

Check list

Video	Done	Comment
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

1

Types of companies:

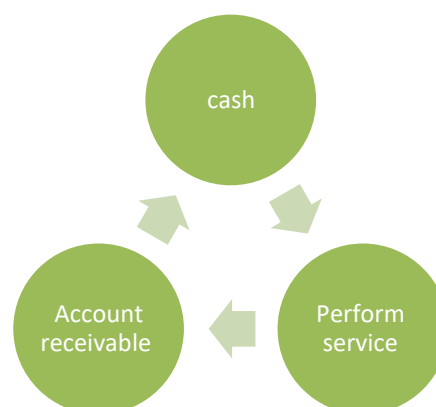
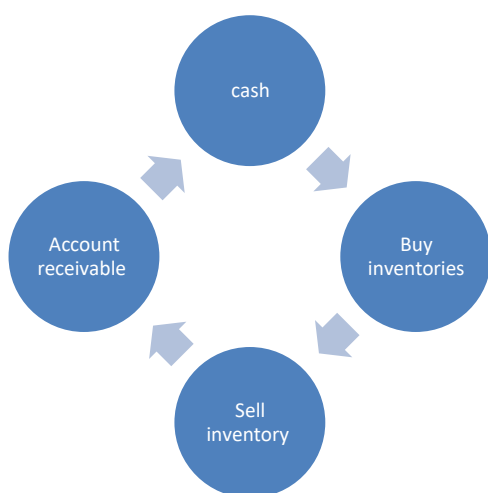
1. Manufacturing
2. Merchandise
 - a. Retailers
 - b. Wholesalers
3. Service

COGS: the total cost of merchandise sold during the period.

*Service companies have no COGS account.

Operating expense:

Salaries exp	Advertising exp	Insurance exp
Utilities exp	Depreciation exp	Freight out

Operating cycle Merchandise companies**Operating cycle Service companies**

1-Which of the following would **not** be considered a merchandising company?

- a. Retailer
- b. Wholesaler
- c. Service firm**
- d. Dot Com firm

2-A merchandising company that sells directly to consumers is a

- a. retailer.**
- b. wholesaler.
- c. broker.
- d. service company.

3-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.

4-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.

2

سعر طاقة الخام 60 دك تحتوي على 100 متر، البدلة تحتاج 4 أمتار من الخام، سعر بيع البدلة هو 20 دك، في الشهر الأول تم بيع 4 بدل، في الشهر الثاني 3 بدل في الشهر الثالث 7 بدل. المصاريف التشغيلية هي 30 دك شهرياً.

احسب صافي الربح ل 3 أشهر في حالة:

1- حساب تكلفة طاقة الخام كمصروف عند شرائه.

2- حساب تكلفة طاقة الخام كأصل عند شرائه.

3

Systems to account for inventory:

Perpetual system: companies keep detailed records of the cost of each inventory purchased and sale. COGS is determined each time a sale occurs.

Periodic system: companies determine the COGS only at the end of the accounting period.

EXAMPLE

1- Record the transactions using perpetual system

1/4 : Purchased 100 of bags, 10kd each.

10/4: Sold 6 of the bags, the selling price is 12kd.

20/4: Sold 5 of the bags, the selling price is 12kd.

Date	Account	DR	CR

2- Assume You are using periodic system; at the end of the period the physical count of the bags is 89. Record the transactions.

Action	Account	DR	CR

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.

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.

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.

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.**

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.**

FOB: free on board

FOB shipping point: buyer pays the freight cost.

FOB destination: seller pays the freight cost.

3-Record the transactions:

1-Delivery expense is 150\$ FOB shipping point

2-Delivery expense is 150\$ FOB destination.

Action	Account	DR	CR
	Merchandise inventory	1000	
	cash		1000
1			
2			

1-If a purchaser using a perpetual system agrees to freight terms of FOB shipping point, then the

- Inventory account will be increased.**
- Inventory account will not be affected.
- seller will bear the freight cost.
- carrier will bear the freight cost.

