's books:

Accounts Receivable	900	
Sales Revenue		900
Cost of Goods Sold	600	
Inventory		600

Journal entry on Kolmer's books:

Inventory	900	
Accounts Payable		900

BE 190

Richter Company sells merchandise on account for $2,500 to Lynch Company with credit terms of 3/10, n/60. Lynch Company returns $200 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Richter Company make upon receipt of the check and the damaged merchandise?

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 190 (3 min.)

Sales Returns and Allowances	200	
Sales Discounts ($2,300 × .03)	69	
Cash ($2,500 – $200 – $69)	2,231	
Accounts Receivable		2,500

BE 191

Nen Company uses a perpetual inventory system. During May, the following transactions and events occurred.

May 13 Sold 12 motors at a cost of $40 each to Slater Brothers Supply Company, terms 1/10, n/30. The motors cost Nen $25 each.

May 16 Two defective motors were returned to Nen.

May 23 Received payment in full from Slater Brothers.

Instructions
Journalize the May transactions for Nen Company (seller) assuming that Nen uses a perpetual inventory system. You may omit explanations.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 191 (8 min.)

May	13	Accounts Receivable	480	
		Sales Revenue		480
		Cost of Goods Sold	300	
		Inventory		300
May	16	Sales Returns and Allowances	80	
		Accounts Receivable		80
		Inventory	50	
		Cost of Goods Sold		50
May	23	Cash	396	
		Sales Discounts ($400 × .01)	4	
		Accounts Receivable ($480 – $80)		400

BE 192

The income statement for Guinn Company for the year ended December 31, 2017 is as follows:

GUINN COMPANY
Income Statement
For the Year Ended December 31, 2017

Revenues		
Sales revenue		£55,000
Interest revenue		3,000
Total revenues		58,000
Expenses		
Cost of goods sold	£36,000	
Operating expenses	16,000	
Interest expense	1,000	
Total expenses		53,000
Net income		£ 5,000

BE 192 (Cont.)

Prepare the entries to close the revenue and expense accounts at December 31, 2017. You may omit explanations for the transactions.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 192 (5 min.)

Dec. 31	Sales Revenue	55,000	
	Interest Revenue	3,000	
	Income Summary		58,000
31	Income Summary	53,000	
	Cost of Goods Sold		36,000
	Operating Expenses		16,000
	Interest Expense		1,000

BE 193

Rhodes Company provides this information for the month of November, 2017: sales on credit $140,000; cash sales $60,000; sales discounts $2,000; and sales returns and allowances $8,000. Prepare the sales revenues section of the income statement based on this information.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 193 (3 min.)

RHODES COMPANY
Income Statement (Partial)
For the Month Ended November 30, 2017

Sales revenue		$200,000
Less: Sales returns and allowances	$8,000	
Sales discounts	2,000	10,000
Net sales		$190,000

BE 194

During October, 2017, Carol's Catering Company generated sales revenue of $13,000. Sales discounts totaled $200 for the month. Expenses were as follows: Cost of goods sold of $8,000 and operating expenses of $2,000.

Calculate (1) gross profit and (2) income from operations for the month.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 194 (4 min.)

(1) Gross profit: $4,800 ($13,000 - $200 - $8,000)
(2) Income from operations: $2,800 ($4,800 - $2,000)

[a]BE 195

For each of the following, determine the missing amounts.

	Beginning Inventory	Purchases	Goods Available for Sale	Cost of Goods Sold	Ending Inventory
1.	$20,000	________	$ 60,000	$25,000	_______
2.	______	$220,000	$250,000	_______	$40,000

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 195 (4 min.)

1. Purchases $40,000 ($60,000 – $20,000), Ending inventory $35,000 ($60,000 – $25,000)

2. Beginning inventory $30,000 ($250,000 – $220,000), Cost of Goods Sold $210,000 ($250,000 – $40,000)

[a]BE 196

Assume that Vangundy Company uses a periodic inventory system and has these account balances: Purchases €490,000; Purchase Returns and Allowances €14,000; Purchase Discounts €12,000; and Freight-In €15,000. Determine net purchases and cost of goods purchased.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 196 (4 min.)

Calculation of Net Purchases and Cost of Goods Purchased

Purchases		€490,000
Less: Purchase returns and allowances	€14,000	
Purchase discounts	12,000	26,000
Net purchases		464,000
Add: freight-in		15,000
Cost of goods purchased		€479,000

[a]BE 197

Assume that Vangundy Company uses a periodic inventory system and has these account balances: Purchases $600,000; Purchase Returns and Allowances $25,000; Purchase Discounts $11,000; and Freight-In $15,000; beginning inventory of $45,000; ending inventory of $55,000; and net sales of $750,000. Determine the cost of goods sold.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 197 (6 min.)

Inventory, beginning			$ 45,000
Purchases		$600,000	
Less: Purchase returns and allowances	$25,000		
Purchase discounts	11,000	36,000	
Net purchases		564,000	
Add: Freight-in		15,000	
Cost of goods purchased			579,000
Cost of goods available for sale			624,000
Inventory, ending			55,000
Cost of goods sold			$569,000

[a]BE 198

Slater Brothers Supply uses a periodic inventory system. During May, the following transactions and events occurred.

