

CHAPTER 5

ACCOUNTING FOR MERCHANDISING OPERATIONS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	C	10.	3	C	19.	5	K	28.	5	K	^{sg} 37.	2	K
2.	1	C	11.	3	C	20.	5	K	29.	5	K	^{sg} 38.	3	K
3.	1	K	12.	3	K	21.	5	C	^a 30.	6	K	^{sg} 39.	3	K
4.	1	K	13.	4	C	22.	5	C	^a 31.	7	K	^{sg} 40.	4	C
5.	1	K	14.	4	K	23.	5	C	^a 32.	7	K	^{sg} 41.	5	K
6.	2	K	15.	4	K	24.	5	K	^a 33.	7	K	^{sg} 42.	5	K
7.	2	K	16.	5	K	25.	5	K	^a 34.	7	K			
8.	3	C	17.	5	K	26.	5	AP	^{sg} 35.	1	K			
9.	3	C	18.	5	K	27.	5	K	^{sg} 36.	1	K			
Multiple Choice Questions														
43.	1	K	73.	2	AP	103.	3	K	133.	5	AP	^a 163.	7	AP
44.	1	K	74.	3	AP	104.	3	C	134.	5	AP	^a 164.	7	AP
45.	1	C	75.	3	AP	105.	3	C	135.	5	AP	^{sg} 165.	1	AP
46.	1	K	76.	3	AP	106.	3	K	136.	5	AP	^{sg} 166.	2	K
47.	1	K	77.	3	C	107.	3	K	137.	5	AP	^{sg} 167.	2	K
48.	1	C	78.	3	C	108.	4	C	138.	5	AP	st 168.	2	K
49.	1	K	79.	3	AP	109.	4	C	139.	5	AP	^{sg} 169.	3	K
50.	1	K	80.	3	AP	110.	4	K	140.	5	AP	st 170.	4	K
51.	1	C	81.	3	C	111.	1	C	141.	5	AP	^{sg} 171.	6	AP
52.	1	K	82.	3	C	112.	4	C	142.	5	AP	st 172.	5	K
53.	1	C	83.	3	C	113.	5	AP	143.	5	AP	^{sg} 173.	6	K
54.	1	C	84.	3	K	114.	5	K	144.	5	AP	^{a, st} 174.	7	K
55.	1	C	85.	3	K	115.	5	C	145.	5	AP	175.	8	K
56.	1	K	86.	3	C	116.	5	C	^a 146.	6	K	176.	8	K
57.	1	C	87.	3	C	117.	5	C	^a 147.	6	K	177.	8	K
58.	2	K	88.	3	K	118.	5	AP	^a 148.	7	AP	178.	8	K
59.	2	K	89.	3	K	119.	5	K	149.	7	AP	179.	8	K
60.	2	C	90.	3	C	120.	5	C	150.	7	AP	180.	8	K
61.	2	K	91.	3	K	121.	5	K	151.	7	C	181.	8	K
62.	2	C	92.	3	AP	122.	5	K	^a 152.	7	K	182.	8	K
63.	2	C	93.	3	C	123.	5	K	^a 153.	7	K	183.	8	K
64.	2	C	94.	3	C	124.	5	AP	^a 154.	7	K	184.	8	K
65.	2	AP	95.	3	C	125.	5	AP	^a 155.	7	AP	185.	8	K
66.	2	AP	96.	3	C	126.	5	K	^a 156.	7	AP	186.	8	K
67.	2	C	97.	3	C	127.	5	C	^a 157.	7	K	187.	8	K
68.	2	K	98.	3	C	128.	5	K	^a 158.	7	C	188.	8	K
69.	2	AP	99.	3	AP	129.	5	K	^a 159.	7	C	189.	8	K
70.	2	AP	100.	3	AP	130.	5	AP	^a 160.	7	K			
71.	2	K	101.	3	AP	131.	5	AP	^a 161.	7	K			
72.	2	AP	102.	3	K	132.	5	AP	^a 162.	7	C			

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

^a This question covers a topic in an appendix to the chapter.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Brief Exercises														
190.	1	AP	193.	3	AP	196.	5	AP	199.	7	AP			
191.	2	AP	194.	3	AP	197.	5	AP	200.	7	AP			
192.	2,3	AP	195.	4	AP	198.	7	AP	^a 201.	7	AP			
Exercises														
202.	1	C	207.	2,3	AN	212.	4	AP	217.	5	AP	^a 222.	7	AP
203.	2,3	AP	208.	2	AP	213.	4	AP	218.	5	C	^a 223.	7	AP
204.	2,3	AP	209.	3	AP	214.	5	AN	219.	5	AP	^a 224.	7	AP
205.	2	E	210.	3	AP	215.	5	AP	220.	5	AP	^a 221.	7	AP
206.	2,3	AP	211.	4	AP	216.	5	AP	^a 221.	6	AP	^a 226.	7	AP
Completion Statements														
227.	1	K	229.	1	K	231.	2	K	233.	3	K	235.	5	K
228.	1	K	230.	2	K	232.	3	K	234.	3	K	236.	5	K
Matching Statements														
237.	1	K												
Short-Answer Essay														
238.	3	K	240.	3	K	242.	1	K	244.	1	K			
239.	1	K	241.	5	K	243.	5	K	245.	1	K			

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	35.	TF	46.	MC	51.	MC	56.	MC	202.	Ex	239.	SA
2.	TF	36.	TF	47.	MC	52.	MC	57.	MC	227.	C	242.	SA
3.	TF	43.	MC	48.	MC	53.	MC	111.	MC	228.	C	244.	SA
4.	TF	44.	MC	49.	MC	54.	MC	165.	MC	229.	C	245.	SA
5.	F	45.	MC	50.	MC	55.	MC	190.	BE	237.	MA		
Learning Objective 2													
6.	TF	60.	MC	65.	MC	70.	MC	157.	MC	204.	Ex	230.	C
7.	TF	61.	MC	66.	MC	71.	MC	158.	MC	205.	Ex	231.	C
37.	TF	62.	MC	67.	MC	72.	MC	203.	Ex	206.	Ex		
58.	MC	63.	MC	68.	MC	73.	MC	166.	BE	207.	Ex		
59.	MC	64.	MC	69.	MC	156.	MC	167.	BE	208.	Ex		
Learning Objective 3													
8.	TF	75.	MC	83.	MC	91.	MC	99.	MC	107.	MC	209.	Ex
9.	TF	76.	MC	84.	MC	92.	MC	100.	MC	169.	MC	210.	Ex
10.	TF	77.	MC	85.	MC	93.	MC	101.	MC	192.	BE	232.	C
11.	TF	78.	MC	86.	MC	94.	MC	102.	MC	193.	BE	233.	C
12.	TF	79.	MC	87.	MC	95.	MC	103.	MC	194.	BE	234.	C
38.	TF	80.	MC	88.	MC	96.	MC	104.	MC	203.	Ex	240.	SA
39.	TF	81.	MC	89.	MC	97.	MC	105.	MC	204.	Ex		
74.	MC	82.	MC	90.	MC	98.	MC	106.	MC	206.	Ex		

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 4													
13.	TF	15.	TF	108.	MC	110.	MC	170.	MC	211.	Ex	213.	Ex
14.	TF	40.	TF	109.	MC	112.	MC	195.	BE	212.	Ex		
Learning Objective 5													
16.	TF	26.	TF	117.	MC	127.	MC	137.	MC	172.	MC	235.	C
17.	TF	27.	TF	118.	MC	128.	MC	138.	MC	173.	MC	236.	C
18.	TF	28.	TF	119.	MC	129.	MC	139.	MC	196.	BE	241.	SA
19.	TF	29.	TF	120.	MC	130.	MC	140.	MC	197.	BE	243.	SA
20.	TF	41.	TF	121.	MC	131.	MC	141.	MC	215.	Ex		
21.	TF	42.	TF	122.	MC	132.	MC	142.	MC	216.	Ex		
22.	TF	113.	MC	123.	MC	133.	MC	143.	MC	217.	Ex		
23.	TF	114.	MC	124.	MC	134.	MC	144.	MC	218.	Ex		
24.	TF	115.	MC	125.	MC	135.	MC	145.	MC	219.	Ex		
25.	TF	116.	MC	126.	MC	136.	MC	171.	MC	220.	Ex		
Learning Objective ^a6													
^a 34.	TF	175.	MC	178.	MC	181.	MC	184.	MC	187.	MC	^a 225.	Ex
^a 146.	MC	176.	MC	179.	MC	182.	MC	185.	MC	188.	MC		
^a 147.	MC	177.	MC	180.	MC	183.	MC	186.	MC	189.	MC		
Learning Objective ^a7													
^a 30.	TF	^a 149.	MC	^a 154.	MC	^a 159.	MC	^a 164.	MC	^a 201.	BE	^a 225.	Ex
^a 31.	TF	^a 150.	MC	^a 155.	MC	^a 160.	MC	^a 174.	MC	^a 221.	Ex	^a 226.	Ex
^a 32.	TF	^a 151.	MC	^a 156.	MC	^a 161.	MC	^a 198.	BE	^a 222.	Ex		
^a 33.	TF	^a 152.	MC	^a 157.	MC	^a 162.	MC	^a 199.	BE	^a 223.	Ex		
^a 148.	MC	^a 153.	MC	^a 158.	MC	^a 163.	MC	^a 200.	BE	^a 224.	Ex		
Learning Objective 8													
175.	MC	177.	MC	179.	MC	181.	MC	183.	MC	185.	MC		
176.	MC	178.	MC	180.	MC	182.	MC	184.	MC				

Note: TF = True-False
 MC = Multiple Choice
 MA = Matching

BE = Brief Exercise
 Ex = Exercise

C = Completion
 SA = Short-Answer

FOR INSTRUCTOR USE ONLY

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 and are contra revenue accounts.
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. **Distinguish between a multiple-step and a single-step income statement.** A multiple-step income statement shows numerous steps in determining net income, including nonoperating activities sections. A single-step income statement classifies all data under two categories, revenues or expenses, and determines net income in one step.
- ^a6. **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 merchandiser are Inventory, Sales Revenue, Sales Returns and Allowances, Sales Discounts, and Cost of Goods Sold.
- ^a7. **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. Sales minus operating expenses equals gross profit.

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

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

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

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

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

6. 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

7. 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

8. 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

9. The Sales Returns and Allowances account and the Sales Discount 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

10. The revenue recognition principle applies to merchandisers by recognizing sales revenues when the performance obligation is satisfied.