2-Freight costs paid by a seller on merchandise sold to customers will cause an increase

- in the selling expense of the buyer.
- in operating expenses for the seller.**
- to the cost of goods sold of the seller.
- to a contra-revenue account of the seller.

3-Hicks Company purchased merchandise from Beyer Company with freight terms of FOB shipping point. The freight costs will be paid by the

- seller.
- buyer.**
- transportation company.
- buyer and the seller.

5

1/4: Purchased 100 of bags on account, 10kd each, Sales discount is 2/10, n30.

2/4: Delivery expense is 150\$ FOB shipping point.

3/4: Return bags cost 300 KD.

9/4: Paid the due amount.

Date	Perpetual	DR	CR

What is the merchandise inventory ending balance?

Date	Periodic	DR	CR

Merchandise inventory ending balance under periodic (NET PURCHASES) =

Purchases + freight in – purchase return and allowance – purchase discount

NET PURCHASES =

Purchases – purchase return and allowance – purchase discount

- 1-The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
- Accounts Payable.
 - Purchase Returns and Allowances.
 - Sales.
 - Inventory.**
- 2-The Inventory account is used in each of the following **except** the entry to record
- goods purchased on account.
 - the return of goods purchased.
 - payment of freight on goods sold.**
 - payment within the discount period.
- 3-A buyer would record a payment within the discount period under a perpetual inventory system by crediting
- Accounts Payable.
 - Inventory.**
 - Purchase Discounts.
 - Sales Discounts.
- 4-Geran Company purchased merchandise inventory with an invoice price of \$12,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Geran Company pays within the discount period?
- \$12,000
 - \$11,760**
 - \$10,800
 - \$11,040
- 5-If a company is given credit terms of 2/10, n/30, it should
- hold off paying the bill until the end of the credit period, while investing the money at 10% annual interest during this time.
 - pay within the discount period and recognize a savings.**
 - pay within the credit period but don't take the trouble to invest the cash while waiting to pay the bill.
 - recognize that the supplier is desperate for cash and withhold payment until the end of the credit period while negotiating a lower sales price.
- 6-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
- Inventory.**
 - Purchase Discounts.
 - Purchase Allowance.
 - Sales Discounts.

7-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

8-Tony's Market recorded the following events involving a recent purchase of merchandise:

Received goods for \$80,000, terms 2/10, n/30.

Returned \$1,600 of the shipment for credit.

Paid \$400 freight on the shipment.

Paid the invoice within the discount period.

As a result of these events, the company's inventory

- a. increased by \$76,832.
- b. increased by \$78,800.
- c. increased by \$77,224.
- d. **increased by \$77,232.**

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.

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.**

9-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.

6

Sales the Merchandise**4- Record the transactions.**

15/4: Sold merchandise on account for 2000 KD, the cost of the merchandise sold was 836 KD.

20/4: The customer return merchandise inventory, selling price was 100kd, its cost is 70kd.

25/4: the customer paid the amount.

date	Account	DR	CR

1-On July 9, Neal Company sells goods on credit to Al Dolan for \$6,000, terms 1/10, n/60. Neal receives payment on July 18. The entry by Neal on July 18 is:

a. Cash.....	6,000
Accounts Receivable	6,000
b. Cash.....	6,000
Sales Discounts.....	60
Accounts Receivable	5,940
c. Cash	5,940
Sales Discounts	60
Accounts Receivable	6,000
d. Cash.....	6,060
Sales Discounts.....	60
Accounts Receivable	6,000

2-On November 2, 2014, 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 €5,000 credit to Cost of Goods Sold.
- a €7,000 credit to Cash.
- a €5,000 credit to Inventory.**
- a €7,000 debit to Accounts Receivable.

3-A credit sale of £3,200 is made on April 25, terms 2/10, n/30, on which a return of £200 is granted on April 28. What amount is received as payment in full on May 4?

- £2,940**
- £3,136
- £3,200
- £3,000

4-The entry to record the receipt of payment within the discount period on a sale of ¥12,500 with terms of 2/10, n/30 will include a credit to

- Sales Discounts for ¥250.
- Cash for ¥1,225.
- Accounts Receivable for ¥12,500.**
- Sales Revenue for ¥12,500.