May 13 Purchased 12 motors at a cost of $40 each from Nen Company, terms 1/10, n/30. The motors cost Nen Company $25 each.

May 16 Returned 2 defective motors to Nen.

May 23 Paid Nen Company in full.

Instructions

Journalize the May transactions for Slater Brothers. You may omit explanations.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 198 (6 min.)

May	13	Purchases	480	
		Accounts Payable		480
May	16	Accounts Payable	80	
		Purchase Returns and Allowances		80
May	23	Accounts Payable ($480 – $80)	400	
		Purchase Discounts ($400 × .01)		4
		Cash		396

EXERCISES

Ex. 199

For each of the following, determine the missing amounts.

	Sales Revenue	Cost of Goods Sold	Gross Profit	Operating Expenses	Net Income
1.	¥1,000,000	________	________	¥250,000	¥100,000
2.	________	¥950,000	¥1,000,000	________	¥800,000

Ans: N/A, LO: 1, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 199 (5 min.)

1. Gross Profit = ¥350,000 (¥250,000 + ¥100,000)
   Cost of Goods Sold = ¥650,000 (¥1,000,000 – ¥350,000)

2. Sales Revenue = ¥1,950,000 (¥950,000 + ¥1,000,000)
   Operating Expenses = ¥200,000 (¥1,000,000 – ¥800,000)

Ex. 200

On October 1, Belton Bicycle Store had an inventory of 20 ten speed bicycles at a cost of $200 each. During the month of October, the following transactions occurred.

Oct.	4	Purchased 25 bicycles at a cost of $200 each from Kuhn Bicycle Company, terms 2/10, n/30.
	6	Sold 15 bicycles to Team America for $300 each, terms 2/10, n/30.
	7	Received credit from Kuhn Bicycle Company for the return of 2 defective bicycles.
	13	Issued a credit memo to Team America for the return of a defective bicycle.
	14	Paid Kuhn Bicycle Company in full, less discount.

Instructions
Prepare the journal entries to record the transactions assuming the company uses a perpetual inventory system.

Ans: N/A, LO: 2,3, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 200 (20 min.)

Oct.	4	Inventory	5,000	
		Accounts Payable		5,000
	6	Accounts Receivable	4,500	
		Sales Revenue		4,500
		Cost of Goods Sold	3,000	
		Inventory		3,000

Solution 200 (Cont.)

7	Accounts Payable	400	
	Inventory		400
13	Sales Returns and Allowances	300	
	Accounts Receivable		300
	Inventory	200	
	Cost of Goods Sold		200
14	Accounts Payable ($5,000 – $400)	4,600	
	Cash ($4,600 × .98)		4,508
	Inventory ($4,600 × .02)		92

Ex. 201

On September 1, Reid Supply had an inventory of 15 backpacks at a cost of $20 each. The company uses a perpetual inventory system. During September, the following transactions and events occurred.

Sept. 4 Purchased 80 backpacks at $20 each from Hunter, terms 2/10, n/30.

Sept. 6 Received credit of $120 for the return of 6 backpacks purchased on Sept. 4 that were defective.

Sept. 9 Sold 40 backpacks for $25 each to Oliver Books, terms 2/10, n/30.

Sept. 13 Sold 15 backpacks for $25 each to Heller Office Supply, terms n/30.

Sept. 14 Paid Hunter in full, less discount.

Instructions

Journalize the September transactions for Reid Supply.

Ans: N/A, LO: 2,3, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 201 (20 min.)

Sept. 4	Inventory	1,600	
	Accounts Payable		1,600
Sept. 6	Accounts Payable	120	
	Inventory		120
Sept. 9	Accounts Receivable	1,000	
	Sales Revenue		1,000
	Cost of Goods Sold	800	
	Inventory		800

Solution 201 (Cont.)

Sept. 13	Accounts Receivable	375	
	Sales Revenue		375
	Cost of Goods Sold	300	
	Inventory		300
Sept. 14	Accounts Payable ($1,600 – $120)	1,480	
	Cash ($1,480 × .98)		1,450
	Inventory ($1,480 × .02)		30

Ex. 202

Dan Moran is a new accountant with Tabor Company. Tabor purchased merchandise on account for $9,000. The credit terms are 1/10, n/30. Dan has talked with the company's banker and knows that he could earn 6% on any money invested in the company's savings account.

Instructions

(a) Should Dan pay the invoice within the discount period or should he keep the $9,000 in the savings account and pay at the end of the credit period? Support your recommendation with a calculation showing which action would be best.

(b) If Dan forgoes the discount, it may be viewed as paying an interest rate of 1% for the use of $9,000 for 20 days. Calculate the annual rate of interest that this is equivalent to.

Ans: N/A, LO: 2, Bloom: E, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 202 (10 min.)

Dan should pay the invoice within the discount period to save $60:

(a)	Discount of 1% on $9,000	$90	
	Interest received on $9,000 (for 20 days at 6%)	30	($9,000 × 6% × 20 ÷ 360)
	Savings by taking the discount	$60	

(b) The equivalent annual interest rate is:
1% × 360 ÷ 20 = 18%.