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

11. Sales Returns and 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

12. 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

13. 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

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14. 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

15. 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

16. Nonoperating activities exclude revenues and expenses that result from secondary or auxiliary 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

17. Operating expenses are different for merchandising and service enterprises.

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

18. Net sales appears on both the multiple-step and single-step forms of an income statement.

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

19. A multiple-step income statement provides users with more information about a company's income performance.

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

20. The multiple-step form of income statement is easier to read than the single-step form.

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

21. Inventory is classified as a current asset in a classified balance sheet.

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

22. Gain on sale of equipment and interest expense are reported under other revenues and gains in a multiple-step 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

23. The gross profit section for a merchandising company appears on both the multiple-step and single-step forms of an 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

24. In a multiple-step income statement, income from operations excludes other revenues and gains and other expenses and losses.

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

25. A single-step income statement reports all revenues, both operating and other revenues and gains, at the top of the statement.

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

26. 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

27. 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

28. Gross profit is a measure of the overall profitability of a company.

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

29. 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

^a30. 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

^a31. 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

^a32. 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

^a33. 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

^a34. 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

35. Inventory is reported as a long-term asset on the balance sheet.

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

36. 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

37. 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

38. Sales revenue should be recorded in accordance with the matching 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

39. Sales returns and allowances and sales discounts are subtracted from sales 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

40. 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

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41. 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

42. The major difference between the balance sheets of a service company and a merchandising company is inventory.

Ans: T, LO: 5, 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	7.	T	13.	T	19.	T	25.	T	^a 31.	F	37.	F
2.	F	8.	F	14.	T	20.	F	26.	T	^a 32.	T	38.	F
3.	F	9.	F	15.	F	21.	T	27.	T	^a 33.	F	39.	T
4.	T	10.	T	16.	F	22.	F	28.	F	^a 34.	T	40.	T
5.	F	11.	F	17.	F	23.	F	29.	F	35.	F	41.	F
6.	T	12.	F	18.	T	24.	T	30.	T	36.	T	42.	T

MULTIPLE CHOICE QUESTIONS

43. Net income is gross profit less
- financing expenses.
 - operating expenses.
 - other expenses and losses.
 - 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

44. An enterprise which sells goods to customers is known as a
- proprietorship.
 - corporation.
 - retailer.
 - service firm.

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

45. Which of the following would **not** be considered a merchandising company?
- Retailer
 - Wholesaler
 - Service firm
 - 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

46. A merchandising company that sells directly to consumers is a
- retailer.
 - wholesaler.
 - broker.
 - 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

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47. Two categories of expenses for merchandising companies are
- cost of goods sold and financing expenses.
 - operating expenses and financing expenses.
 - cost of goods sold and operating expenses.
 - 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

48. The primary source of revenue for a wholesaler is
- investment income.
 - service fees.
 - the sale of merchandise.
 - 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

49. Sales revenue less cost of goods sold is called
- gross profit.
 - net profit.
 - net income.
 - 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

50. After gross profit is calculated, operating expenses are deducted to determine
- gross margin.
 - net income.
 - gross profit on sales.
 - 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

51. Cost of goods sold is determined only at the end of the accounting period in
- a perpetual inventory system.
 - a periodic inventory system.
 - both a perpetual and a periodic inventory system.
 - 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

52. Which of the following expressions is *incorrect*?
- Gross profit – operating expenses = net income
 - Sales revenue – cost of goods sold – operating expenses = net income
 - Net income + operating expenses = gross profit
 - 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

53. Detailed records of goods held for resale are **not** maintained under a
- perpetual inventory system.
 - periodic inventory system.
 - double entry accounting system.
 - 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

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54. A perpetual inventory system would likely be used by a(n)
- automobile dealership.
 - hardware store.
 - drugstore.
 - convenience store.

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

55. Which of the following is a true statement about inventory systems?
- Periodic inventory systems require more detailed inventory records.
 - Perpetual inventory systems require more detailed inventory records.
 - A periodic system requires cost of goods sold be determined after each sale.
 - 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

56. In a perpetual inventory system, cost of goods sold is recorded
- on a daily basis.
 - on a monthly basis.
 - on an annual basis.
 - 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

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

58. Under a perpetual inventory system, acquisition of merchandise for resale is debited to the
- Inventory account.
 - Purchases account.
 - Supplies account.
 - 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

59. 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 Revenue.
 - 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

60. 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.

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

61. A buyer would record a payment within the discount period under a perpetual inventory system by crediting
- Accounts Payable.
 - Inventory.
 - Purchase Discounts.
 - 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

62. 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.

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

63. 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.

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

64. Paden Company purchased merchandise from Emmett Company with freight terms of FOB shipping point. The freight costs will be paid by the
- seller.
 - buyer.
 - transportation company.
 - 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

65. Glenn Company purchased merchandise inventory with an invoice price of \$9,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Glenn Company pays within the discount period?
- \$8,100
 - \$8,280
 - \$8,820
 - \$9,000

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

Solution: $\$9,000 \times (1 - .02) = \$8,820$

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66. Scott 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?
- 20%
 - 24%
 - 18%
 - 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

Solution: $[360 \div (30 - 10)] \times 1\% = 18\%$

67. 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.

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

68. In a perpetual inventory system, the amount of the discount allowed for paying for merchandise purchased within the discount period is credited to
- Inventory.
 - Purchase Discounts.
 - Purchase Allowance.
 - 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

69. Jake's Market recorded the following events involving a recent purchase of merchandise:

Received goods for \$60,000, terms 2/10, n/30.

Returned \$1,200 of the shipment for credit.

Paid \$300 freight on the shipment.

Paid the invoice within the discount period.

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

- \$57,624.
- \$57,918.
- \$57,924.
- \$59,100.

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

Solution: $[(\$60,000 - \$1,200 \times .98)] + 300 = \$57,924$

70. Costner's Market recorded the following events involving a recent purchase of merchandise:

- Received goods for \$40,000, terms 2/10, n/30.
- Returned \$800 of the shipment for credit.
- Paid \$200 freight on the shipment.
- Paid the invoice within the discount period.

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

- a. increased by \$38,416.
- b. increased by \$38,612.
- c. increased by \$38,616.
- d. increased by \$39,400.

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

Solution: $[(\$40,000 - \$800) \times .98] + \$200 = \$38,616$

71. Under the perpetual system, cash freight costs incurred by the buyer for the transporting of goods is 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

72. Glover Co. returned defective goods costing \$5,000 to Mal Company on April 19, for credit. The goods were purchased April 10, on credit, terms 3/10, n/30. The entry by Glover Co. on April 19, in receiving full credit is:

a. Accounts Payable	5,000	
Inventory		5,000
b. Accounts Payable	5,000	
Inventory.....	150	
Cash		5,150
c. Accounts Payable	5,000	
Purchase Discounts		120
Inventory		4,850
d. Accounts Payable	5,000	
Inventory		120
Cash		4,850

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

73. McIntyre Company made a purchase of merchandise on credit from Marvin Company on August 8, for \$9,000, terms 3/10, n/30. On August 17, McIntyre makes the appropriate payment to Marvin. The entry on August 17 for McIntyre Company is:

a. Accounts Payable	9,000	
Cash		9,000
b. Accounts Payable	8,730	
Cash		8,730
c. Accounts Payable	9,000	
Purchase Returns and Allowances.....		270

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	Cash.....		8,730
d.	Accounts Payable	9,000	
	Inventory		270
	Cash.....		8,730

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

Solution: $\$9,000 \times .97 = \$8,730$

74. On July 9, Sheb Company sells goods on credit to Wooley Company for \$5,000, terms 1/10, n/60. Sheb receives payment on July 18. The entry by Sheb on July 18 is:

a.	Cash	5,000	
	Accounts Receivable.....		5,000
b.	Cash	5,000	
	Sales Discounts.....		50
	Accounts Receivable.....		4,950
c.	Cash	4,950	
	Sales Discounts	50	
	Accounts Receivable.....		5,000
d.	Cash	5,050	
	Sales Discounts.....		50
	Accounts Receivable.....		5,000

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

Solution: $\$5,000 \times .99 = \$4,950$

75. On November 2, 2014, Kasdan Company has cash sales of \$6,000 from merchandise having a cost of \$3,600. The entries to record the day's cash sales will include:

- a. a \$3,600 credit to Cost of Goods Sold.
- b. a \$6,000 credit to Cash.
- c. a \$3,600 credit to Inventory.
- d. a \$6,000 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

76. A credit sale of \$4,000 is made on April 25, terms 2/10, n/30, on which a return of \$250 is granted on April 28. What amount is received as payment in full on May 4?

- a. \$3,675
- b. \$3,750
- c. \$3,920
- d. \$4,000

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

Solution: $(\$4,000 - \$250) \times .98 = \$3,675$

77. The entry to record the receipt of payment within the discount period on a sale of \$2,000 with terms of 2/10, n/30 will include a credit to
- Sales Discounts for \$40.
 - Cash for \$1,960.
 - Accounts Receivable for \$2,000.
 - Sales Revenue for \$2,000.

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

78. The collection of a \$6,000 account within the 2 percent discount period will result in a
- debit to Sales Discounts for \$120.
 - debit to Accounts Receivable for \$5,880.
 - credit to Cash for \$5,880.
 - credit to Accounts Receivable for \$5,880.

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

Solution: $\$6,000 \times .02 = \120

79. Company X sells \$900 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?
- \$630
 - \$720
 - \$810
 - \$882

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

Solution: $\$900 \times .98 = \882

80. Cleese Company sells merchandise on account for \$5,000 to Langston Company with credit terms of 2/10, n/30. Langston 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?
- \$3,920
 - \$4,000
 - \$4,900
 - \$4,920

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

Solution: $(\$5,000 - \$1,000) \times .98 = \$3,920$

81. The collection of a \$1,500 account after the 2 percent discount period will result in a
- debit to Cash for \$1,470.
 - debit to Accounts Receivable for \$1,500.
 - debit to Cash for \$1,500.
 - 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

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82. The collection of a \$1,000 account after the 2 percent discount period will result in a
- debit to Cash for \$980.
 - credit to Accounts Receivable for \$1,000.
 - credit to Cash for \$1,000.
 - debit to Sales Discounts for \$20.