4-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.

5-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.

6-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.

7-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**

8-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.**

9-The collection of a ¥9,000 account within the 2 percent discount period will result
in a

- a. debit to Sales Discounts for ¥180.**
- b. debit to Accounts Receivable for ¥8,820.
- c. credit to Cash for ¥8,820.
- d. credit to Accounts Receivable for ¥8,820.

7

At the end of the period, the physical count of the inventory showed the balance in the warehouse is 40,000 KD, while the system showed the balance of the inventory is 40,500 KD.

Prepare the Adjusting entry:

Account	Dr	Cr

Prepare closing entries for the following transactions

Account	DR	CR
Account receivable	2000	
Sales revenues		2000
Sales return and allowance	100	
Account receivable		100
Merchandise inventory	50	
Cost of goods sold		50
Cash	1862	
Sales discount	38	
Account receivable		1900

Account	Dr	Cr

1-A merchandising company using a perpetual system will make

- the same number of adjusting entries as a service company does.
- one more adjusting entry than a service company does.**
- one less adjusting entry than a service company does.
- different types of adjusting entries compared to a service company.

2-In preparing closing entries for a merchandising company, the Income Summary account will be credited for the balance of

- sales revenue.**
- inventory.
- sales discounts.
- freight-out.

3-A merchandising company using a perpetual system may record an adjusting entry by

- debiting Income Summary.
- crediting Income Summary.
- debiting Cost of Goods Sold.**
- debiting Sales Revenue.

4-When the physical count of RNA Company inventory had a cost of \$3,400 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	200
Inventory	200
b. Inventory	200
Cost of Goods Sold	200
c. Income Summary	200
Inventory	200
d. Cost of Goods Sold	3,600
Inventory	3,600

5-Mineral Makers (MM) Company keeps its inventory records using a perpetual system. At December 31, 2014 the unadjusted balance in the Inventory account is \$64,000. Through a physical count on December 31, 2014, 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, 2014?

- Inventory is increased and cost of goods sold is decreased by \$1,500.
- Inventory is decreased and cost of goods sold is increased by \$1,500.**
- Inventory is increased and cost of goods sold is increased by \$1,500.
- Inventory is decreased and cost of goods sold is decreased by \$1,500.

SUMMARY

*الرجاء الانتباه الى ان اسماء بعض الحسابات تختلف بال perpetual و periodic. لكن الحسبة نفسها.

Transaction	Perpetual	Periodic	DR	CR
Purchase	Merchandise Inventory A/P or Cash	Purchases A/P or Cash	xx	xx
Purchase Return	Account payable Merchandise Inventory	Account payable Purchase return and allowance	xx	xx
Paid with discount	Account payable Cash Merchandise Inventory	Account payable Cash Purchase discount	xx	xx xx
Freight cost (buyer)	Merchandise Inventory Cash	Freight in Cash	xx	xx
Freight cost (Seller)	Freight out Cash		xx	xx
Sale	A/R or Cash Sales revenue		xx	xx
	COGS Merchandise Inventory	No Entry	xx	xx
Sales return	Sales return and allowance Account receivable		xx	xx
	Merchandise inventory COGS	No Entry	xx	xx
Receive cash, with discount	Cash Sales discount Account receivable		xx xx	xx
Adjusting Physical<recorded	COGS Merchandise inventory		xx	xx
Adjusting Physical>recorded	Merchandise inventory COGS		xx	xx

Income statementIncome statement	
Sales revenue	XX
Less:	
sales return and allowance	(XX)
Sales discount	(XX)
NET SALES	XX
COGS	(XX)
Gross profit	XX
Operating expense	
Salaries expense	(XX)
Utilities expense	(XX)
Advertising expense	(XX)
Depreciation expense	(XX)
Freight out	(XX)
Insurance expense	(XX)
Total operating expense	(XX)
Income from operating	XX
Other income and expenses	
Interest revenue	XX
Dividend revenue	XX
Rent revenue	XX
Gain on sale of asset	XX
Loss on sale of asset	(XX)
Casualty loss	(XX)
	XX
Interest exp	(XX)
Net Income	XX
Other comprehensive income	
Unrealized gain	XX
Unrealized loss	(XX)
Comprehensive Income	XX