Ex. 203

(a) Kelso Company purchased merchandise on account from Office Suppliers for $150,000, with terms of 2/10, n/30. During the discount period, Kelso returned some merchandise and paid $137,200 as payment in full. Kelso uses a perpetual inventory system. Prepare the journal entries that Kelso Company made to record:
(1) the purchase of merchandise.
(2) the return of merchandise.
(3) the payment on account.

(b) Noble Company sold merchandise to Fugate Company on account for $73,000 with credit terms of ?/10, n/30. The cost of the merchandise sold was $43,800. During the discount period, Fugate Company returned $3,000 of merchandise and paid its account in full (minus the discount) by remitting $69,300 in cash. Both companies use a perpetual inventory system. Prepare the journal entries that Noble Company made to record:

Ex. 203 (Cont.)
(1) the sale of merchandise.
(2) the return of merchandise.
(3) the collection on account.

Ans: N/A, LO: 2,3, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 203 (20 min.)

(a) To compute the amount due after returns but before the discount, divide $137,200 by .98 (100% – 2%).
$137,200 ÷ .98 = $140,000.
Subtract $140,000 from $150,000 to determine that $10,000 of merchandise was returned.

(1)	Inventory	150,000	
	Accounts Payable		150,000
(2)	Accounts Payable	10,000	
	Inventory		10,000
(3)	Accounts Payable	140,000	
	Inventory		2,800
	Cash		137,200

(b) Fugate Company returns $3,000 of merchandise and owes $70,000 to Noble Company.
$69,300 ÷ $70,000 = .99
100% – 99% = 1%
The missing discount percentage is 1%. $70,000 × 1% = $700 sales discount.
$70,000 – $700 = $69,300 cash received on account.

(1)	Accounts Receivable	73,000	
	Sales Revenue		73,000
	Cost of Goods Sold	43,800	
	Inventory		43,800
(2)	Sales Returns and Allowances	3,000	
	Accounts Receivable		3,000
	Inventory $3,000 × ($43,800 ÷ $73,000)	1,800	
	Cost of Goods Sold		1,800
(3)	Cash	69,300	
	Sales Discounts	700	
	Accounts Receivable		70,000

Ex. 204

An inexperienced accountant for Leyland Company made the following errors in recording merchandising transactions.

1. A ₤225 refund to a customer for faulty merchandise was debited to Sales Revenue ₤225 and credited to Cash $225.
2. A ₤480 credit purchase of supplies was debited to Inventory ₤480 and credited to Cash ₤480.
3. A ₤160 sales return was debited to Sales Revenue and credited to Accounts Receivable.
4. A cash payment of ₤50 for freight on merchandise purchases was debited to Freight-Out ₤500 and credited to Cash ₤500.

Instructions
Prepare separate correcting entries for each error, assuming that the incorrect entry is not reversed. (Omit explanations.)

Ans: N/A, LO: 2,3, Bloom: AN, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 204 (6-8 min.)

1.	Sales Returns and Allowances	225	
	Sales Revenue		225
2.	Supplies	480	
	Cash	480	
	Accounts Payable		480
	Inventory		480
3.	Sales Returns and Allowances	160	
	Sales Revenue		160
4.	Inventory	50	
	Cash	450	
	Freight-Out		500

Ex. 205

Prepare the necessary journal entries to record the following transactions, assuming Hewitt Company uses a perpetual inventory system.

(a) Purchased $25,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $500 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 205 (6-8 min.)

(a)	Inventory	25,000	
	Accounts Payable		25,000
(b)	Accounts Payable	500	
	Inventory		500

Solution 205 (Cont.)

(c)	Accounts Payable ($25,000 – $500)	24,500	
	Inventory ($24,500 × .02)		490
	Cash ($24,500 – $490)		24,010

Ex. 206

Prepare the necessary journal entries to record the following transactions, assuming Darby Company uses a perpetual inventory system.

(a) Darby sells $55,000 of merchandise, terms 1/10, n/30. The merchandise cost $30,000.

(b) The customer in (a) returned $5,000 of merchandise to Darby. The merchandise returned cost $3,000.

(c) Darby received the balance due within the discount period.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 206 (7-9 min.)

(a)	Accounts Receivable	55,000	
	Sales Revenue		55,000
	Cost of Goods Sold	30,000	
	Inventory		30,000
(b)	Sales Returns and Allowances	5,000	
	Accounts Receivable		5,000
	Inventory	3,000	
	Cost of Goods Sold		3,000
(c)	Cash ($50,000 – $500)	49,500	
	Sales Discounts ($50,000 × .01)	500	
	Accounts Receivable		50,000

Ex. 207

Newell Company completed the following transactions in October:

Credit Sales			Sales Returns		Date of
Date	Amount	Terms	Date	Amount	Collection
Oct. 3	$ 900	2/10, n/30			Oct. 8
Oct. 11	1,200	3/10, n/30	Oct. 14	$ 200	Oct. 16
Oct. 17	5,000	1/10, n/30	Oct. 20	1,000	Oct. 29
Oct. 21	1,700	2/10, n/60	Oct. 23	200	Oct. 27
Oct. 23	2,000	2/10, n/30	Oct. 27	300	Oct. 28

Ex. 207 (Cont.)