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

83. In a perpetual inventory system, the Cost of Goods Sold account is used
- only when a cash sale of merchandise occurs.
 - only when a credit sale of merchandise occurs.
 - only when a sale of merchandise occurs.
 - 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

84. Sales revenues are usually considered earned when
- cash is received from credit sales.
 - an order is received.
 - goods have been transferred from the seller to the buyer.
 - 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

85. A sales invoice is a source document that
- provides support for goods purchased for resale.
 - provides evidence of incurred operating expenses.
 - provides evidence of credit sales.
 - 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

86. Sales revenue
- may be recorded before cash is collected.
 - will always equal cash collections in a month.
 - only results from credit sales.
 - 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

87. The journal entry to record a credit sale is
- Cash
 Sales Revenue
 - Cash
 Service Revenue
 - Accounts Receivable
 Service Revenue
 - 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

88. Sales Returns and Allowances is increased when
- an employee does a good job.
 - goods are sold on credit.
 - goods that were sold on credit are returned.
 - customers refuse to pay their accounts.

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

89. The Sales Returns and Allowances account is classified as a(n)
- asset account.
 - contra asset account.
 - expense account.
 - 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

90. A credit granted to a customer for returned goods requires a debit to
- Sales Revenue and a credit to Cash.
 - Sales Returns and Allowances and a credit to Accounts Receivable.
 - Accounts Receivable and a credit to a contra-revenue account.
 - Cash and a credit to Sales Returns and Allowances.

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

91. If a customer agrees to retain merchandise that is defective because the seller is willing to reduce the selling price, this transaction is known as a sales
- discount.
 - return.
 - contra asset.
 - allowance.

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

92. 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?
- \$3,332
 - \$3,440
 - \$3,528
 - \$3,600

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

Solution: $(\$3,600 - \$200) \times .98 = \$3,332$

93. 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.

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

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94. The Sales Returns and Allowances account does **not** provide information to management about
- possible inferior merchandise.
 - the percentage of credit sales versus cash sales.
 - inefficiencies in filling orders.
 - errors in overbilling 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

95. A Sales Returns and Allowances account is **not** debited if a customer
- returns defective merchandise.
 - receives a credit for merchandise of inferior quality.
 - utilizes a prompt payment incentive.
 - returns goods that are not in accordance with specifications.

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

96. As an incentive for customers to pay their accounts promptly, a business may offer its customers
- a sales discount.
 - free delivery.
 - a sales allowance.
 - 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

97. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
- the customer must pay the bill within 10 days.
 - the customer can deduct a 2% discount if the bill is paid between the 10th and 30th day from the invoice date.
 - the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice date.
 - 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

98. A sales discount does **not**
- provide the purchaser with a cash saving.
 - reduce the amount of cash received from a credit sale.
 - increase a contra-revenue account.
 - increase an operating expense account.

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

99. Company A sells \$2,500 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?
- \$1,750
 - \$2,000
 - \$2,250
 - \$2,450

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

Solution: $\$2,500 \times .98 = \$2,450$

100. Kern Company sells merchandise on account for \$8,000 to Block Company with credit terms of 2/10, n/30. Block 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?
- \$6,272
 - \$6,400
 - \$7,840
 - \$7,872

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

Solution: $(\$8,000 - \$1,600) \times .98 = \$6,272$

101. Carter Company sells merchandise on account for \$4,000 to Hannah Company with credit terms of 2/10, n/30. Hannah Company returns \$600 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Carter Company make upon receipt of the check?

a. Cash	3,400	
Accounts Receivable.....		3,400
b. Cash	3,332	
Sales Returns and Allowances	668	
Accounts Receivable.....		4,000
c. Cash	3,332	
Sales Returns and Allowances	600	
Sales Discounts	68	
Accounts Receivable.....		4,000
d. Cash	3,920	
Sales Discounts	80	
Sales Returns and Allowances.....		600
Accounts Receivable.....		3,400

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

102. Which of the following would **not** be classified as a contra account?
- Sales Revenue
 - Sales Returns and Allowances
 - Accumulated Depreciation
 - 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

103. Which of the following accounts has a normal credit balance?
- Sales Returns and Allowances
 - Sales Discounts
 - Sales Revenue
 - Selling Expense

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

104. With respect to the income statement,
- contra-revenue accounts do not appear on the income statement.
 - sales discounts increase the amount of sales.
 - contra-revenue accounts increase the amount of operating expenses.
 - sales discounts are included in the calculation of gross profit.

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

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105. When a seller grants credit for returned goods, the account that is credited is
- Sales Revenue.
 - Sales Returns and Allowances.
 - Inventory.
 - 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

106. The respective normal account balances of Sales Revenue, Sales Returns and Allowances, and Sales Discounts are
- credit, credit, credit.
 - debit, credit, debit.
 - credit, debit, debit.
 - 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

107. All of the following are contra revenue accounts **except**
- sales revenue.
 - sales allowances.
 - sales discounts.
 - sales returns.

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

108. 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.

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

109. 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.

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

110. 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.

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

111. The operating cycle of a merchandiser is
- always one year in length.
 - generally longer than it is for a service company.
 - about the same as for a service company.
 - generally shorter than it is for a service company.

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

112. When the physical count of Rosanna Company inventory had a cost of \$4,350 at year end and the unadjusted balance in Inventory was \$4,500, Rosanna will have to make the following entry:

a. Cost of Goods Sold.....	150	
Inventory		150
b. Inventory.....	150	
Cost of Goods Sold.....		150
c. Income Summary.....	150	
Inventory		150
d. Cost of Goods Sold.....	4,500	
Inventory		4,500

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

Solution: $\$4,500 - \$4,350 = \$150$

113. Arquette Company's financial information is presented below.

Sales Revenue	\$????	Cost of Goods Sold	540,000
Sales Returns and Allowances		40,000	Gross Profit	????
Net Sales		900,000		

The missing amounts above are:

	<u>Sales Revenue</u>	<u>Gross Profit</u>
a.	\$940,000	\$360,000
b.	\$860,000	\$360,000
c.	\$940,000	\$420,000
d.	\$860,000	\$420,000

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

Solution: $\$900,000 + \$40,000 = \$940,000$; $\$900,000 - \$540,000 = \$360,000$

114. The sales revenue section of an income statement for a retailer would **not** include
- Sales discounts.
 - Sales revenue.
 - Net sales.
 - Cost of goods sold.

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

115. The operating expense section of an income statement for a wholesaler would **not** include
- freight-out.
 - utilities expense.
 - cost of goods sold.
 - 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

116. 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.

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

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117. Indicate which one of the following would appear on the income statement of both a merchandising company and a service company.
- Gross profit
 - Operating expenses
 - Sales revenues
 - Cost of goods sold

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

118. Conrad Company reported the following balances at June 30, 2014:

Sales Revenue	\$16,200
Sales Returns and Allowances	600
Sales Discounts	300
Cost of Goods Sold	7,500

Net sales for the month is

- \$7,800
- \$15,300.
- \$15,600.
- \$16,200.

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

Solution: $\$16,200 - \$600 - \$300 = \$15,300$

119. Income from operations appears on
- both a multiple-step and a single-step income statement.
 - neither a multiple-step nor a single-step income statement.
 - a single-step income statement.
 - a multiple-step income statement.

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

120. Gross profit does **not** appear
- on a multiple-step income statement.
 - on a single-step income statement.
 - to be relevant in analyzing the operation of a merchandiser.
 - on the income statement if the periodic inventory system is used because it cannot be calculated.

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

121. Which of the following is **not** a true statement about a multiple-step income statement?
- Operating expenses are similar for merchandising and service enterprises.
 - There may be a section for nonoperating activities.
 - There may be a section for operating assets.
 - There is a section for cost of goods sold.

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

122. Which one of the following is shown on a multiple-step but **not** on a single-step income statement?
- Net sales
 - Net income
 - Gross profit
 - Cost of goods sold

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

123. All of the following items would be reported as other expenses and losses **except**
- freight-out.
 - casualty losses.
 - interest expense.
 - 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

124. If a company has net sales of \$700,000 and cost of goods sold of \$455,000, the gross profit percentage is
- 25%.
 - 35%.
 - 65%.
 - 100%.

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

Solution: $(\$700,000 - \$455,000) \div \$700,000 = 35\%$

125. A company shows the following balances:

Sales Revenue	\$2,500,000
Sales Returns and Allowances	450,000
Sales Discounts	50,000
Cost of Goods Sold	1,400,000

What is the gross profit percentage?

- 30%
- 44%
- 56%
- 70%

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

Solution: $\$2,500,000 - \$450,000 - \$50,000 = \$2,000,000$; $(\$2,000,000 - \$1,400,000) \div \$2,000,000 = 30\%$

126. The gross profit rate is computed by dividing gross profit by
- cost of goods sold.
 - net income.
 - net sales.
 - 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

127. In terms of liquidity, inventory is
- more liquid than cash.
 - more liquid than accounts receivable.
 - more liquid than prepaid expenses.
 - 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

128. On a classified balance sheet, inventory is classified as
- an intangible asset.
 - property, plant, and equipment.
 - a current asset.
 - 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

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129. Gross profit for a merchandiser is net sales minus
- operating expenses.
 - cost of goods sold.
 - sales discounts.
 - 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

130. During 2014, Parker Enterprises generated revenues of \$90,000. The company's expenses were as follows: cost of goods sold of \$45,000, operating expenses of \$18,000 and a loss on the sale of equipment of \$3,000.

Parker's gross profit is

- \$24,000.
- \$27,000.
- \$45,000.
- \$90,000.

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

131. During 2014, Parker Enterprises generated revenues of \$90,000. The company's expenses were as follows: cost of goods sold of \$45,000, operating expenses of \$18,000 and a loss on the sale of equipment of \$3,000.

Yoder's income from operations is

- \$18,000.
- \$27,000.
- \$45,000.
- \$90,000.

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

132. During 2014, Parker Enterprises generated revenues of \$90,000. The company's expenses were as follows: cost of goods sold of \$45,000, operating expenses of \$18,000 and a loss on the sale of equipment of \$3,000.

Yoder's net income is

- \$24,000.
- \$27,000.
- \$45,000.
- \$90,000.

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

133. Financial information is presented below:

Operating Expenses	\$ 60,000
Sales Revenue	225,000
Cost of Goods Sold	135,000

Gross profit would be

- \$30,000.
- \$90,000.