Under periodic system:

Merchandise inventory ending balance (cost of goods purchased)=
Purchases + freight in – purchase return and allowance – purchase discount

Net Purchases = (نفس الي فوق بس بدون توصيل)
Purchases – purchase return and allowance – purchase discount

cost of goods sold=
Purchases + freight in + beginning inventory – Ending inventory

1-Sales revenue less cost of goods sold is called

- a. **gross profit.**
- b. net profit.
- c. net income.
- d. marginal income.

2-Net income from operations is gross profit less

- a. financing expenses.
- b. **operating expenses.**
- c. other income and expense.
- d. other expenses.

3-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.

4-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**

5-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.**

6-Rowland Company reported the following balances at June 30, 2014:

Sales Revenue	\$27,000
Sales Returns and Allowances	1,000
Sales Discounts	500
Cost of Goods Sold	12,500

Net sales for the month is

- a. \$27,000.
- b. \$26,000.
- c. **\$25,500.**
- d. \$13,000.

7-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		750,000		

The missing amounts above are:

	<u>Sales Revenue</u>	<u>Gross Profit</u>
a.	€800,000	€300,000
b.	€700,000	€300,000
c.	€800,000	€350,000
d.	€700,000	€350,000

8-The operating expense section of an income statement for a wholesaler would **not** include

- freight-out.
- utilities expense.
- cost of goods sold.**
- insurance expense.

9-Income from operations will always result if

- the cost of goods sold exceeds operating expenses.
- revenues exceed cost of goods sold.
- revenues exceed operating expenses.
- gross profit exceeds operating expenses.**

10-All of the following items would be reported as other income and expense **except**

- interest expense.**
- casualty losses.
- dividend revenue.
- loss from employees' strikes.

11-If a company has net sales of \$800,000 and cost of goods sold of \$480,000, the gross profit rate is

- 60%.
- 40%.**
- 20%.
- 100%.

12-The gross profit rate is computed by dividing gross profit by

- cost of goods sold.
- net income.
- net sales.**
- sales revenue.

13-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.

14-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.

15-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	840,000

What is the gross profit rate?

- a. 56%
- b. 70%
- c. 44%
- d. 30%**

16-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.

17-During 2014, Yoder Enterprises generated revenues of \$120,000. The company's expenses were as follows: cost of goods sold of \$60,000, operating expenses of \$24,000 and a loss on the sale of equipment of \$4,000.

Yoder's gross profit is

- a. \$120,000.
- b. \$60,000.**
- c. \$36,000.
- d. \$32,000.

18-During 2014, Yoder Enterprises generated revenues of \$120,000. The company's expenses were as follows: cost of goods sold of \$60,000, operating expenses of \$24,000 and a loss on the sale of equipment of \$4,000.

Yoder's income from operations is

- a. \$120,000.
- b. \$60,000.
- c. \$36,000.**
- d. \$24,000.

Yoder's net income is

- a. \$120,000.
- b. \$60,000.
- c. \$36,000.
- d. \$32,000.**

19-Financial information is presented below:

Operating Expenses	€ 180,000
Sales Returns and Allowances	52,000
Sales Discounts	24,000
Sales Revenue	640,000
Cost of Goods Sold	308,000

The amount of net sales on the income statement would be

- a. €616,000.
- b. €564,000.**
- c. €640,000.
- d. €664,000.

Gross profit would be

- a. €308,000.
- b. €280,000.
- c. €256,000.**
- d. €332,000.

The gross profit rate would be

- a. .454.**
- b. .546.
- c. .500.
- d. .538.

20-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.

21-Murray's Fashions sold merchandise for \$114,000 cash during the month of July. Returns that month totaled \$2,400. If the company's gross profit rate is 40%, Murray's will report monthly net sales revenue and cost of goods sold of

- a. \$114,000 and \$45,600.
- b. \$111,600 and \$44,640.
- c. \$111,600 and \$66,960.**
- d. \$114,000 and \$66,960.