Instructions

(a) Indicate the cash received for each collection. Show your calculations.
(b) Prepare the journal entry for the
 (1) Oct. 17 sale. The merchandise sold had a cost of $3,500.
 (2) Oct. 23 sales return. The merchandise returned had a cost of $140.
 (3) Oct. 28 collection.

Newell uses a perpetual inventory system.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 207 (20 min.)

(a)

(a)	Oct. 8	$882	[Sales $900 – Sales discount $18 ($900 × .02)]
	Oct. 16	$970	[Sales $1,200 – Sales return $200 = $1,000; $1,000 – Sales discount $30 ($1,000 × .03)]
	Oct. 29	$4,000	[Sales $5,000 – Sales return $1,000 = $4,000; (Discount lapsed)]
	Oct. 27	$1,470	[Sales $1,700 – Sales return $200 = $1,500; $1,500 – Sales discount $30 ($1,500 × .02)]
	Oct. 28	$1,666	[Sales $2,000 – Sales return $300 = $1,700; $1,700 – Sales discount $34 ($1,700 × .02)]

(b)

			Account	Debit	Credit
(b)	(1)	Oct. 17	Accounts Receivable	5,000	
			Sales Revenue		5,000
			Cost of Goods Sold	3,500	
			Inventory		3,500
	(2)	Oct. 23	Sales Returns and Allowances	200	
			Accounts Receivable		200
			Inventory	140	
			Cost of Goods Sold		140
	(3)	Oct. 28	Cash	1,666	
			Sales Discounts	34	
			Accounts Receivable		1,700

Ex. 208

The following information (in 000) is available for Ling Company:

	Debit	Credit
Retained Earnings		¥ 50,000
Dividends	¥ 35,000	
Sales Revenue		510,000
Sales Returns and Allowances	20,000	
Sales Discounts	7,000	
Cost of Goods Sold	357,000	
Freight-Out	2,000	
Advertising Expense	15,000	
Interest Expense	19,000	
Salaries and Wages Expense	45,000	
Utilities Expense	18,000	
Depreciation Expense	7,000	
Interest Revenue		25,000

Instructions

Using the above information, prepare the closing entries for Ling Company.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 208 (10 min.)

Dec.	31	Interest Revenue	25,000	
		Sales Revenue	510,000	
		Income Summary		535,000
	31	Income Summary	490,000	
		Sales Returns and Allowances		20,000
		Sales Discounts		7,000
		Cost of Goods Sold		357,000
		Freight-Out		2,000
		Advertising Expense		15,000
		Interest Expense		19,000
		Salaries and Wages Expense		45,000
		Utilities Expense		18,000
		Depreciation Expense		7,000
	31	Income Summary	45,000	
		Retained Earnings		45,000
	31	Retained Earnings	35,000	
		Dividends		35,000

Ex. 209

The adjusted trial balance of Werly Book Company appears below.

WERLY BOOK COMPANY
Adjusted Trial Balance
December 31, 2017

	Debit	Credit
Cash	32,000	
Accounts Receivable	25,000	
Inventory	35,000	
Buildings	140,000	
Accumulated Depreciation—Buildings		20,000
Accounts Payable		12,000
Share Capital-Ordinary		100,000
Retained Earnings		49,000
Dividends	20,000	
Sales Revenue		325,000
Sales Discounts	6,000	
Sales Returns & Allowances	8,000	
Cost of Goods Sold	203,000	
Operating Expenses	37,000	
	506,000	506,000

Instructions

Using the information given, prepare the year-end closing entries.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 209 (10 min.)

Dec. 31	Sales Revenue	325,000	
	Income Summary		325,000
	(To close credit balance accounts)		
31	Income Summary	254,000	
	Sales Discounts		6,000
	Sales Returns and Allowances		8,000
	Cost of Goods Sold		203,000
	Operating Expenses		37,000
	(To close accounts with debit balances)		
31	Income Summary	71,000	
	Retained Earnings		71,000
	(To transfer net income to retained earnings)		
31	Retained Earnings	20,000	
	Dividends		20,000
	(To close dividends account to retained earnings)		

Ex. 210

Kennedy Company had the following account balances at year-end: cost of goods sold $85,000; inventory $15,000; operating expenses $39,000; sales revenue $144,000; sales discounts $1,600; and sales returns and allowances $2,300. A physical count of inventory determines that inventory on hand is $14,400.

Instructions

(a) Prepare the adjusting entry necessary as a result of the physical count.

(b) Prepare closing entries.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 210 (10 min.)

(a)	Cost of Goods Sold	600	
	Inventory		600
(b)	Sales Revenue	144,000	
	Income Summary		144,000
	Income Summary	128,500	
	Cost of Goods Sold ($85,000 + $600)		85,600
	Operating Expenses		39,000
	Sales Returns and Allowances		2,300
	Sales Discounts		1,600
	Income Summary ($144,000 – $128,500)	15,500	
	Retained Earnings		15,500

Ex. 211

Presented below is information for Pryor Company for the month of March 2017.

Cost of goods sold	€242,000	Rent expense	€ 30,000
Freight-out	7,000	Sales discounts	8,000
Insurance expense	17,000	Sales returns and allowances	13,000
Salaries and wages expense	63,000	Sales revenue	410,000

Instructions

(a) Prepare an income statement.