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- c. \$165,000.
- d. \$225,000.

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

Solution: $\$225,000 - \$135,000 = \$90,000$

134. Financial information is presented below:

Operating Expenses	\$ 60,000
Sales Revenue	225,000
Cost of Goods Sold	135,000

The gross profit rate would be

- a. .133.
- b. .400.
- c. .600.
- d. .733.

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

Solution: $(\$225,000 - \$135,000) \div \$225,000 = .40$

135. Financial information is presented below:

Operating Expenses	\$ 90,000
Sales Returns and Allowances	26,000
Sales Discounts	12,000
Sales	300,000
Cost of Goods Sold	158,000

Gross profit would be

- a. \$104,000.
- b. \$116,000.
- c. \$130,000.
- d. \$142,000.

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

Solution: $\$300,000 - \$26,000 - \$12,000 = \$262,000$; $\$262,000 - \$158,000 = \$104,000$

136. Financial information is presented below:

Operating Expenses	\$ 90,000
Sales Returns and Allowances	26,000
Sales Discounts	12,000
Sales Revenue	300,000
Cost of Goods Sold	158,000

The gross profit rate would be

- a. .347.
- b. .397.
- c. .473.
- d. .542.

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

Solution: $\$300,000 - \$26,000 - \$12,000 = \$262,000$; $(\$262,000 - \$158,000) \div \$262,000 = .397$

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137. Financial information is presented below:

Operating Expenses	\$ 90,000
Sales Returns and Allowances	18,000
Sales Discounts	12,000
Sales Revenue	320,000
Cost of Goods Sold	174,000

The amount of net sales on the income statement would be

- a. \$290,000.
- b. \$302,000.
- c. \$308,000.
- d. \$320,000.

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

Solution: $\$320,000 - \$18,000 - \$12,000 = \$290,000$

138. Financial information is presented below:

Operating Expenses	\$ 90,000
Sales Returns and Allowances	18,000
Sales Discounts	12,000
Sales Revenue	320,000
Cost of Goods Sold	174,000

Gross profit would be

- a. \$26,000.
- b. \$116,000.
- c. \$128,000.
- d. \$134,000.

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

Solution: $\$320,000 - \$18,000 - \$12,000 = \$290,000$; $\$290,000 - \$174,000 = \$116,000$

139. Financial information is presented below:

Operating Expenses	\$ 90,000
Sales Returns and Allowances	18,000
Sales Discounts	12,000
Sales Revenue	320,000
Cost of Goods Sold	174,000

The gross profit rate would be

- a. .363.
- b. .400.
- c. .456.
- d. .503.

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

Solution: $\$320,000 - \$18,000 - \$12,000 = \$290,000$; $(\$290,000 - \$174,000) \div \$290,000 = .40$

140. If a company has sales revenue of \$630,000, net sales of \$600,000, and cost of goods sold of \$390,000, the gross profit rate is
- 35%.
 - 38%.
 - 62%.
 - 65%.

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

Solution: $(\$600,000 - \$390,000) \div \$600,000 = 35\%$

141. Dawson's Fashions sold merchandise for \$40,000 cash during the month of July. Returns that month totaled \$1,000. If the company's gross profit rate is 40%, Murray's will report monthly net sales revenue and cost of goods sold of
- \$39,000 and \$23,400.
 - \$39,000 and \$24,000.
 - \$40,000 and \$23,400.
 - \$40,000 and \$24,000.

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

142. During August, 2014, Baxter's Supply Store generated revenues of \$60,000. The company's expenses were as follows: cost of goods sold of \$36,000 and operating expenses of \$4,000. The company also had rent revenue of \$1,000 and a gain on the sale of a delivery truck of \$2,000.

Baxter's gross profit for August, 2014 is

- \$20,000.
- \$21,000.
- \$23,000.
- \$24,000.

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

Solution: $\$60,000 - \$36,000 = \$24,000$

143. During August, 2014, Baxter's Supply Store generated revenues of \$60,000. The company's expenses were as follows: cost of goods sold of \$36,000 and operating expenses of \$4,000. The company also had rent revenue of \$1,000 and a gain on the sale of a delivery truck of \$2,000.

Baxter's nonoperating income (loss) for the month of August, 2014 is

- \$0.
- \$1,000.
- \$2,000.
- \$3,000.

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

Solution: $\$1,000 + \$2,000 = \$3,000$

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144. During August, 2014, Baxter's Supply Store generated revenues of \$60,000. The company's expenses were as follows: cost of goods sold of \$36,000 and operating expenses of \$4,000. The company also had rent revenue of \$1,000 and a gain on the sale of a delivery truck of \$2,000.

Baxter's operating income for the month of August, 2014 is

- a. \$20,000.
- b. \$21,000.
- c. \$23,000.
- d. \$24,000.

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

Solution: $\$60,000 - \$36,000 - \$4,000 = \$20,000$

145. During August, 2014, Baxter's Supply Store generated revenues of \$60,000. The company's expenses were as follows: cost of goods sold of \$36,000 and operating expenses of \$4,000. The company also had rent revenue of \$1,000 and a gain on the sale of a delivery truck of \$2,000.

Baxter's net income for August, 2014 is

- a. \$20,000.
- b. \$21,000.
- c. \$23,000.
- d. \$24,000.

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

Solution: $\$60,000 - \$36,000 - 4,000 + \$1,000 + \$2,000 = \$23,000$

- ^a146. 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 balance sheet columns only.
 - c. trial balance, adjusted trial balance, and balance sheet 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

- ^a147. The Inventory account balance appearing in a perpetual inventory 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

- ^a148. The following information is available for Dennehy Company:

Sales Revenue	\$390,000	Freight-In	\$30,000
Ending Inventory	37,500	Purchase Returns and Allowances	15,000
Purchases	270,000	Beginning Inventory	45,000

Dennehy's cost of goods sold is

- a. \$262,500.
- b. \$285,000.

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- c. \$292,500.
- d. \$345,000.

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

Solution: $\$45,000 + \$270,000 - \$15,000 + \$30,000 - \$37,500 = \$292,500$

- ^a149. At the beginning of September, 2014, Stella Company reported Inventory of \$8,000. During the month, the company made purchases of \$35,600. At September 30, 2014, a physical count of inventory reported \$8,400 on hand. Cost of goods sold for the month is
- a. \$35,200.
 - b. \$35,600.
 - c. \$36,000.
 - d. \$43,600.

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

Solution: $\$8,000 + \$35,600 - \$8,400 = \$35,200$

- ^a150. At the beginning of the year, Hunt Company had an inventory of \$750,000. During the year, the company purchased goods costing \$2,400,000. If Hunt Company reported ending inventory of \$900,000 and sales of \$3,750,000, the company's cost of goods sold and gross profit rate must be
- a. \$1,500,000 and 66.7%.
 - b. \$2,250,000 and 40%.
 - c. \$1,500,000 and 40%.
 - d. \$2,250,000 and 60%.

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

Solution: $\$750,000 + \$2,400,000 - \$900,000 = \$2,250,000$; $(\$3,750,000 - \$2,250,000) \div \$3,750,000 = 40\%$

- ^a151. During the year, Slick's Pet Shop's inventory decreased by \$25,000. If the company's cost of goods sold for the year was \$500,000, purchases must have been
- a. \$475,000.
 - b. \$500,000.
 - c. \$525,000.
 - d. Unable to determine.

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

Solution: $\$500,000 - \$25,000 = \$475,000$

- ^a152. 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

- ^a153. 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

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- ^a154. Net purchases plus freight-in determines
- cost of goods sold.
 - cost of goods available for sale.
 - cost of goods purchased.
 - 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

- ^a155. Goldblum 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	10,000

The cost of goods purchased for the period is

- \$80,800.
- \$88,000.
- \$94,000.
- \$104,000.

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

Solution: $\$96,000 - \$8,000 + \$6,000 = \$94,000$

- ^a156. McKendrick Shoe Store has a beginning inventory of \$45,000. During the period, purchases were \$195,000; 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
- \$189,000.
 - \$204,000.
 - \$219,000.
 - \$249,000.

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

Solution: $\$45,000 + \$195,000 - \$6,000 + \$15,000 = \$249,000$

- ^a157. In a periodic inventory system, a return of defective merchandise to a supplier is recorded by crediting
- Accounts Payable.
 - Inventory.
 - Purchases.
 - 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

- ^a158. Which one of the following transactions is recorded with the same entry in a perpetual and a periodic inventory system?
- Cash received on account with a discount
 - Payment of freight costs on a purchase
 - Return of merchandise sold
 - 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

- ^a159. The journal entry to record a return of merchandise purchased on account under a periodic inventory system would be
- Accounts Payable
Purchase Returns and Allowances
 - Purchase Returns and Allowances
Accounts Payable
 - Accounts Payable
Inventory
 - 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

- ^a160. Under a periodic inventory system, acquisition of merchandise is debited to the
- Inventory account.
 - Cost of Goods Sold account.
 - Purchases account.
 - 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

- ^a161. Which of the following accounts has a normal credit balance?
- Purchases
 - Sales Returns and Allowances
 - Freight-In
 - 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

- ^a162. The respective normal account balances of Purchases, Purchase Discounts, and Freight-in are
- credit, credit, debit.
 - debit, credit, credit.
 - debit, credit, debit.
 - 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

- ^a163. Cobb Company's accounting records show the following at the year ending on December 31, 2014:

Purchase Discounts	\$ 11,200
Freight - In	15,600
Purchases	402,000
Beginning Inventory	47,000
Ending Inventory	57,600
Purchase Returns	12,800

Using the periodic system, the cost of goods purchased is

- \$378,000.
- \$383,000.
- \$393,600.
- \$404,200.

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

Solution: $\$402,000 - \$11,200 - \$12,800 + \$15,600 = \$393,600$

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164. Cobb Company's accounting records show the following at the year ending on December 31, 2014:

Purchase Discounts	\$ 11,200
Freight - In	15,600
Purchases	402,000
Beginning Inventory	47,000
Ending Inventory	57,600
Purchase Returns	12,800

Using the periodic system, the cost of goods sold is

- a. \$378,000.
- b. \$383,000.
- c. \$393,600.
- d. \$404,200.

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

Solution: $\$47,000 + \$402,000 - \$11,200 - \$12,800 + \$15,600 - \$57,600 = \$383,000$

165. Ezra Company has sales revenue of \$60,000, cost of goods sold of \$36,000 and operating expenses of \$14,000 for the year ended December 31. Ezra's gross profit is

- a. \$0.
- b. \$10,000.
- c. \$24,000.
- d. \$46,000.