22-During August, 2014, Joe's Supply Store generated revenues of \$90,000. The company's expenses were as follows: cost of goods sold of \$36,000 and operating expenses of \$6,000. The company also had rent revenue of \$1,500 and a gain on the sale of a delivery truck of \$3,000.

Joe's gross profit for August, 2014 is

- a. \$90,000.
- b. \$57,000.
- c. \$54,000.**
- d. \$48,000.

Joe's other income and expense (loss) for the month of August, 2014 is

- a. \$0.
- b. \$1,500.
- c. \$3,000.
- d. \$4,500.**

Joe's income from operations for the month of August, 2014 is

- a. \$90,000.
- b. \$58,500.
- c. \$55,500.
- d. \$48,000.**

Joe's net income for August, 2014 is

- a. \$54,000.
- b. \$52,500.**
- c. \$49,500.
- d. \$48,000.

23-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.

24-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.**

25-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.**

26-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.**

27-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.**

28-On October 4, 2014, 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.

29-Which of the following accounts is **not** closed to Income Summary?

- a. Cost of Goods Sold
- b. Inventory**
- c. Sales Revenue
- d. Sales Discounts

30-In the Clark Company, sales were \$480,000, sales returns and allowances were \$30,000, and cost of goods sold was \$270,000. The gross profit rate was

- a. 60%.
- b. 40%.**
- c. 38%.
- d. 56%.

31-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.**

32-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.

9

E5-3

On September 1, Moreau Office Supply SA had an inventory of 30 calculators at a cost of €22 each. The company uses a perpetual inventory system. During September, the following transactions occurred.

- Sept. 6 Purchased with cash 90 calculators at €20 each from Roux Co. SA, terms 2/10, n/30.
- 9 Paid freight of €180 on calculators purchased from Roux Co.
- 10 Returned 3 calculators to Roux Co. for €66 credit (including freight) because they did not meet specifications.
- 12 Sold 28 calculators costing €22 (including freight) for €33 each to Village Book Store, terms n/30.
- 14 Granted credit of €33 to Village Book Store for the return of one calculator that was not ordered.
- 20 Sold 40 calculators costing €22 for €35 each to Holiday Card Shop, terms n/30.

Instructions

Journalize the September transactions.

1-Cole Company has sales revenue of £26,000, 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. £20,000.
- b. £10,000.**
- c. £4,000.
- d. £0.

2-Logan Company made a purchase of merchandise on credit from Claude Corporation on August 3, for \$5,000, 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	5,000
Cash.....	5,000
b. Accounts Payable	4,900
Cash.....	4,900
c. Accounts Payable	5,000
Purchase Returns and Allowances.....	100
Cash.....	4,900
d. Accounts Payable.....	5,000
Inventory	100
Cash.....	4,900

3-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

10

P5-2B

Norwich Hardware Store, Ltd. completed the following merchandising transactions in the month of May. At the beginning of May, the ledger of Norwich showed Cash of £5,000 and Share Capital—Ordinary of £5,000.

- May 1 Purchased merchandise on account from Nute's Wholesale Supply £4,200, terms 2/10, n/30.
- 2 Sold merchandise on account £2,300, terms 1/10, n/30. The cost of the merchandise sold was £1,300.
- 5 Received credit from Nute's Wholesale Supply for merchandise returned £500.
- 9 Received collections in full, less discounts, from customers billed on sales of £2,300 on May 2.
- 10 Paid Nute's Wholesale Supply in full, less discount.
- 11 Purchased supplies for cash £400.
- 12 Purchased merchandise for cash £1,400.
- May 15 Received refund for poor quality merchandise from supplier on cash purchase £150.
- 17 Purchased merchandise from Sherrick Distributors £1,300, FOB shipping point, terms 2/10, n/30.
- 19 Paid freight on May 17 purchase £130.
- 24 Sold merchandise for cash £3,200. The merchandise sold had a cost of £2,000.
- 25 Purchased merchandise from Herbert, Inc. £620, FOB destination, terms 2/10, n/30.
- 27 Paid Sherrick Distributors in full, less discount.
- 29 Made refunds to cash customers for defective merchandise £90. The returned merchandise had a fair value of £40.
- 31 Sold merchandise on account £1,000 terms n/30. The cost of the merchandise sold was £560.