(b) Compute the gross profit rate.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 211 (10 min.)

(a)

PRYOR COMPANY
Income Statement
For the Month Ended March 31, 2017

Sales revenues		
Sales revenue		€410,000
Less: Sales returns and allowances	€13,000	
Sales discounts	8,000	21,000
Net sales		389,000
Cost of goods sold		242,000
Gross profit		147,000
Operating expenses		
Salaries and wages expense	63,000	
Rent expense	30,000	
Insurance expense	17,000	
Freight-out	7,000	
Total operating expenses		117,000
Net income		€ 30,000

(b) Gross profit rate = €147,000 ÷ €389,000 = 37.79%.

Ex. 212

Instructions
State the missing items identified by ?.

1. Gross profit – Operating expenses = ?
2. Cost of goods sold + Gross profit on sales = ?
3. Sales revenue – (? + ?) = Net sales
4. Income from operations + ? – ? = Net income
5. Net sales – Cost of goods sold = ?

Ans: N/A, LO: 5, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 212 (5 min.)

1. Income from operations (or Net income)
2. Net sales
3. Sales discounts, Sales returns and allowances
4. Other income and expense, interest expense
5. Gross profit

Ex. 213

The adjusted trial balance of Kasten Company contained the following information:

	Debit	Credit
Sales Revenue		$660,000
Sales Returns and Allowances	$ 20,000	
Sales Discounts	7,000	
Cost of Goods Sold	456,000	
Freight-Out	2,000	
Advertising Expense	25,000	
Interest Expense	18,000	
Salaries and Wages Expense	55,000	
Utilities Expense	28,000	
Depreciation Expense	7,000	
Interest Revenue		30,000

Instructions

Use the above information to prepare an income statement for the year ended December 31, 2017.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 213 (15 min.)

KASTEN COMPANY
Income Statement
For the Year Ended December 31, 2017

Sales			
Sales revenue			$660,000
Less: Sales returns and allowances		$ 20,000	
Sales discounts		7,000	27,000
Net sales			633,000
Cost of goods sold			456,000
Gross profit			177,000
Operating expenses			
Salaries and wages expense	$55,000		
Utilities expense	28,000		
Advertising expense	25,000		
Depreciation expense	7,000		
Freight-out	2,000		
Total operating expenses			117,000
Income from operations			60,000
Other income and expense			
Interest revenue			30,000
Interest expense			18,000
Net income			$ 72,000

Ex. 214

The following information is available for Sager Company:

Operating expenses	£ 80,000
Cost of goods sold	245,000
Sales revenue	370,000
Sales returns and allowances	15,000

Instructions

Compute each of the following:

(a) Net sales
(b) Gross profit
(c) Income from operations

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 214 (6 min.)

(a) Net sales = £355,000 (£370,000 – £15,000)
(b) Gross profit = £110,000 (£355,000 – £245,000)
(c) Income from operations = £30,000 (£110,000 – £80,000)

Ex. 215

Financial information is presented below for two different companies.

	Elliott Cosmetics	Stever Grocery
Sales revenue	$90,000	$ (e)
Sales returns and allowances	(a)	4,000
Net sales	85,000	93,000
Cost of goods sold	56,000	(f)
Gross profit	(b)	32,000
Operating expenses	17,000	(g)
Income from operations	(c)	(h)
Other income and expense	(4,000)	(7,000)
Net income	(d)	9,000

Instructions

Determine the missing amounts.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 215 (15 min.)

(*Missing amount)

(a)	Sales revenue	$ 90,000
	Sales returns and allowances	5,000*
	Net sales	$ 85,000
(b)	Net sales	$ 85,000
	Cost of goods sold	56,000
	Gross profit	$ 29,000*
(c) and (d)		
	Gross profit	$ 29,000
	Operating expenses	17,000
	Income from operations (c)	$ 12,000*
	Other income and expense	4,000
	Net income (d)	$ 8,000*
(e)	Sales revenue	$ 97,000*
	Sales returns and allowances	4,000
	Net sales	$ 93,000
(f)	Net sales	$ 93,000
	Cost of goods sold	61,000*
	Gross profit	$ 32,000
(g) and (h)		
	Gross profit	$ 32,000
	Operating expenses (g)	16,000*
	Income from operations (h)	$ 16,000*
	Other income and expense	7,000
	Net income	$ 9,000

Ex. 216

In 2017, Rooney Company had net sales of $600,000 and cost of goods sold of $360,000. Operating expenses were $150,000, and interest expense was $15,000.

Instructions

(a) Compute Rooney's gross profit.
(b) Compute the gross profit rate.
(c) What is Rooney's income from operations and net income?

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 216 (10 min.)

(a) $600,000 – $360,000 = $240,000.
(b) $240,000/$600,000 = 40%.
(c) Income from operations is $90,000 ($240,000 – $150,000), and net income is $75,000 ($90,000 – $15,000).