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

Solution: $\$60,000 - \$36,000 = \$24,000$

166. Rae Company uses a perpetual inventory system made a purchase of merchandise on credit from Tyree Corporation on August 3, for \$9,000, terms 2/10, n/45. On August 10, Rae makes the appropriate payment to Tyree. The entry on August 10 for Rae Company is

a. Accounts Payable	9,000	
Cash		9,000
b. Accounts Payable	8,820	
Cash		8,820
c. Accounts Payable	9,000	
Purchase Returns and Allowances		180
Cash		8,820
d. Accounts Payable	9,000	
Inventory		180
Cash		8,820

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

Solution: $\$9,000 \times .98 = \$8,820$

167. Kate Company uses a perpetual inventory system purchased inventory from Phoebe Company. The shipping costs were \$500 and the terms of the shipment were FOB shipping point. Kate would have the following entry regarding the shipping charges:
- There is no entry on Kate's books for this transaction.
 - | | | |
|-----------------------|-----|-----|
| Freight Expense | 500 | |
| Cash | | 500 |
 - | | | |
|-------------------|-----|-----|
| Freight-Out | 500 | |
| Cash | | 500 |
 - | | | |
|----------------|-----|-----|
| Inventory..... | 500 | |
| Cash | | 500 |

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

168. In a perpetual inventory system, a return of defective merchandise by a purchaser is recorded by crediting
- Purchases.
 - Purchase Returns.
 - Purchase Allowance.
 - 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

169. On October 4, 2014, JT Corporation had credit sales transactions of \$4,000 from merchandise having cost \$2,400. The entries to record the day's credit transactions include a
- debit of \$4,000 to Inventory.
 - credit of \$4,000 to Sales Revenue.
 - debit of \$2,400 to Inventory.
 - credit of \$2,400 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

170. Which of the following accounts is **not** closed to Income Summary?
- Cost of Goods Sold
 - Inventory
 - Sales Revenue
 - 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

171. In the Augie Company, sales were \$750,000, sales returns and allowances were \$30,000, and cost of goods sold was \$450,000. The gross profit rate was
- 36%.
 - 37.5%.
 - 40%.
 - 41.7%.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$750,000 - \$30,000) - \$450,000 = \$270,000$; $\$270,000 \div \$720,000 = 37.5\%$

172. Net sales is sales revenue less
- sales discounts.
 - sales returns.
 - sales returns and allowances.
 - 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

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173. In the balance sheet, ending inventory is reported
- in current assets immediately following accounts receivable.
 - in current assets immediately following prepaid expenses.
 - in current assets immediately following cash.
 - 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

- ^a174. Cost of goods available for sale is computed by adding
- freight-in to net purchases.
 - beginning inventory to net purchases.
 - beginning inventory to purchases and freight-in.
 - beginning inventory to cost of goods purchased.

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

175. The Income statement is
- required under GAAP but not under IFRS.
 - required under IFRS in the same format as under GAAP.
 - required under IFRS but not under GAAP.
 - required under IFRS with some differences as compared to GAAP.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

176. The basic accounting entries for merchandising are
- the same under GAAP and under IFRS.
 - required under GAAP but not under IFRS.
 - required under IFRS but not under GAAP.
 - required under IFRS with some differences as compared to GAAP.

IFRS. Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

177. Under GAAP, companies can choose which inventory system?

	<u>Perpetual</u>	<u>Periodic</u>
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	Yes	No

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

178. Under IFRS, companies can choose which inventory system?

	<u>Perpetual</u>	<u>Periodic</u>
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	Yes	No

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

179. Companies cannot use the
- periodic inventory system under GAAP.
 - periodic inventory system under IFRS.
 - perpetual system under IFRS.
 - both periodic and perpetual can be used under GAAP and IFRS.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

180. Inventories are defined by IFRS as
- held-for-sale in the ordinary course of business.
 - in the process of production for sale in the ordinary course of business.
 - in the form of materials or supplies to be consumed in the production process or in the providing of services.
 - All of these answer choices are correct.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

181. Under GAAP, companies generally classify income statement items by
- function.
 - nature.
 - nature or function
 - date incurred.

IFRS. Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

182. Under IFRS, companies must classify income statement items by
- function.
 - nature.
 - nature or function
 - date incurred.

IFRS. Ans: C, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

183. Under GAPP, income statement items are generally described as
- administration, distribution, manufacturing, etc.
 - salaries, depreciation, utilities, etc.
 - administration, depreciation, manufacturing, etc.
 - salaries, distribution, utilities, etc.

IFRS. Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

184. Under IFRS, income statement items are generally described as
- administration, distribution, manufacturing, etc.
 - salaries, depreciation, utilities, etc.
 - administration, depreciation, manufacturing, etc.
 - salaries, distribution, utilities, etc.

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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185. For the income statement, IFRS requires
- single-step approach.
 - multiple-step approach.
 - single-step approach or multiple-step approach.
 - no specific income statement approach.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

186. Under IFRS, companies can apply revaluation to
- land, buildings, and intangible assets.
 - land, buildings, but not intangible assets.
 - intangible assets, but not land or beer.
 - no assets.

IFRS. Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

187. The use of IFRS results in more transactions affecting
- net income but not other comprehensive income.
 - other comprehensive income, but not net income.
 - but net income and other comprehensive income.
 - neither net income nor other comprehensive income.

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

188. Comprehensive income under IFRS
- includes unrealized gains and losses included in net income, in contrast to GAAP.
 - includes unrealized gains and losses included in net income, similar to GAAP.
 - excludes unrealized gains and losses included in net income, in contrast to GAAP.
 - excludes unrealized gains and losses included in net income, similar to GAAP.

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

189. The number of years of income statement information to be presented is
- 2 years under both GAAP and IFRS.
 - 3 years under both GAAP and IFRS.
 - 2 years under GAAP and 3 years under IFRS.
 - 3 years under GAAP and 2 years under IFRS.

IFRS. Ans: D, LO: 8, 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.
43.	b	64.	b	85.	c	106.	c	127.	c	^a 148.	c	169.	b
44.	c	65.	c	86.	a	107.	a	128.	c	^a 149.	a	170.	b
45.	c	66.	c	87.	d	108.	b	129.	b	^a 150.	b	171.	b
46.	a	67.	b	88.	c	109.	a	130.	c	^a 151.	a	172.	d
47.	c	68.	a	89.	d	110.	c	131.	b	^a 152.	b	173.	a
48.	c	69.	c	90.	b	111.	b	132.	a	^a 153.	a	^a 174.	d
49.	a	70.	c	91.	d	112.	a	133.	b	^a 154.	c	175.	d
50.	b	71.	c	92.	a	113.	a	134.	b	^a 155.	c	176.	a
51.	b	72.	a	93.	b	114.	d	135.	a	^a 156.	d	177.	b
52.	d	73.	d	94.	b	115.	c	136.	b	^a 157.	d	178.	b
53.	b	74.	c	95.	c	116.	d	137.	a	^a 158.	a	179.	d
54.	a	75.	c	96.	a	117.	b	138.	b	^a 159.	a	180.	d
55.	b	76.	a	97.	c	118.	b	139.	b	^a 160.	c	181.	a
56.	d	77.	c	98.	d	119.	d	140.	a	^a 161.	d	182.	c
57.	d	78.	a	99.	d	120.	b	141.	a	^a 162.	c	183.	a
58.	a	79.	d	100.	a	121.	c	142.	d	^a 163.	c	184.	b
59.	d	80.	a	101.	c	122.	c	143.	d	^a 164.	b	185.	d
60.	c	81.	c	102.	a	123.	a	144.	a	165.	c	186.	a
61.	b	82.	b	103.	c	124.	b	145.	c	166.	d	187.	b
62.	a	83.	d	104.	d	125.	a	^a 146	c	167.	d	188.	b
63.	b	84.	c	105.	d	126.	c	^a 147	a	168.	d	189.	d

BRIEF EXERCISES

BE 190

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

<u>Sales</u>	<u>Cost of</u>	<u>Gross</u>	<u>Operating</u>	<u>Net</u>
<u>Revenue</u>	<u>Goods Sold</u>	<u>Profit</u>	<u>Expenses</u>	<u>Income</u>
\$75,000	(a)	\$35,000	(b)	\$17,000
(c)	\$86,000	\$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 190 (5 min.)

- \$40,000
- \$18,000
- \$145,000
- \$11,000

BE 191

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

- (a) Kelly purchased \$45,000 of merchandise on account, terms 2/10, n/30.
- (b) Returned \$3,000 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 191 (5 min.)

(a) Inventory.....	45,000	
Accounts Payable		45,000
(b) Accounts Payable.....	3,000	
Inventory.....		3,000
(c) Accounts Payable (\$45,000 – \$3,000).....	42,000	
Inventory (\$42,000 × .02).....		840
Cash (\$42,000 – \$840).....		41,160

BE 192

Garth Company sold goods on account to Kyle Enterprises with terms of 2/10, n/30. The goods had a cost of \$600 and a selling price of \$1,100. Both Garth and Kyle use a perpetual inventory system. Record the sale on the books of Garth and the purchase on the books of Kyle.

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 192 (3 min.)

Journal entry on Garth's books:

Accounts Receivable.....	1,100	
Sales.....		1,100
Cost of Goods Sold.....	600	
Inventory.....		600

Journal entry on Kyle's books:

Inventory.....	1,100	
Accounts Payable.....		1,100

BE 193

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 193 (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 194

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

- May 13 Sold 8 motors at a cost of \$45 each to Scruffy Brothers Supply Company, terms 4/10, n/30. The motors cost Charlie \$26 each.
- May 16 One defective motor was returned to Charlie.
- May 23 Received payment in full from Scruffy Brothers. Round to nearest dollar.

Instructions

Journalize the May transactions for Charlie Company (seller) assuming that Charlie uses a perpetual inventory system. You may omit explanations. Round amounts to nearest dollar.

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 194 (8 min.)