Instructions

1. Journalize the transactions using a perpetual inventory system.
2. Enter the beginning cash and share capital—ordinary balances and post the transactions. (Use J1 for the journal reference.)
3. Prepare an income statement through gross profit for the month of May 2017.

1-Stan's Market recorded the following events involving a recent purchase of merchandise:

Received goods for \$30,000, terms 2/10, n/30.

Returned \$600 of the shipment for credit. | | Paid \$150 freight on the shipment.

Paid the invoice within the discount period.

As a result of these events, the company's inventory

- increased by \$28,812.
- increased by \$29,550.
- increased by \$28,959.
- increased by \$28,962.**

2-Rasner Co. returned defective goods costing \$8,000 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	8,000
Inventory	8,000
b. Accounts Payable	8,000
Inventory	240
Cash	8,240
c. Accounts Payable	8,000
Purchase Discounts	240
Inventory	7,760
d. Accounts Payable	8,000
Inventory	240
Cash	7,760

3-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, 2014?

- Computers purchased for resale during November 2014.
- Shelving materials purchased during December 2014.**
- Freight costs related to the computers purchased in November.
- All of these answer choices are correct.

4-When goods are returned that relate to a prior cash sale,

- the Sales Returns and Allowances account should not be used.
- the Cash account will be credited.**
- Sales Returns and Allowances will be credited.
- Accounts Receivable will be credited.

5-Mather Company made a purchase of merchandise on credit from Underwood Company on August 8, for \$6,000, 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	6,000
Cash	6,000
b. Accounts Payable	5,820
Cash	5,820
c. Accounts Payable	6,000
Purchase Returns and Allowances	180
Cash	5,820
d. Accounts Payable	6,000
Inventory	180
Cash	5,820

6-Reese Company purchased merchandise with an invoice price of \$3,000 and credit terms of 2/10, n/30. Assuming a 360 day year, what is the implied annual interest rate inherent in the credit terms?

- a. 20%
- b. 24%
- c. 36%**
- d. 72%

7-Company X sells \$600 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. \$420
- b. \$588**
- c. \$540
- d. \$480

8-Birk Company sells merchandise on account for \$5,000 to Kiner Company with credit terms of 2/10, n/30. Kiner 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**

9-The collection of a \$1,200 account after the 2 percent discount period will result 100.
in a

- a. debit to Cash for \$1,176.
- b. debit to Accounts Receivable for \$1,200.
- c. debit to Cash for \$1,200.**
- d. debit to Sales Discounts for \$24.

10-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.

11-The collection of a ¥9,000 account after the 2 percent discount period will result 101.
in a

- a. debit to Cash for ¥8,820.
- b. credit to Accounts Receivable for ¥9,000.**
- c. credit to Cash for ¥9,000.
- d. debit to Sales Discounts for ¥180.

12-In a perpetual inventory system, the Cost of Goods Sold account is used 102.

- 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.**

13-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

14-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.

15-Computers For You is a retailer specializing in selling computers and related equipment. During 2014, 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.

16-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.

17-Company A sells ¥8,000 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. ¥5,600
- b. ¥7,840**
- c. ¥7,200
- d. ¥6,400

18-Ball Company sells merchandise on account for £3,000 to Edds Company with credit terms of 2/10, n/30. Edds Company returns £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. £2,940
- b. £2,952
- c. £2,400
- d. £2,352**

19-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.

20-Moses Company sells merchandise on account for \$6,000 to Lane Company with credit terms of 2/10, n/30. Lane Company returns \$900 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.....	5,100
Accounts Receivable	5,100
b. Cash.....	4,998
Sales Returns and Allowances	1,002
Accounts Receivable	6,000
c. Cash	4,998
Sales Returns and Allowances	900
Sales Discounts	102
Accounts Receivable	6,000
d. Cash.....	5,880
Sales Discounts	120
Sales Returns and Allowances.....	900
Accounts Receivable	5,100

21-Which of the following accounts has a normal credit balance?