Ex. 217

Hoyle Company gathered the following condensed data for the year ended December 31, 2017:

Cost of goods sold	$ 760,000
Net sales	1,350,000
Operating expenses	279,000
Interest expense	63,000
Dividend revenue	38,000
Loss from employee strike	233,000

Instructions

Prepare an income statement for the year ended December 31, 2017.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 217 (15 min.)

.

HOYLE COMPANY
Income Statement
For the Year Ended December 31, 2017

Net sales..		$1,350,000
Cost of goods sold		760,000
Gross profit		590,000
Operating expenses..		279,000
Income from operations		311,000
Other income and expense		
Loss from employee strike................................	$233,000	
Dividend revenue	38,000	(195,000)
Interest expense		63,000
Net income..		$ 53,000

[a]Ex. 218

The income statement of Wilcox, Inc. includes the items listed below:

Net sales	$900,000
Gross profit	340,000
Beginning inventory	80,000
Purchase discounts	15,000
Purchase returns and allowances	8,000
Freight-in	10,000
Operating expenses	300,000
Purchases	560,000

Instructions

Use the appropriate items listed above as a basis for determining:

(a) Cost of goods sold.
(b) Cost of goods available for sale.
(c) Ending inventory.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 218 (15 min.)

(a) Net sales – Cost of goods sold = Gross profit
$900,000 – Cost of goods sold = $340,000
Cost of goods sold = $560,000

(b)

Beginning inventory			$ 80,000
Purchases		$560,000	
Less: Purchase discounts	$15,000		
Purchase returns and allowances	8,000	23,000	
Net Purchases		537,000	
Add: Freight-in		10,000	
Cost of goods purchased			547,000
Cost of goods available for sale			$627,000

(c) Cost of goods available for sale – Ending inventory = Cost of goods sold
$627,000 – Ending inventory = $560,000
Ending inventory = $67,000

[a]Ex. 219

Three items are missing in each of the following columns and are identified by letter.

Sales revenue	¥ (a)	¥820,000
Sales returns and allowances	25,000	20,000
Sales discounts	10,000	15,000
Net sales	440,000	(d)
Beginning inventory	(b)	300,000
Cost of goods purchased	220,000	(e)
Ending inventory	170,000	303,000
Cost of goods sold	290,000	555,000
Gross profit	(c)	(f)

Instructions
Calculate the missing amounts and identify them by letter.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 219 (15 min.)

(a)	¥475,000	(d)	¥785,000
(b)	¥240,000	(e)	¥558,000
(c)	¥150,000	(f)	¥230,000

[a]Ex. 220

Paxson Supply Company uses a periodic inventory system. During September, the following transactions and events occurred.

Sept.	3	Purchased 90 backpacks at $30 each from Barnes Company, terms 2/10, n/30.
Sept.	6	Received credit of $150 for the return of 5 backpacks purchased on Sept. 3 that were defective.
Sept.	9	Sold 15 backpacks for $40 each to Starr Books, terms 2/10, n/30.
Sept.	13	Paid Barnes Company in full.

Instructions
Journalize the September transactions for Paxson Supply Company.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 220 (12 min.)

Sept.	3	Purchases	2,700	
		Accounts Payable		2,700
Sept.	6	Accounts Payable	150	
		Purchase Returns and Allowances		150
Sept.	9	Accounts Receivable	600	
		Sales Revenue		600
Sept.	13	Accounts Payable ($2,700 – $150)	2,550	
		Purchase Discounts ($2,550 × .02)		51
		Cash		2,499

[a]Ex. 221

The following information is available for Hopkins Company:

Beginning inventory	$ 45,000
Ending inventory	70,000
Freight-in	10,000
Purchases	290,000
Purchase returns and allowances	8,000

Instructions

Compute each of the following:
(a) Net purchases
(b) Cost of goods purchased
(c) Cost of goods sold

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 221 (6 min.)

(a) Net purchases = $282,000 ($290,000 – $8,000)
(b) Cost of goods purchased = $292,000 ($282,000 + $10,000)
(c) Cost of goods sold = $267,000 ($45,000 + $292,000 – $70,000)

[a]Ex. 222

The adjusted trial balance of Dailey Music Company appears below. Dailey Music Company prepares monthly financial statements and uses the perpetual inventory method.

Instructions
Complete the worksheet below.

DAILEY MUSIC COMPANY
Worksheet
For the Month Ended April 30, 2017

	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	12,000					
Inventory	21,000					
Supplies	3,500					
Equipment	80,000					
Accum. Depreciation—Equipment		15,000				
Accounts Payable		20,000				
Share Capital-Ordinary		50,000				
Retained Earnings		42,000				
Dividends	7,000					
Sales Revenue		44,000				
Sales Discounts	2,000					
Cost of Goods Sold	28,000					
Advertising Expense	7,000					
Supplies Expense	6,000					
Depreciation Expense	1,000					
Rent Expense	2,500					
Utilities Expense	1,000					
	171,000	171,000				

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 222 (15 min.)