May 13	Accounts Receivable	360	
	Sales Revenue.....		360
	Cost of Goods Sold.....	208	
	Inventory		208
May 16	Sales Returns and Allowances	45	
	Accounts Receivable.....		45
	Inventory.....	26	
	Cost of Goods Sold		26
May 23	Cash.....	302	
	Sales Discounts (\$315 × .04).....	13	
	Accounts Receivable (\$360 – \$45).....		315

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BE 195

The income statement for Pepe Serna Company for the year ended December 31, 2014 is as follows:

PEPE SERNA COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Sales revenue.....		\$58,000
Interest revenue.....		<u>3,000</u>
Total revenues		61,000
Expenses		
Cost of goods sold.....	\$33,000	
Salaries and wages expense	13,000	
Interest expense	<u>1,000</u>	
Total expenses.....		<u>47,000</u>
Net income		<u>\$ 14,000</u>

Prepare the entries to close the revenue and expense accounts at December 31, 2014. 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 195 (5 min.)

Dec. 31	Sales Revenue.....	58,000	
	Interest Revenue.....	3,000	
	Income Summary		61,000
31	Income Summary.....	47,000	
	Cost of Goods Sold		33,000
	Salaries and Wages Expense.....		13,000
	Interest Expense		1,000

BE 196

Hoyt Company provides this information for the month of November, 2014: sales on credit \$170,000; cash sales \$70,000; sales discounts \$2,000; and sales returns and allowances \$9,000. 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 196 (3 min.)

HOYT COMPANY
Income Statement (Partial)
For the Month Ended November 30, 2014

Sales Revenue		\$240,000
Less: Sales Returns and Allowances.....	\$9,000	
Sales Discounts	<u>2,000</u>	<u>11,000</u>
Net Sales.....		<u>\$229,000</u>

BE 197

During October, 2014, Red's Catering Company generated revenues of \$14,000. Sales discounts totaled \$200 for the month. Expenses were as follows: Cost of goods sold of \$7,700 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 197 (4 min.)

- (1) Gross profit: \$6,100 (\$14,000 - \$200 - \$7,700)
 (2) Income from operations: \$4,100 (\$6,100 - \$2,000)

^aBE 198

For each of the following, determine the missing amounts.

	Beginning Inventory	Purchases	Goods Available for Sale	Cost of Goods Sold	Ending Inventory
1.	\$10,000	_____	\$ 45,000	\$25,000	_____
2.	_____	\$220,000	\$265,000	_____	\$40,000

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

^aSolution 198 (4 min.)

1. Purchases \$35,000 (\$45,000 – \$10,000), Ending inventory \$20,000 (\$45,000 – \$25,000)
 2. Beginning inventory \$45,000 (\$265,000 – \$220,000), Cost of Goods Sold \$225,000 (\$265,000 – \$40,000)

^aBE 199

Assume that Swann Company uses a periodic inventory system and has these account balances: Purchases \$525,000; Purchase Returns and Allowances \$14,000; Purchase Discounts \$9,000; 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

^aSolution 199 (4 min.)

Calculation of Net purchases and Cost of goods purchased

Purchases.....		\$525,000
Less: Purchase returns and Allowances	\$14,000	
Purchase discounts	<u>9,000</u>	<u>23,000</u>
Net purchases.....		502,000
Add: Freight-in		<u>15,000</u>
Cost of goods purchased		<u>\$517,000</u>

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^aBE 200

Assume that Swann Company uses a periodic inventory system and has these account balances: Purchases \$630,000; Purchase Returns and Allowances \$25,000; Purchase Discounts \$11,000; and Freight-In \$19,000; 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 200 (6 min.)

Inventory, beginning		\$ 45,000
Purchases	\$630,000	
Less: Purchase returns and allowances	\$25,000	
Purchase discounts	<u>11,000</u>	<u>36,000</u>
Net purchases		594,000
Add: Freight-in.....		<u>19,000</u>
Cost of goods purchased.....		<u>613,000</u>
Cost of goods available for sale.....		658,000
Inventory, ending.....		<u>55,000</u>
Cost of goods sold.....		<u>\$603,000</u>

^aBE 201

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

- May 13 Purchased 8 motors at a cost of \$45 each from Charlie Company, terms 4/10, n/30. The motors cost Charlie Company \$26 each.
- May 16 Returned 1 defective motor to Charlie.
- May 23 Paid Charlie Company in full. Round to nearest dollar.

Instructions

Journalize the May transactions for Scruffy 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

^aSolution 201 (6 min.)

May	13	Purchases	360	
		Accounts Payable.....		360
May	16	Accounts Payable	45	
		Purchase Returns and Allowances		45
May	23	Accounts Payable (\$360 – \$45)	315	
		Purchase Discounts (\$315 × .04)		13
		Cash.....		302

EXERCISES**Ex. 202**

For each of the following, determine the missing amounts.

	<u>Sales</u> <u>Revenue</u>	<u>Cost of</u> <u>Goods Sold</u>	<u>Gross</u> <u>Profit</u>	<u>Operating</u> <u>Expenses</u>	<u>Net</u> <u>Income</u>
1.	\$100,000	_____	_____	\$30,000	\$12,000
2.	_____	\$135,000	\$125,000	_____	\$80,000

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 202 (5 min.)

- Gross Profit = \$42,000 (\$30,000 + \$12,000)
Cost of Goods Sold = \$58,000 (\$100,000 – \$42,000)
- Sales = \$260,000 (\$135,000 + \$125,000)
Operating Expenses = \$45,000 (\$125,000 – \$80,000)

Ex. 203

On October 1, Benji's 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 40 bicycles at a cost of \$200 each from Monrue Bicycle Company, terms 1/10, n/30.
- 6 Sold 25 bicycles to Team Wisconsin for \$330 each, terms 2/10, n/30.
- 7 Received credit from Monrue Bicycle Company for the return of 2 defective bicycles.
- 13 Issued a credit memo to Team Wisconsin for the return of a defective bicycle.
- 14 Paid Monroe 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 203 (20 min.)

Oct. 4	Inventory.....	8,000	
	Accounts Payable		8,000
6	Accounts Receivable	8,250	
	Sales Revenue.....		8,250
	Cost of Goods Sold.....	5,000	
	Inventory		5,000
7	Accounts Payable.....	400	
	Inventory		400

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Solution 203 (Cont.)

13	Sales Returns and Allowances.....	330	
	Accounts Receivable.....		330
	Inventory.....	200	
	Cost of Goods Sold.....		200
14	Accounts Payable (\$8,000 – \$400).....	7,600	
	Cash (\$7,600 × .99).....		7,524
	Inventory (\$7,600 × .01).....		76

Ex. 204

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 70 backpacks at \$20 each from Hunter, terms 2/10, n/30.
- Sept. 6 Received credit of \$100 for the return of 5 backpacks purchased on Sept. 4 that were defective.
- Sept. 9 Sold 40 backpacks for \$35 each to Oliver Books, terms 2/10, n/30.
- Sept. 13 Sold 15 backpacks for \$35 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 204 (20 min.)

Sept. 4	Inventory.....	1,400	
	Accounts Payable.....		1,400
Sept. 6	Accounts Payable.....	100	
	Inventory.....		100
Sept. 9	Accounts Receivable.....	1,400	
	Sales Revenue.....		1,400
	Cost of Goods Sold.....	800	
	Inventory.....		800
Sept. 13	Accounts Receivable.....	525	
	Sales Revenue.....		525
	Cost of Goods Sold.....	300	
	Inventory.....		300

Solution 204 (Cont.)

Sept. 14	Accounts Payable (\$1,400– \$100)	1,300	
	Cash (\$1,300 × .98)		1,274
	Inventory (\$1,300 × .02)		26

Ex. 205

Sam Wainwright is a new accountant with Ground floor Company. Ground floor purchased merchandise on account for \$18,000. The credit terms are 1/10, n/30. Sam has talked with the company's banker and knows that he could earn 4% on any money invested in the company's savings account.

Instructions

- (a) Should Sam pay the invoice within the discount period or should he keep the \$18,000 in the money market account and pay at the end of the credit period? Support your recommendation with a calculation showing which action would be best.
- (b) If Sam forgoes the discount, it may be viewed as paying an interest rate of 2% for the use of \$18,000 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 205 (10 min.)

Dan should pay the invoice within the discount period to save \$140:

- | | | | |
|-----|---|--------------|----------------------------|
| (a) | Discount of 1% on \$18,000 | \$180 | |
| | Interest received on \$18,000 (for 20 days at 4%) | <u>40</u> | (\$18,000 × 4% × 20 ÷ 360) |
| | Savings by taking the discount | <u>\$140</u> | |
- (b) The equivalent annual interest rate is:
 $1\% \times 360 \div 20 = 18\%$.

Ex. 206

- (a) Karns Company purchased merchandise on account from Bailey Office Suppliers for \$174,000, with terms of 2/10, n/30. During the discount period, Karns returned some merchandise and paid \$156,800 as payment in full. Karns uses a perpetual inventory system. Prepare the journal entries that Karns Company made to record:
- (1) the purchase of merchandise.
 - (2) the return of merchandise.
 - (3) the payment on account.
- (b) Hinds Company sold merchandise to Peter Company on account for \$146,000 with credit terms of ?/10, n/30. The cost of the merchandise sold was \$86,140. During the discount period, Peter Company returned \$6,000 of merchandise and paid its account in full (minus the discount) by remitting \$137,200 in cash. Both companies use a perpetual inventory system. Prepare the journal entries that Hinds Company made to record:
- (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 206 (20 min.)

- (a) To compute the amount due after returns but before the discount, divide \$156,800 by .98 (100% – 2%).
 $\$156,800 \div .98 = \$60,000$.
 Subtract \$60,000 from \$174,000 to determine that \$174,000 of merchandise was returned.

(1)	Inventory	174,000	
	Accounts Payable.....		174,000
(2)	Accounts Payable	14,000	
	Inventory		14,000
(3)	Accounts Payable	160,000	
	Inventory		3,200
	Cash.....		156,800

- (b) Peter Company returns \$6,000 of merchandise and owes \$140,000 to Hinds Company.
 $\$137,200 \div \$140,000 = .98$
 $100\% - 98\% = 2\%$
 The missing discount percentage is 2%. $\$140,000 \times 2\% = \$2,800$ sales discount.
 $\$140,000 - \$2,800 = \$137,200$ cash received on account.