- Sales Returns and Allowances
- Sales Discounts
- Sales**
- Freight-Out

22-When a seller grants credit for returned goods, the account that is credited is

- Sales Revenue.
- Sales Returns and Allowances.
- Inventory.
- Accounts Receivable.**

23-Which of the following would **not** be classified as a contra account?

- Sales Revenue**
- Sales Returns and Allowances
- Accumulated Depreciation
- Sales Discounts

11

P5-7B

At the beginning of the current season on April 1, the ledger of Oosthuizen Pro Shop, NV showed Cash €3,000; Inventory €4,000; and Share Capital—Ordinary €7,000. The following transactions occurred during April 2017.

- Apr. 5 Purchased golf bags, clubs, and balls on account from Balata Co. €1,300, FOB shipping point, terms 2/10, n/60.
- 7 Paid freight on Balata Co. purchases €80.
- 9 Received credit from Balata Co. for merchandise returned €100.
- 10 Sold merchandise on account to members €710, terms n/30.
- 12 Purchased golf shoes, sweaters, and other accessories on account from Arrow Sportswear €450, terms 1/10, n/30.
- 14 Paid Balata Co. in full.
- 17 Received credit from Arrow Sportswear for merchandise returned €50.
- 20 Made sales on account to members €600, terms n/30.
- 21 Paid Arrow Sportswear in full.
- 27 Granted credit to members for clothing that had flaws €55.
- 30 Received payments on account from members €590.

Instructions

1. Journalize the April transactions using a periodic inventory system.
2. Using T-accounts, enter the beginning balances in the ledger accounts and post the April transactions.
3. Prepare a trial balance on April 30, 2017.
4. Prepare an income statement through gross profit, assuming merchandise inventory on hand at April 30 is €4,824.

1-Sampson Company's accounting records show the following for the year ending December 31, 2014:

Purchase discounts = £14,000	Freight in = £19,500	Purchases = £500,025
Beginning inventory = £58,750	Ending inventory = £72,000	Purchase returns= £16,000

Using the periodic system, the cost of goods purchased is

- a. £450,525.
- b. £510,525.
- c. £521,525.
- d. £489,525.**

Using the periodic system, the cost of goods sold is

- a. £502,775.
- b. £497,275.
- c. £476,275.**
- d. £523,775.

2-The following information is available for Norton Company:

Sales revenue = \$390,000	Freight in = \$30,000
Ending inventory = \$36,000	Purchase return and allowance = \$15,000
Purchases = \$270,000	Beginning inventory = \$45,000

Norton's cost of goods sold is

- a. \$345,000.
- b. \$330,000.
- c. \$294,000.**
- d. \$285,000.

3-At the beginning of September, 2014, GLF Company reported Inventory of \$8,000. During the month, the company made purchases of \$23,400. At September 30, 2014, a physical count of inventory reported \$9,600 on hand. Cost of goods sold for the month is

- a. \$1,800.
- b. \$23,400.
- c. \$21,800.**
- d. \$35,400.

4-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 ¥750,000 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. ¥1,750,000 and 30%.**
- c. ¥1,250,000 and 30%.
- d. ¥1,750,000 and 70%.

5-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 \$600,000, purchases must have been

- a. \$640,000.
- b. \$560,000.**
- c. \$520,000.
- d. Unable to determine.

6-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.

7-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.

8-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.

9-Gould Shoe Store has a beginning inventory of €45,000. During the period, purchases were €210,000; 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. €246,000.
- b. €234,000.
- c. €264,000.**
- d. €276,000.

10-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.

11-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.

12-Powers Company has the following account balances:

Purchases	\$96,000
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. \$104,000.
- b. \$94,000.**
- c. \$102,000.
- d. \$89,200.

13-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

14-Which of the following accounts has a normal credit balance?

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

15-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.**

THE END
Good luck