DAILEY MUSIC COMPANY
Worksheet
For the Month Ended April 30, 2017

	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	12,000				12,000	
Inventory	21,000				21,000	
Supplies	3,500				3,500	
Equipment	80,000				80,000	
Accum. Depreciation—Equipment		15,000				15,000
Accounts Payable		20,000				20,000
Share Capital-Ordinary		50,000				50,000
Retained Earnings		42,000				42,000
Dividends	7,000				7,000	
Sales Revenue		44,000		44,000		
Sales Discounts	2,000		2,000			
Cost of Goods Sold	28,000		28,000			
Advertising Expense	7,000		7,000			
Supplies Expense	6,000		6,000			
Depreciation Expense	1,000		1,000			
Rent Expense	2,500		2,500			
Utilities Expense	1,000		1,000			
	171,000	171,000	47,500	44,000	123,500	127,000
Net Loss				3,500	3,500	
			47,500	47,500	127,000	127,000

[a]Ex. 223

Prepare the necessary journal entries to record the following transactions, assuming a periodic inventory system:

(a) Purchased $520,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $40,000 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 223 (6 min.)

		Debit	Credit
(a)	Purchases	520,000	
	Accounts Payable		520,000
(b)	Accounts Payable	40,000	
	Purchase Returns and Allowances		40,000
(c)	Accounts Payable ($520,000 – $40,000)	480,000	
	Purchase Discounts ($480,000 × .02)		9,600
	Cash ($480,000 – $9,600)		470,400

COMPLETION STATEMENTS

224. A ________________ buys and sells goods rather than performing services to earn a profit.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

225. Cost of goods sold is deducted from net sales revenue for the period in order to arrive at ________________.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

226. Inventory on hand can be obtained from detailed inventory records when a ________________ inventory system is maintained.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

227. The acquisition of inventory is debited to the ____________ account when a perpetual inventory system is used.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

228. The freight cost incurred by a seller to deliver goods sold to a customer is called ________________.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

229. When a customer returns merchandise previously purchased on credit, the entry the seller makes to record the return requires a debit to the ________________ account and a credit to the ________________ account.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

230. Sales Returns and Allowances and Sales Discounts are both ______________ accounts and have _______________ normal balances.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

231. Every sales transaction should be supported by a ________________ that provides written evidence of the sale.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Internal Controls

232. Gross profit is obtained by subtracting ________________ from ________________.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

233. Income from operations is determined by subtracting total operating expenses from ________________.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Completion Statements

224. merchandising company
225. gross profit
226. perpetual
227. Inventory
228. freight-out
229. Sales Returns and Allowances, Accounts Receivable
230. contra revenue, debit
231. business document
232. cost of goods sold, net sales
233. gross profit

MATCHING

234. Match the items below by entering the appropriate code letter in the space provided.

A.	Net sales	F.	FOB shipping point
B.	Sales discounts	G.	Freight-out
C.	Purchase invoice	H.	Gross profit
D.	Periodic inventory system	I.	Operating expenses
E.	FOB destination	J.	Income from operations

____ 1. An incentive to encourage customers to pay their accounts early.

____ 2. Expenses incurred in the process of earning sales revenue.

____ 3. Freight terms that require the seller to pay the freight cost.

____ 4. Sales less sales returns and allowances and sales discounts.

____ 5. A document that supports each credit purchase.

____ 6. Net sales less cost of goods sold.

____ 7. Freight cost to deliver goods to customers reported as a selling expense.

____ 8. Requires a physical count of goods on hand to compute cost of goods sold.

____ 9. Gross profit less total operating expenses.

____ 10. Freight terms that require the buyer to pay the freight cost.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Answers to Matching

1.	B	6.	H
2.	I	7.	G
3.	E	8.	D
4.	A	9.	J
5.	C	10.	F

SHORT-ANSWER ESSAY QUESTIONS

S-A E 235

You are at a company picnic and the company president starts a conversation with you. The president says "Since we use the perpetual inventory system, there is no reason to take a physical count of our inventory." What is your response to the president's remarks?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 235

You have made a very good observation, but human and mechanical shortcomings need to be considered. The perpetual inventory system maintains detailed records of each inventory purchase, sale and return. This does not mean that everything has been correctly recorded. Some possible causes of discrepancies between the goods on hand and the amounts shown in the accounting system include (1) inventory items were coded incorrectly, (2) cashiers failed to properly scan inventory items, (3) inventory items were damaged or stolen, or (4) goods returned by customers were not properly entered in the accounting records. It is necessary to reconcile amounts in the ledger to actual quantities. Discrepancies should be properly accounted for and investigated.

S-A E 236

Distinguish between FOB shipping point and FOB destination. Identify the freight terms that will result in a debit to Inventory by the purchaser and a debit to Freight-Out by the seller.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 236

The letters FOB mean Free on Board. FOB shipping point means that goods are placed free on board the carrier by the seller. The buyer then pays the freight and debits Inventory. FOB destination means that the goods are placed free on board to the buyer's place of business. Thus the seller pays the freight and debits Freight-Out.

S-A E 237

A merchandiser frequently has a need to use contra accounts related to the sale of goods. Identify the contra accounts that have normal debit balances and explain why they are not considered expenses.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 237

The contra accounts that have normal debit balances are Sales Discounts and Sales Returns and Allowances. These accounts have debit balances but are not expenses because they are adjustments of sales, not operating expenses. They are an adjustment of the inflow from sale of goods, rather than a cost used to help earn revenue.