(1)	Accounts Receivable.....	146,000	
	Sales Revenue		146,000
	Cost of Goods Sold	86,140	
	Inventory		86,140
(2)	Sales Returns and Allowances.....	6,000	
	Accounts Receivable		6,000
	Inventory [$\$6,000 \times (\$86,140 \div \$146,000)$]	3,540	
	Cost of Goods Sold		3,540
(3)	Cash	137,200	
	Sales Discounts	2,800	
	Accounts Receivable.....		140,000

Ex. 207

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

1. A \$270 refund to a customer for faulty merchandise was debited to Sales Revenue \$270 and credited to Cash \$270.
2. A \$310 credit purchase of supplies was debited to Inventory \$310 and credited to Cash \$310.
3. A \$190 sales return was debited to Sales Revenue.
4. A cash payment of \$40 for freight on merchandise purchases was debited to Freight-Out \$400 and credited to Cash \$400.

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 207 (6-8 min.)

1.	Sales Returns and Allowances	270	
	Sales Revenue		270
2.	Supplies	310	
	Cash	310	
	Accounts Payable		310
	Inventory		310
3.	Sales Returns and Allowances	190	
	Sales Revenue		190
4.	Inventory	40	
	Cash	360	
	Freight-Out		400

Ex. 208

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

- Purchased \$35,000 of merchandise on account, terms 2/10, n/30.
- Returned \$700 of damaged merchandise for credit.
- 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 208 (6-8 min.)

(a)	Inventory	35,000	
	Accounts Payable		35,000
(b)	Accounts Payable	700	
	Inventory		700
(c)	Accounts Payable (\$35,000 – \$700)	34,300	
	Inventory ($\$34,300 \times .02$)		686
	Cash ($\$33,614 - \686)		33,314

Ex. 209

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

- Eustace sells \$45,000 of merchandise, terms 1/10, n/30. The merchandise cost \$30,000.
- The customer in (a) returned \$4,000 of merchandise to Eustace. The merchandise returned cost \$2,400.
- Eustace 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

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Solution 209 (7-9 min.)

(a)	Accounts Receivable	45,000	
	Sales Revenue.....		45,000
	Cost of Goods Sold.....	30,000	
	Inventory		30,000
(b)	Sales Returns and Allowances	4,000	
	Accounts Receivable.....		4,000
	Inventory.....	2,400	
	Cost of Goods Sold.....		2,400
(c)	Cash (\$40,000 – \$400)	40,590	
	Sales Discounts (\$40,000 × .01).....	410	
	Accounts Receivable.....		41,000

Ex. 210

Newell Company completed the following transactions in October:

<u>Credit Sales</u>			<u>Sales Returns</u>		<u>Date of Collection</u>
<u>Date</u>	<u>Amount</u>	<u>Terms</u>	<u>Date</u>	<u>Amount</u>	
Oct. 3	\$ 600	2/10, n/30			Oct. 8
Oct. 11	1,700	3/10, n/30	Oct. 14	\$ 400	Oct. 16
Oct. 17	5,000	1/10, n/30	Oct. 20	1,000	Oct. 29
Oct. 21	1,400	2/10, n/60	Oct. 23	200	Oct. 27
Oct. 23	2,300	2/10, n/30	Oct. 27	400	Oct. 28

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 210 (20 min.)

- (a) Oct. 8 \$588 [Sales \$600 – Sales discount \$12 (\$600 × .02)]
- Oct. 16 \$1,261 [Sales \$1,700 – Sales return \$400 = \$1,300
\$1,300 – Sales discount \$39 (\$1,300 × .03)]
- Oct. 29 \$4,000 [Sales \$5,000 – Sales return \$1,000 = \$4,000;
(Discount lapsed)]
- Oct. 27 \$1,176 [Sales \$1,400 – Sales return \$200 = \$1,200;
\$1,200 – Sales discount \$24 (\$1,200 × .02)]
- Oct. 28 \$1,862 [Sales \$2,300 – Sales return \$400 = \$1,900;
\$1,900 – Sales discount \$38 (\$1,900 × .02)]

Solution 210 (Cont.)

(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.....	1,862	
		Sales Discounts.....	38	
		Accounts Receivable		1,900

Ex. 211

The following information is available for Moiz Company:

	<u>Debit</u>	<u>Credit</u>
Owner's Capital		\$ 50,000
Owner's Drawings	\$ 30,000	
Sales Revenue		510,000
Sales Returns and Allowances	20,000	
Sales Discounts	7,000	
Cost of Goods Sold	310,000	
Freight-Out	2,000	
Advertising Expense	15,000	
Interest Expense	19,000	
Salaries and Wages Expense	55,000	
Utilities Expense	18,000	
Depreciation Expense	7,000	
Interest Revenue		23,000

Instructions

Using the above information, prepare the closing entries for Moiz 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 211 (10 min.)

Dec. 31	Interest Revenue	23,000	
	Sales Revenue	510,000	
	Income Summary.....		533,000
31	Income Summary.....	453,000	
	Sales Returns and Allowances.....		20,000
	Sales Discounts		7,000
	Cost of Goods Sold.....		310,000
	Freight-Out.....		2,000
	Advertising Expense		15,000

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Solution 211	(Cont.)		
	Interest Expense		19,000
	Salaries and Wages Expense.....		55,000
	Utilities Expense.....		18,000
	Depreciation Expense		7,000
31	Income Summary.....	80,000	
	Owner's Capital.....		80,000
31	Owner's Capital	30,000	
	Owner's Drawings		30,000

Ex. 212

The adjusted trial balance of J. W. Hatch Company appears below.

J. W. HATCH Adjusted Trial Balance December 31, 2014		
	<u>Debit</u>	<u>Credit</u>
Cash	12,000	
Accounts Receivable	25,000	
Inventory	35,000	
Buildings	140,000	
Accumulated Depreciation— Buildings		20,000
Accounts Payable		12,000
Owner's Capital		144,000
Owner's Drawings	30,000	
Sales Revenue		310,000
Sales Discounts	6,000	
Sales Returns & Allowances	8,000	
Cost of Goods Sold	188,000	
Operating Expenses	<u>42,000</u>	
	<u>486,000</u>	<u>486,000</u>

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 212 (10 min.)

Dec. 31	Sales Revenue.....	310,000	
	Income Summary		310,000
	(To close credit balance accounts)		
31	Income Summary.....	244,000	
	Sales Discounts.....		6,000
	Sales Returns and Allowances		8,000
	Cost of Goods Sold		188,000
	Operating Expense.....		42,000

Solution 212 (Cont.)
(To close accounts with debit balances)

31	Income Summary.....	66,000	
	Owner's Capital.....		66,000
	(To transfer net income to capital)		
31	Owner's Capital	30,000	
	Owner's Drawings.....		30,000
	(To close drawings account to capital)		

Ex. 213

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 213 (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.....		85,600
	Operating Expenses		39,000
	Sales Returns and Allowances		2,300
	Sales Discounts.....		1,600
	Income Summary (\$144,000 – \$128,500)	15,500	
	Owner's, Capital		15,500

Ex. 214

Financial information is presented below for two different companies.

	Gower <u>Drugs</u>	Martini <u>Food and Liquor</u>
Sales revenue	\$90,000	\$ (e)
Sales returns and allowances	(a)	3,000
Net sales	86,000	95,000
Cost of goods sold	56,000	(f)
Gross profit	(b)	36,000
Operating expenses	22,000	(g)
Income from operations	(c)	(h)
Other expenses and losses	4,000	7,000
Net income	(d)	11,000

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Ex. 214 (Cont)

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 214 (15 min.)

(*Missing amount)

(a)	Sales	\$ 90,000
	Sales returns and allowances	<u>4,000*</u>
	Net sales	<u>\$ 86,000</u>
(b)	Net sales	\$ 86,000
	Cost of goods sold	<u>56,000</u>
	Gross profit	<u>\$ 30,000*</u>
(c) and (d)		
	Gross profit	\$ 30,000
	Operating expenses	<u>22,000</u>
	Income from operations (c)	<u>\$ 8,000*</u>
	Other expenses and losses	<u>4,000</u>
	Net income (d)	<u>\$ 4,000*</u>
(e)	Sales	\$ 98,000*
	Sales returns and allowances	<u>3,000</u>
	Net sales	<u>\$ 95,000</u>
(f)	Net sales	\$ 95,000
	Cost of goods sold	<u>59,000*</u>
	Gross profit	<u>\$ 36,000</u>
(g) and (h)		
	Gross profit	\$ 36,000
	Operating expenses (g)	<u>18,000*</u>
	Income from operations (h)	<u>\$ 18,000*</u>
	Other expenses and losses	<u>7,000</u>
	Net income	<u>\$ 11,000</u>

Ex. 215

Presented below is information for Annie Company for the month of March 2015.

Cost of goods sold	\$245,000	Rent expense	\$ 36,000
Freight-out	7,000	Sales discounts	8,000
Insurance expense	5,000	Sales returns and allowances	11,000
Salaries and wages expense	63,000	Sales revenue	410,000

Instructions

- Prepare a multiple -step income statement.
- 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 215 (10 min.)

(a)

ANNIE COMPANY
Income Statement
For the Month Ended March 31, 2014

<hr/>		
Sales Revenues		
Sales		\$410,000
Less: Sales returns and allowances	\$11,000	
Sales discounts	<u>8,000</u>	<u>19,000</u>
Net sales		391,000
Cost of goods sold		<u>245,000</u>
Gross profit		146,000
Operating expenses		
Salaries and wages expense	63,000	
Rent expense	36,000	
Insurance expense	5,000	
Freight-out	<u>7,000</u>	
Total operating expenses		<u>111,000</u>
Net income		<u>\$ 35,000</u>

(b) Gross profit rate = $\$146,000 \div \$391,000 = 37.3\%$.**Ex. 216**

In 2014, Rondelli Company had net sales of \$650,000 and cost of goods sold of \$455,000. Operating expenses were \$150,000, and interest expense was \$10,000. Rondelli prepares a multiple-step income statement.

Instructions

- (a) Compute Rondelli gross profit.
- (b) Compute the gross profit rate.
- (c) What is Rondelli income from operations and net income?
- (d) If Rondelli prepared a single-step income statement, what amount would it report for 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) $\$650,000 - \$455,000 = \$195,000$.
- (b) $\$195,000 / \$650,000 = 30\%$.
- (c) Income from operations is \$45,000 ($\$195,000 - \$150,000$), and net income is \$35,000 ($\$45,000 - \$10,000$).
- (d) The amount shown for net income is the same in a multiple-step income statement and a single-step income statement. Therefore, net income in Rondelli single-step income statement is also \$35,000.

Ex. 217

Argentina Company gathered the following condensed data for the year ended December 31, 2014:

Cost of goods sold	\$ 750,000
Net sales	1,200,000
Operating expenses	275,000
Interest expense	48,000
Dividend revenue	38,000
Casualty loss from vandalism	125,000

Instructions

1. Prepare a single-step income statement for the year ended December 31, 2014.
2. Prepare a multiple-step income statement for the year ended December 31, 2014.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 217 (25 min.)

1. **ARGENTINA COMPANY**
Income Statement
For the Year Ended December 31, 2014

Revenues			
Net sales			\$1,200,000
Dividend revenue.....			<u>38,000</u>
Total revenues.....			1,238,000
Expenses			
Cost of goods sold.....	\$750,000		
Operating expenses	275,000		
Casualty loss from vandalism	125,000		
Interest expense	<u>48,000</u>		
Total expenses			<u>1,198,000</u>
Net income			<u>\$ 40,000</u>

2. **ARGENTINA COMPANY**
Income Statement
For the Year Ended December 31, 2014

Net sales			\$1,200,000
Cost of goods sold.....			<u>750,000</u>
Gross profit.....			450,000
Operating expenses			<u>275,000</u>
Income from operations.....			175,000
Other revenues and gains			
Dividend revenue.....		38,000	
Other expenses and losses			
Casualty loss from vandalism	\$125,000		
Interest expense	<u>48,000</u>		
		<u>173,000</u>	<u>135,000</u>
Net income			<u>\$ 40,000</u>

Ex. 218**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 218 (5 min.)

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

Ex. 219

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

	<u>Debit</u>	<u>Credit</u>
Sales Revenue		\$570,000
Sales Returns and Allowances	\$ 15,000	
Sales Discounts	7,000	
Cost of Goods Sold	323,000	
Freight-Out	2,000	
Advertising Expense	15,000	
Interest Expense	18,000	
Salaries and Wages Expense	85,000	
Utilities Expense	28,000	
Depreciation Expense	7,000	
Interest Revenue		27,000

Instructions

1. Use the above information to prepare a multiple-step income statement for the year ended December 31, 2014.
2. Prepare a single-step income statement for the year ended December 31, 2014.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 219 (20 min.)

1.

NICK COMPANY		
Income Statement		
For the Year Ended December 31, 2014		
Revenues		
Sales revenue.....		\$570,000
Less: Sales returns and allowances.....	\$ 15,000	
Sales discounts.....	<u>7,000</u>	<u>22,000</u>
Net sales.....		548,000
Cost of goods sold.....		<u>323,000</u>
Gross profit.....		225,000
Operating expenses		
Salaries and wages expense.....	\$85,000	
Utilities expense.....	28,000	
Advertising expense.....	15,000	
Depreciation expense.....	7,000	
Freight-out.....	<u>2,000</u>	
Total operating expenses.....		<u>137,000</u>
Income from operations.....		88,000
Other revenues and gains		
Interest revenue.....	27,000	
Other expenses and losses		
Interest expense.....	<u>18,000</u>	<u>9,000</u>
Net income.....		<u>\$ 97,000</u>

2.

NICK COMPANY		
Income Statement		
For the Year Ended December 31, 2014		
Revenues		
Net sales.....		\$548,000
Interest revenue.....		<u>27,000</u>
Total revenues.....		575,000
Expenses		
Cost of goods sold.....	\$323,000	
Salaries and wages expense.....	85,000	
Utilities expense.....	28,000	
Advertising expense.....	15,000	
Depreciation expense.....	7,000	
Freight-out.....	2,000	
Interest expense.....	<u>18,000</u>	
Total expenses.....		<u>478,000</u>
Net income.....		<u>\$ 97,000</u>

Ex. 220

The following information is available for Sheldon Leonard Company:

Operating expenses	\$ 85,000
Cost of goods sold	200,000
Sales	325,000
Sales returns and allowances	16,000

Instructions

Compute each of the following:

- Net sales
- Gross profit
- 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 220 (6 min.)

- Net sales = \$309,000 (\$325,000 – \$16,000)
- Gross profit = \$109,000 (\$309,000 – \$200,000)
- Income from operations = \$24,000 (\$109,000 – \$30,000 – \$55,000)

^aEx. 221

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, 2014

	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	11,000					
Inventory	19,000					
Supplies	3,500					
Equipment	80,000					
Accum. Depreciation— Equipment		15,000				
Accounts Payable		20,000				
Owner's Capital		92,000				
Owner's Drawings	8,000					
Sales Revenue		39,000				
Sales Discounts	2,000					
Cost of Goods Sold	23,000					
Advertising Expense	7,000					
Supplies Expense	6,000					
Depreciation Expense	1,000					

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Ex. 221 (Cont.)

Rent Expense	2,500	
Utilities Expense	<u>1,000</u>	
	<u>166,000</u>	<u>166,000</u>

_____	_____	_____	_____
=====	=====	=====	=====

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

^aSolution 221 (15 min.)

DAILEY MUSIC COMPANY
Worksheet
For the Month Ended April 30, 2014

	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	11,000				11,000	
Inventory	19,000				19,000	
Supplies	3,500				3,500	
Equipment	80,000				80,000	
Accum. Depreciation—						
Equipment		15,000				15,000
Accounts Payable		20,000				20,000
Owner's Capital		92,000				92,000
Owner's Drawings	8,000				8,000	
Sales Revenue		39,000		39,000		
Sales Discounts	2,000		2,000			
Cost of Goods Sold	25,000		25,000			
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	<u>1,000</u>		<u>1,000</u>			
	<u>166,000</u>	<u>166,000</u>	<u>44,500</u>	<u>39,000</u>	<u>121,500</u>	<u>127,000</u>
Net Loss			<u>44,500</u>	<u>5,500</u>	<u>5,500</u>	<u>127,000</u>
				<u>44,500</u>	<u>127,000</u>	<u>127,000</u>

^aEx. 222

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

Sales revenue	\$ (a)	\$840,000
Sales returns and allowances	15,000	22,000
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	252,000	575,000
Gross profit	(c)	(f)

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Ex. 222 (Cont.)**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

^aSolution 222 (15 min.)

(a) \$465,000	(d) \$803,000
(b) \$202,000	(e) \$578,000
(c) \$188,000	(f) \$228,000

^aEx. 223

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

- Sept. 3 Purchased 90 backpacks at \$25 each from Zuzu Company, terms 2/10, n/30.
 Sept. 6 Received credit of \$150 for the return of 6 backpacks purchased on Sept. 3 that were defective.
 Sept. 9 Sold 15 backpacks for \$42 each to Bailey Books, terms 2/10, n/30.
 Sept. 13 Paid Zuzu Company in full.

Instructions

Journalize the September transactions for Reineman 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

^aSolution 223 (12 min.)

Sept. 3	Purchases.....	2,250	
	Accounts Payable		2,250
Sept. 6	Accounts Payable	150	
	Purchase Returns and Allowances.....		150
Sept. 9	Accounts Receivable	630	
	Sales Revenue.....		630
Sept. 13	Accounts Payable (\$2,250 – \$150)	2,100	
	Purchase Discounts (\$2,100 × .02)		42
	Cash		2,058

^aEx. 224

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

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Ex. 224 (Cont.)

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

^aSolution 224 (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)

Ex. 225

The income statement of Jue’s Luggage. includes the items listed below:

Net sales	\$900,000
Gross profit	315,000
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

Solution 225 (15 min.)

- (a) Net sales – Cost of goods sold = Gross profit
 \$900,000 – Cost of goods sold = \$315,000
 Cost of goods sold = \$585,000

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

- (c) Cost of goods available for sale – Ending inventory = Cost of goods sold
 \$627,000 – Ending inventory = \$585,000
 Ending inventory = \$42,000

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^aEx. 226

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

- (a) Purchased \$450,000 of merchandise on account, terms 2/10, n/30.
- (b) Returned \$30,000 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

^aSolution 226 (6 min.)

(a) Purchases	450,000	
Accounts Payable		450,000
(b) Accounts Payable.....	30,000	
Purchase Returns and Allowances		30,000
(c) Accounts Payable (\$450,000 – \$30,000).....	420,000	
Purchase Discounts (\$420,000 × .02).....		8,400
Cash (\$420,000 – \$8,400)		411,600

COMPLETION STATEMENTS

227. 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

228. 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

229. 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

230. 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

231. 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

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232. When a customer returns merchandise previously purchased on credit, the entry for the seller 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

233. 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

234. 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

235. 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

236. 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

227. merchandising company

228. gross profit

229. perpetual

230. Inventory

231. freight-out

232. Sales Returns and Allowances,
Accounts Receivable

233. contra revenue, debit

234. business document

235. cost of goods sold, net sales

236. gross profit

MATCHING

237. 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 revenue 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 238

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 238

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, selling, or administrative expenses. They are an adjustment of the inflow from sale of goods, rather than a cost used to help earn revenue.

S-A E 239

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

Solution 239

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 240

Adrland Caselotti 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 240

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 recognized of revenue is not dependent on the collection of credit sales.

S-A E 241

In a single-step income statement, all data are classified under two categories: (1) Revenues, or (2) Expenses. If the income statement is recast in a multiple-step format, what additional information or intermediate components of income would be presented?

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 241

The items reported in a multiple-step income statement that are not reported in a single-step income statement are: gross revenues as well as net revenues, gross profit, detailed operating expenses, income from operations, and other revenues and gains, and other expenses and losses.

S-A E 242

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 242

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 243

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 243

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 244 (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.

Manya Andre, a new accountant, was asked to record about \$70,000 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 244

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. Monya does not appear to know enough about reading shipping documents to make a proper determination of ownership. The goods were owned by Buzz 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 Monya 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 245 (Communication)

Ellen Corhy and Bryn Davis, 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. Ellen's sale was FOB shipping point, and Bryn's was FOB destination. The company "counts" sales for purposes of calculating bonuses on the date that ownership passes to the purchaser. Ellen's sale was therefore counted in her monthly total of sales, Bryn's was not. Jill is quite upset. She has asked you to just include it, or to take Ellen's off as well. She also has told you that you are being unethical for allowing Ellen to get a bonus just for choosing a particular shipping method.

Write a memo to Bryn. 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 245

M E M O

TO: Bryn Davi's
FROM: Helen Dictison, 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 \$110,000. This total does not include the \$19,000 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.