S-A E 238

Mary Bolton believes revenues from credit sales may be recognized before they are collected in cash. Do you agree? Explain.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 238

Agree. In accordance with the revenue recognition principle, sales revenues are generally considered to be recognized when the goods are transferred from the seller to the buyer; that is, when the exchange transaction occurs. The recognition of revenue is not dependent on the collection of credit sales.

S-A E 239

The income statement for a merchandising company presents five amounts not shown on a service company's income statement. Identify and briefly explain the five unique amounts.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 239

The items reported for a merchandising company that are not reported for a service company are sales revenue, sales returns and allowances, sales discounts, cost of goods sold, and gross profit. Sales revenue, sales returns and allowances, and sales discounts comprise net sales. Cost of goods sold represents the total cost of merchandise sold during the period. Gross profit is the excess of net sales over the cost of goods sold.

S-A E 240 (Ethics)

Holmes Corporation manufactures electronic components for use in many consumer products. Their raw materials are purchased literally from all over the world. Depending on the country involved, purchase terms vary widely. Some suppliers, for example, require full prepayment, while others are content to receive payment within six months of receipt of the goods.

Because of this situation, Holmes never closes its books until at least ten days after month end. In this way, it can sort out ownership of goods in transit, and document which goods were received by month end, and which were not.

Ann Cook, a new accountant, was asked to record about $50,000 in inventory as having been received before month end. She argued that the shipping documents clearly showed that the goods were actually received on the 8th of the current month. Her boss, busy with month-end reports, curtly tells Ann to check the shipping terms. She did so, and found the notation "FOB shipper's dock" on the document. She hadn't seen that particular notation before, but she reasoned that if the selling company considered it shipped when it reached their dock, Holmes should consider it received when it reached Holmes's dock. She did not record the purchase until after month end.

Required:

1. Why are accountants concerned with the timing in the recording of purchases?
2. Was there a violation of ethical standards here? Explain.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 240

1. Accountants are concerned with timing because they seek to make sure that sales are recorded in the proper period so that revenues and expenses are properly matched; to make sure that goods recorded as owned by the company actually are owned as of the last date of the period; and to make certain that sales recorded have been actually completed.
2. The only ethical principle that may be involved is one of competence. Ann does not appear to know enough about reading shipping documents to make a proper determination of ownership. The goods were owned by Holmes as soon as they left the shipper's dock. Otherwise, the goods would have been owned by no one while in transit. It does not appear that Ann compromised her integrity or that she sought some sort of gain from her mistake. It does seem likely that she should have known better how to interpret the shipping documents.

S-A E 241 (Communication)

Lori Brown and Jill Kane, two salespersons in adjoining territories, regularly compete for bonuses. During the last month, their dollar volume of sales, on which the bonuses are based, was nearly equal. On the last day of the month, both made a large sale. Both orders were shipped on the last day of the month and both were received by the customer on the fifth of the following month. Lori's sale was FOB shipping point, and Jill's was FOB destination. The company "counts" sales for purposes of calculating bonuses on the date that ownership passes to the purchaser. Lori's sale was therefore counted in her monthly total of sales, Jill's was not. Jill is quite upset. She has asked you to just include it, or to take Lori's off as well. She also has told you that you are being unethical for allowing Lori to get a bonus just for choosing a particular shipping method.

Write a memo to Jill. Explain your position.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 241

M E M O

TO: Jill Kane

FROM: Martha King, Accounting

RE: Sales Bonuses

DATE: June 15, 200x

As you know, sales bonuses are based upon the revenue generated by each salesperson. Your total sales for the month was $100,000. This total does not include the $20,000 sale you made May 31 because of the policy to count sales on the date that title transfers to the customer. I can understand your being upset that this large sale was not counted, while someone else's sale on the same date was counted, because of the shipping terms. However, I am sure you agree that the policy is not unethical, but it is instead more fair than our trying to make a determination in the midst of month-end closing.

I do understand your disappointment, but this sale does count in June—and it just may make the difference in June's bonus. Please call me if I can be of further help.

GAAP QUESTIONS

1. Which of the following would **not** be a line item of a company reporting costs by nature?
   a. Manufacturing expense.
   b. Interest expense.
   c. Salaries and wages expense.
   d. Depreciation expense.

Ans: A, LO: 8, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

2. Which of the following would **not** be a line item of a company reporting costs by function?
   a. Distribution.
   b. Utilities expense.
   c. Manufacturing.
   d. Administration.

Ans: B LO: 8, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

3. Which of the following statements in **false**?
   a. The new income statement format will try to de-emphasize the focus on the "net income "line item.
   b. The proposed new formal for financial statements was heavily influenced by suggestions of financial statement analysis.
   c. Under GAAP companies can use either a perpetnal or periodic system.
   d. GAAP specifically requires use of multiple-step income statement.

Ans: D, LO: 8, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

4. Under the new format for financial statements being proposed under a joint IASB/FASB project
   a. the amount of detail shown in the income statement would decrease compared to current presentations.
   b. companies would be required to report income statement line items by function only.
   c. financial statements would be presented consistent with the way management usually run companies.
   d. all financial statements would adopt headings similar to the current format of the statement of financial position balance sheet.

Ans: C, LO: 8, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting