## CHAPTER 5

### ACCOUNTING FOR MERCHANDISING OPERATIONS

#### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

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#### Multiple Choice Questions

This question also appears in the Study Guide.

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

This question covers a topic in an appendix to the chapter.
### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

#### Brief Exercises

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|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 1.   | TF   | 35   | TF   | 44   | MC   | 47   | MC   | 50   | MC   | 155  | MC   | 197  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 2.   | TF   | 36   | TF   | 45   | MC   | 48   | MC   | 51   | MC   | 165  | BE   | 198  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 3.   | TF   | 43   | MC   | 46   | MC   | 49   | MC   | 52   | MC   | 177  | Ex   | 199  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 4.   | TF   | 54   | MC   | 60   | MC   | 66   | MC   | 157  | MC   | 180  | Ex   | 203  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 5.   | TF   | 55   | MC   | 61   | MC   | 67   | MC   | 158  | MC   | 181  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 6.   | TF   | 56   | MC   | 62   | MC   | 68   | MC   | 166  | BE   | 182  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 7.   | TF   | 57   | MC   | 63   | MC   | 69   | MC   | 167  | BE   | 200  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 8.   | TF   | 58   | MC   | 64   | MC   | 70   | MC   | 178  | Ex   | 201  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 9.   | TF   | 59   | MC   | 65   | MC   | 156  | MC   | 179  | Ex   | 202  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 10.  | TF   | 71   | MC   | 78   | MC   | 85   | MC   | 92   | MC   | 99   | MC   | 169  | BE   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 11.  | TF   | 72   | MC   | 79   | MC   | 86   | MC   | 93   | MC   | 100  | MC   | 178  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 12.  | TF   | 73   | MC   | 80   | MC   | 87   | MC   | 94   | MC   | 101  | MC   | 179  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 13.  | TF   | 74   | MC   | 81   | MC   | 88   | MC   | 95   | MC   | 102  | MC   | 181  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 14.  | TF   | 75   | MC   | 82   | MC   | 89   | MC   | 96   | MC   | 159  | MC   | 183  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 15.  | TF   | 76   | MC   | 83   | MC   | 90   | MC   | 97   | MC   | 167  | BE   | 184  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 16.  | TF   | 77   | MC   | 84   | MC   | 91   | MC   | 98   | MC   | 168  | BE   | 204  | C    |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 17.  | TF   | 15   | TF   | 102  | MC   | 104  | MC   | 106  | MC   | 161  | MC   | 185  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| 18.  | TF   | 40   | TF   | 103  | MC   | 105  | MC   | 160  | MC   | 170  | BE   | 186  | Ex   |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Study Objective 5 | 16. TF | 20. TF | 24. TF | 108. MC | 112. MC | 130. MC | 188. Ex |
| Study Objective 6 | 26. TF | 116. MC | 121. MC | 126. MC | 132. MC | 137. MC | 188. Ex |
| Study Objective 7 | 30. TF | 140. MC | 143. MC | 146. MC | 174. BE | 192. Ex |
| Study Objective 8 | *32. TF | *147. MC | *149. MC | *151. MC | *176. BE | *195. Ex |
| Study Objective 9 | *34. TF | *153. MC | *154. MC | *196. Ex |

Note: TF = True-False  
BE = Brief Exercise  
MC = Multiple Choice  
C = Completion  
Ex = Exercise

The chapter also contains one set of ten Matching questions and six Short-Answer Essay questions.
CHAPTER STUDY 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 Merchandise Inventory account for all purchases of merchandise, freight-in, and other costs, 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 for the **selling price** of the merchandise. At the same time, it debits Cost of Goods Sold and credits Merchandise Inventory for the **cost** of the inventory items sold.

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 Merchandise 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.

6. **Explain the computation and importance of gross profit.** Merchandising companies compute gross profit by subtracting cost of goods sold from net sales. Gross profit represents the merchandising profit of a company. Managers and other interested parties closely watch the amount and trend of gross profit.

7. **Determine cost of goods sold under a periodic inventory system.** The steps in determining cost of goods sold are: (a) Record the purchases of merchandise, (b) Determine the cost of goods purchased, (c) Determine the cost of goods on hand at the beginning and end of the accounting period.

8. **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.

9. **Prepare a worksheet for a merchandising company.** The steps in preparing a worksheet for a merchandising company are the same as for a service company. The unique accounts for a merchandising company are Merchandise Inventory, Sales, Sales Returns and Allowances, Sales Discounts, and Cost of Goods Sold.
TRUE-FALSE STATEMENTS

1. Retailers and wholesalers are both considered merchandisers.

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

3. Sales minus operating expenses equals gross profit.

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

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

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

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

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

9. The Sales Returns and Allowances account and the Sales Discount account are both classified as expense accounts.

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

11. Sales Allowances and Sales Discounts are both designed to encourage customers to pay their accounts promptly.

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

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

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

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

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

17. Selling expenses relate to general operating activities such as personnel management.

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

19. A multiple-step income statement provides users with more information about a company's income performance.
20. The multiple-step form of income statement is easier to read than the single-step form.
21. Merchandise inventory is classified as a current asset in a classified balance sheet.
22. Gain on sale of equipment and interest expense are reported under other revenues and gains in a multiple-step income statement.
23. The gross profit section for a merchandising company appears on both the multiple-step and single-step forms of an income statement.
24. In a multiple-step income statement, income from operations excludes other revenues and gains and other expenses and losses.
25. A single-step income statement reports all revenues, both operating and other revenues and gains, at the top of the statement.
26. If net sales are $800,000 and cost of goods sold is $600,000, the gross profit rate is 25%.
27. Gross profit represents the merchandising profit of a company.
28. Gross profit is a measure of the overall profitability of a company.
29. Gross profit rate is computed by dividing cost of goods sold by net sales.
30. Purchase Returns and Allowances and Purchase Discounts are subtracted from Purchases to produce net purchases.
31. Freight-in is an account that is subtracted from the Purchases account to arrive at cost of goods purchased.
32. Under a periodic inventory system, the acquisition of inventory is charged to the Purchases account.
33. Under a periodic inventory system, freight-in on merchandise purchases should be charged to the Inventory account.
34. In a worksheet, cost of goods sold will be shown in the trial balance (Dr.), adjusted trial balance (Dr.) and income statement (Dr.) columns.

Additional True-False Questions
35. Merchandise inventory is reported as a long-term asset on the balance sheet.
36. Under a perpetual inventory system, inventory shrinkage and lost or stolen goods are more readily determined.
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.
38. Sales should be recorded in accordance with the matching principle.
39. Sales returns and allowances and sales discounts are subtracted from sales in reporting net sales in the income statement.

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.

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.

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

### Answers to True-False Statements

|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|

### MULTIPLE CHOICE QUESTIONS

43. Income from operations is gross profit less
   a. administrative expenses.
   b. operating expenses.
   c. other expenses and losses.
   d. selling expenses.

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

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

46. A merchandising company that sells directly to consumers is a
   a. retailer.
   b. wholesaler.
   c. broker.
   d. service company.
47. Two categories of expenses for merchandising companies are
   a. cost of goods sold and financing expenses.
   b. operating expenses and financing expenses.
   c. cost of goods sold and operating expenses.
   d. sales and cost of goods sold.

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

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

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

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

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

53. Detailed records of goods held for resale are not maintained under a
   a. perpetual inventory system.
   b. periodic inventory system.
   c. double entry accounting system.
   d. single entry accounting system.

54. A perpetual inventory system would likely be used by a(n)
   a. automobile dealership.
   b. hardware store.
   c. drugstore.
   d. convenience store.
55. Which of the following is a true statement about inventory systems?
   a. Periodic inventory systems require more detailed inventory records.
   b. Perpetual inventory systems require more detailed inventory records.
   c. A periodic system requires cost of goods sold be determined after each sale.
   d. A perpetual system determines cost of goods sold only at the end of the accounting period.

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

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

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

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

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

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

62. If a purchaser using a perpetual system agrees to freight terms of FOB shipping point,
    then the
    a. Merchandise Inventory account will be increased.
    b. Merchandise Inventory account will not be affected.
    c. seller will bear the freight cost.
    d. carrier will bear the freight cost.
63. Freight costs paid by a seller on merchandise sold to customers will cause an increase
   a. in the selling expense of the buyer.
   b. in operating expenses for the seller.
   c. to the cost of goods sold of the seller.
   d. to a contra-revenue account of the seller.

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

65. Flynn Company purchased merchandise inventory with an invoice price of $5,000 and
    credit terms of 2/10, n/30. What is the net cost of the goods if Flynn Company pays within
    the discount period?
   a. $5,000
   b. $4,900
   c. $4,500
   d. $4,600

66. Stine Company purchased merchandise with an invoice price of $2,000 and credit terms
    of 2/10, n/30. Assuming a 360 day year, what is the implied annual interest rate inherent
    in the credit terms?
   a. 20%
   b. 24%
   c. 36%
   d. 72%

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

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

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

As a result of these events, the company’s merchandise inventory
70. Jake’s Market recorded the following events involving a recent purchase of merchandise:
   Received goods for $20,000, terms 2/10, n/30.
   Returned $400 of the shipment for credit.
   Paid $100 freight on the shipment.
   Paid the invoice within the discount period.
   As a result of these events, the company’s merchandise inventory
   a. increased by $19,208.
   b. increased by $19,700.
   c. increased by $19,306.
   d. increased by $19,308.

71. A credit sale of $800 is made on April 25, terms 2/10, n/30, on which a return of $50 is granted on April 28. What amount is received as payment in full on May 4?
   a. $735
   b. $784
   c. $800
   d. $750

72. The entry to record the receipt of payment within the discount period on a sale of $750 with terms of 2/10, n/30 will include a credit to
   a. Sales Discounts for $15.
   b. Cash for $735.
   c. Accounts Receivable for $750.
   d. Sales for $750.

73. The collection of a $600 account within the 2 percent discount period will result in a
   a. debit to Sales Discounts for $12.
   b. debit to Accounts Receivable for $588.
   c. credit to Cash for $588.
   d. credit to Accounts Receivable for $588.

74. Company X sells $400 of merchandise on account to Company Y with credit terms of 2/10, n/30. If Company Y remits a check taking advantage of the discount offered, what is the amount of Company Y’s check?
   a. $280
   b. $392
   c. $360
   d. $320

75. Holt Company sells merchandise on account for $2,000 to Jones Company with credit terms of 2/10, n/30. Jones Company returns $400 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?
   a. $1,960
   b. $1,968
   c. $1,600
   d. $1,568
76. The collection of a $900 account after the 2 percent discount period will result in a
   a. debit to Cash for $882.
   b. debit to Accounts Receivable for $900.
   c. debit to Cash for $900.
   d. debit to Sales Discounts for $18.

77. The collection of a $600 account after the 2 percent discount period will result in a
   a. debit to Cash for $588.
   b. credit to Accounts Receivable for $600.
   c. credit to Cash for $600.
   d. debit to Sales Discounts for $12.

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

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

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

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

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

83. A credit memorandum is prepared when
   a. an employee does a good job.
   b. goods are sold on credit.
   c. goods that were sold on credit are returned.
   d. customers refuse to pay their accounts.
84. The Sales Returns and Allowances account is classified as a(n)
   a. asset account.
   b. contra asset account.
   c. expense account.
   d. contra revenue account.

85. A credit memorandum is used as documentation for a journal entry that requires a debit to
   a. Sales and a credit to Cash.
   b. Sales Returns and Allowances and a credit to Accounts Receivable.
   c. Accounts Receivable and a credit to a contra-revenue account.
   d. Cash and a credit to Sales Returns and Allowances.

86. 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
   a. discount.
   b. return.
   c. contra asset.
   d. allowance.

87. A credit sale of $900 is made on July 15, terms 2/10, n/30, on which a return of $50 is granted on July 18. What amount is received as payment in full on July 24?
   a. $900
   b. $833
   c. $850
   d. $882

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

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

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

91. As an incentive for customers to pay their accounts promptly, a business may offer its customers
   a. a sales discount.
   b. free delivery.
   c. a sales allowance.
   d. a sales return.
92. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
   a. the customer must pay the bill within 10 days.
   b. the customer can deduct a 2% discount if the bill is paid between the 10th and 30th
day from the invoice date.
   c. the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice
date.
   d. two sales returns can be made within 10 days of the invoice date and no returns
thereafter.

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

94. Company A sells $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?
   a. $350
   b. $490
   c. $450
   d. $400

95. Hale Company sells merchandise on account for $1,500 to Kear Company with credit
terms of 2/10, n/30. Kear Company returns $300 of merchandise that was damaged,
along with a check to settle the account within the discount period. What is the amount of
the check?
   a. $1,470
   b. $1,476
   c. $1,200
   d. $1,176

96. Feine Company sells merchandise on account for $2,000 to Tang Company with credit
terms of 2/10, n/30. Tang Company returns $300 of merchandise that was damaged,
along with a check to settle the account within the discount period. What entry does Feine
Company make upon receipt of the check?
   a. Cash ....................................................................................  1,700
      Accounts Receivable ..................................................   1,700
   b. Cash ....................................................................................  1,666
      Sales Returns and Allowances............................................  334
      Accounts Receivable ..................................................   2,000
   c. Cash ....................................................................................  1,666
      Sales Returns and Allowances............................................  300
      Sales Discounts...................................................................  34
      Accounts Receivable ..................................................   2,000
   d. Cash ....................................................................................  1,960
      Sales Discounts...................................................................  40
      Sales Returns and Allowances ...................................   300
      Accounts Receivable ..................................................   1,700
97. Which of the following would not be classified as a contra account?
   a. Sales
   b. Sales Returns and Allowances
   c. Accumulated Depreciation
   d. Sales Discounts

98. Which of the following accounts has a normal credit balance?
   a. Sales Returns and Allowances
   b. Sales Discounts
   c. Sales
   d. Selling Expense

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

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

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

102. All of the following are contra revenue accounts except
    a. sales.
    b. sales allowances.
    c. sales discounts.
    d. sales returns.

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

104. In preparing closing entries for a merchandising company, the Income Summary account will be credited for the balance of
    a. sales.
    b. merchandise inventory.
    c. sales discounts.
    d. freight-out.
105. A merchandising company using a perpetual system may record an adjusting entry by
   a. debiting Income Summary.
   b. crediting Income Summary.
   c. debiting Cost of Goods Sold.
   d. debiting Sales.

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

107. The sales revenue section of an income statement for a retailer would not include
   a. Sales discounts.
   b. Sales.
   c. Net sales.
   d. Cost of goods sold.

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

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

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

111. Thelman Company reported the following balances at June 30, 2008:

     Sales $10,800
     Sales Returns and Allowances 400
     Sales Discounts 200
     Cost of Goods Sold 5,000

     Net sales for the month is
     a. $10,800.
     b. $10,400.
     c. $10,200.
     d. $5,200.
112. Income from operations appears on
   a. both a multiple-step and a single-step income statement.
   b. neither a multiple-step nor a single-step income statement.
   c. a single-step income statement.
   d. a multiple-step income statement.

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

114. Which of the following is not a true statement about a multiple-step income statement?
   a. Operating expenses are often classified as selling and administrative expenses.
   b. There may be a section for nonoperating activities.
   c. There may be a section for operating assets.
   d. There is a section for cost of goods sold.

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

116. All of the following items would be reported as other expenses and losses except
   a. freight-out.
   b. casualty losses.
   c. interest expense.
   d. loss from employees' strikes.

117. If a company has net sales of $500,000 and cost of goods sold of $350,000, the gross profit percentage is
   a. 70%.
   b. 30%.
   c. 15%.
   d. 100%.

118. A company shows the following balances:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>180,000</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>20,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>560,000</td>
</tr>
</tbody>
</table>

   What is the gross profit percentage?
   a. 56%
   b. 70%
   c. 44%
   d. 30%
119. The gross profit rate is computed by dividing gross profit by
   a. cost of goods sold.
   b. net income.
   c. net sales.
   d. sales.

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

121. On a classified balance sheet, merchandise inventory is classified as
   a. an intangible asset.
   b. property, plant, and equipment.
   c. a current asset.
   d. a long-term investment.

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

Use the following information for questions 123–125.

During 2008, Salon Enterprises generated revenues of $60,000. The company's expenses were
as follows: cost of goods sold of $30,000, operating expenses of $12,000 and a loss on the sale
of equipment of $2,000.

123. Salon’s gross profit is
   a. $60,000.
   b. $30,000.
   c. $18,000.
   d. $16,000.

124. Salon’s income from operations is
   a. $60,000.
   b. $30,000.
   c. $18,000.
   d. $12,000.

125. Salon’s net income is
   a. $60,000.
   b. $30,000.
   c. $18,000.
   d. $16,000.
Use the following information for questions 126–127.

Financial information is presented below:
- Operating Expenses: $45,000
- Sales: 150,000
- Cost of Goods Sold: 77,000

126. Gross profit would be
   a. $105,000.
   b. $28,000.
   c. $73,000.
   d. $150,000.

127. The gross profit rate would be
   a. .700.
   b. .187.
   c. .300.
   d. .487.

Use the following information for questions 128–129.

Financial information is presented below:
- Operating Expenses: $45,000
- Sales Returns and Allowances: 13,000
- Sales Discounts: 6,000
- Sales: 150,000
- Cost of Goods Sold: 67,000

128. Gross profit would be
   a. $77,000.
   b. $64,000.
   c. $70,000.
   d. $83,000.

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

Use the following information for questions 130–132.

Financial information is presented below:
- Operating Expenses: $45,000
- Sales Returns and Allowances: 13,000
- Sales Discounts: 6,000
- Sales: 160,000
- Cost of Goods Sold: 77,000
130. The amount of net sales on the income statement would be  
   a. $154,000.  
   b. $141,000.  
   c. $160,000.  
   d. $166,000.  

131. Gross profit would be  
   a. $77,000.  
   b. $70,000.  
   c. $64,000.  
   d. $83,000.  

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

133. If a company has sales of $420,000, net sales of $400,000, and cost of goods sold of $260,000, the gross profit rate is  
   a. 67%.  
   b. 65%.  
   c. 35%.  
   d. 33%.  

134. Ingrid’s Fashions sold merchandise for $38,000 cash during the month of July. Returns that month totaled $800. If the company’s gross profit rate is 40%, Ingrid’s will report monthly net sales revenue and cost of goods sold of  
   a. $38,000 and $22,800.  
   b. $37,200 and $14,880.  
   c. $37,200 and $22,320.  
   d. $38,000 and $22,320.  

Use the following information for questions 135–138.  

During August, 2008, Sal’s Supply Store generated revenues of $30,000. The company’s expenses were as follows: cost of goods sold of $12,000 and operating expenses of $2,000. The company also had rent revenue of $500 and a gain on the sale of a delivery truck of $1,000. 

135. Sal's gross profit for August, 2008 is  
   a. $30,000.  
   b. $19,000.  
   c. $18,000.  
   d. $16,000.  

136. Sal’s nonoperating income (loss) for the month of August, 2008 is  
   a. $0.  
   b. $500.  
   c. $1,000.  
   d. $1,500.
137. Sal’s operating income for the month of August, 2008 is
   a. $30,000.
   b. $19,500.
   c. $18,500.
   d. $16,000.

138. Sal’s net income for August, 2008 is
   a. $18,000.
   b. $17,500.
   c. $16,500.
   d. $16,000.

139. At the beginning of September, 2008, RFI Company reported Merchandise Inventory of $4,000. During the month, the company made purchases of $7,800. At September 31, 2008, a physical count of inventory reported $3,200 on hand. Cost of goods sold for the month is
   a. $600.
   b. $7,800.
   c. $8,600.
   d. $11,800.

140. At the beginning of the year, Midtown Athletic had an inventory of $400,000. During the year, the company purchased goods costing $1,600,000. If Midtown Athletic reported ending inventory of $600,000 and sales of $2,000,000, the company’s cost of goods sold and gross profit rate must be
   a. $1,000,000 and 50%.
   b. $1,400,000 and 30%.
   c. $1,000,000 and 30%.
   d. $1,400,000 and 70%.

141. During the year, Darla’s Pet Shop’s merchandise inventory decreased by $20,000. If the company’s cost of goods sold for the year was $300,000, purchases must have been
   a. $320,000.
   b. $280,000.
   c. $260,000.
   d. Unable to determine.

142. 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.

143. 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.
144. Net purchases plus freight-in determines
   a. cost of goods sold.
   b. cost of goods available for sale.
   c. cost of goods purchased.
   d. total goods available for sale.

145. West Company has the following account balances:
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>$48,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>$6,400</td>
</tr>
<tr>
<td>Purchase Discounts</td>
<td>$4,000</td>
</tr>
<tr>
<td>Freight-in</td>
<td>$3,000</td>
</tr>
<tr>
<td>Delivery Expense</td>
<td>$4,000</td>
</tr>
</tbody>
</table>

   The cost of goods purchased for the period is
   a. $52,000.
   b. $47,000.
   c. $51,000.
   d. $44,600.

146. Baden Shoe Store has a beginning merchandise inventory of $30,000. During the period, purchases were $140,000; purchase returns, $4,000; and freight-in $10,000. A physical count of inventory at the end of the period revealed that $20,000 was still on hand. The cost of goods available for sale was
   a. $164,000.
   b. $156,000.
   c. $176,000.
   d. $184,000.

147. In a periodic inventory system, a return of defective merchandise by a customer is recorded by crediting
   a. Accounts Payable.
   b. Merchandise Inventory.
   c. Purchases.
   d. Purchase Returns and Allowances.

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

149. The journal entry to record a return of merchandise purchased on account under a periodic inventory system would be
   a. Accounts Payable
      Purchase Returns and Allowances
   b. Purchase Returns and Allowances
      Accounts Payable
   c. Accounts Payable
      Inventory
   d. Inventory
      Accounts Payable
Under a periodic inventory system, acquisition of merchandise is debited to the
a. Merchandise Inventory account.
b. Cost of Goods Sold account.
c. Purchases account.
d. Accounts Payable account.

Which of the following accounts has a normal credit balance?

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

The respective normal account balances of Purchases, Purchase Discounts, and Freight-in are
a. credit, credit, debit.
b. debit, credit, credit.
c. debit, credit, debit.
d. debit, debit, debit.

In a worksheet for a merchandising company, Merchandise 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.

The Merchandise Inventory account balance appearing in a worksheet represents the
a. ending inventory.
b. beginning inventory.
c. cost of merchandise purchased.
d. cost of merchandise sold.

Cole Company has sales revenue of $39,000, cost of goods sold of $24,000 and operating expenses of $9,000 for the year ended December 31. Cole's gross profit is
a. $30,000.
b. $15,000.
c. $6,000.
d. $0.

Logan Company made a purchase of merchandise on credit from Claude Corporation on August 3, for $6,000, terms 2/10, n/45. On August 10, Logan makes the appropriate payment to Claude. The entry on August 10 for Logan Company is

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Accounts Payable</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Accounts Payable</td>
<td>5,880</td>
<td>5,880</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Accounts Payable</td>
<td>6,000</td>
<td>5,880</td>
</tr>
<tr>
<td>Purchase Returns and Allowances</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>5,880</td>
</tr>
<tr>
<td>d. Accounts Payable</td>
<td>6,000</td>
<td>120</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td></td>
<td>120</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>5,880</td>
</tr>
</tbody>
</table>
157. Cartier Company purchased inventory from Pissaro Company. The shipping costs were $400 and the terms of the shipment were FOB shipping point. Cartier would have the following entry regarding the shipping charges:
   a. There is no entry on Cartier’s books for this transaction.
   b. Freight Expense .................................................. 400
      Cash ................................................................. 400
   c. Freight-out ....................................................... 400
      Cash ................................................................. 400
   d. Merchandise Inventory ....................................... 400
      Cash ................................................................. 400

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

159. On October 4, 2008, Terry Corporation had credit sales transactions of $2,800 from merchandise having cost $1,900. The entries to record the day’s credit transactions include a
   a. debit of $2,800 to Merchandise Inventory.
   b. credit of $2,800 to Sales.
   c. debit of $1,900 to Merchandise Inventory.
   d. credit of $1,900 to Cost of Goods Sold.

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

161. In the Clark Company, sales were $480,000, sales returns and allowances were $30,000, and cost of goods sold was $288,000. The gross profit rate was
   a. 64%.
   b. 36%.
   c. 40%.
   d. 60%.

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

163. In the balance sheet, ending merchandise inventory is reported
   a. in current assets immediately following accounts receivable.
   b. in current assets immediately following prepaid expenses.
   c. in current assets immediately following cash.
   d. under property, plant, and equipment.
164. Cost of goods available for sale is computed by adding
a. freight-in to net purchases.
b. beginning inventory to net purchases.
c. beginning inventory to purchases and freight-in.
d. beginning inventory to cost of goods purchased.

Answers to Multiple Choice Questions

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<tr>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
<th>Item</th>
<th>Ans.</th>
</tr>
</thead>
<tbody>
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<td>b</td>
<td>61.</td>
<td>b</td>
<td>79.</td>
<td>c</td>
<td>97.</td>
<td>a</td>
<td>115.</td>
<td>c</td>
<td>133.</td>
<td>c</td>
</tr>
<tr>
<td>44.</td>
<td>c</td>
<td>62.</td>
<td>a</td>
<td>80.</td>
<td>c</td>
<td>98.</td>
<td>c</td>
<td>116.</td>
<td>a</td>
<td>134.</td>
<td>c</td>
</tr>
<tr>
<td>45.</td>
<td>c</td>
<td>63.</td>
<td>b</td>
<td>81.</td>
<td>a</td>
<td>99.</td>
<td>d</td>
<td>117.</td>
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<td>135.</td>
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<td>46.</td>
<td>a</td>
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<td>b</td>
<td>82.</td>
<td>d</td>
<td>100.</td>
<td>d</td>
<td>118.</td>
<td>d</td>
<td>136.</td>
<td>d</td>
</tr>
<tr>
<td>47.</td>
<td>c</td>
<td>65.</td>
<td>b</td>
<td>83.</td>
<td>c</td>
<td>101.</td>
<td>c</td>
<td>119.</td>
<td>c</td>
<td>137.</td>
<td>d</td>
</tr>
<tr>
<td>48.</td>
<td>c</td>
<td>66.</td>
<td>c</td>
<td>84.</td>
<td>d</td>
<td>102.</td>
<td>a</td>
<td>120.</td>
<td>c</td>
<td>138.</td>
<td>b</td>
</tr>
<tr>
<td>49.</td>
<td>a</td>
<td>67.</td>
<td>b</td>
<td>85.</td>
<td>b</td>
<td>103.</td>
<td>b</td>
<td>121.</td>
<td>c</td>
<td>139.</td>
<td>c</td>
</tr>
<tr>
<td>50.</td>
<td>b</td>
<td>68.</td>
<td>a</td>
<td>86.</td>
<td>d</td>
<td>104.</td>
<td>a</td>
<td>122.</td>
<td>b</td>
<td>140.</td>
<td>b</td>
</tr>
<tr>
<td>51.</td>
<td>b</td>
<td>69.</td>
<td>d</td>
<td>87.</td>
<td>b</td>
<td>105.</td>
<td>c</td>
<td>123.</td>
<td>b</td>
<td>141.</td>
<td>b</td>
</tr>
<tr>
<td>52.</td>
<td>d</td>
<td>70.</td>
<td>d</td>
<td>88.</td>
<td>b</td>
<td>106.</td>
<td>b</td>
<td>124.</td>
<td>c</td>
<td>142.</td>
<td>b</td>
</tr>
<tr>
<td>53.</td>
<td>b</td>
<td>71.</td>
<td>a</td>
<td>89.</td>
<td>b</td>
<td>107.</td>
<td>d</td>
<td>125.</td>
<td>d</td>
<td>143.</td>
<td>a</td>
</tr>
<tr>
<td>54.</td>
<td>a</td>
<td>72.</td>
<td>c</td>
<td>90.</td>
<td>c</td>
<td>108.</td>
<td>c</td>
<td>126.</td>
<td>c</td>
<td>144.</td>
<td>c</td>
</tr>
<tr>
<td>55.</td>
<td>b</td>
<td>73.</td>
<td>a</td>
<td>91.</td>
<td>a</td>
<td>109.</td>
<td>d</td>
<td>127.</td>
<td>d</td>
<td>145.</td>
<td>b</td>
</tr>
<tr>
<td>56.</td>
<td>b</td>
<td>74.</td>
<td>b</td>
<td>92.</td>
<td>c</td>
<td>110.</td>
<td>b</td>
<td>128.</td>
<td>b</td>
<td>146.</td>
<td>c</td>
</tr>
<tr>
<td>57.</td>
<td>d</td>
<td>75.</td>
<td>d</td>
<td>93.</td>
<td>d</td>
<td>111.</td>
<td>c</td>
<td>129.</td>
<td>b</td>
<td>147.</td>
<td>d</td>
</tr>
<tr>
<td>58.</td>
<td>a</td>
<td>76.</td>
<td>c</td>
<td>94.</td>
<td>b</td>
<td>112.</td>
<td>d</td>
<td>130.</td>
<td>b</td>
<td>148.</td>
<td>a</td>
</tr>
<tr>
<td>59.</td>
<td>d</td>
<td>77.</td>
<td>b</td>
<td>95.</td>
<td>d</td>
<td>113.</td>
<td>b</td>
<td>131.</td>
<td>c</td>
<td>149.</td>
<td>a</td>
</tr>
<tr>
<td>60.</td>
<td>c</td>
<td>78.</td>
<td>d</td>
<td>96.</td>
<td>c</td>
<td>114.</td>
<td>c</td>
<td>132.</td>
<td>a</td>
<td>150.</td>
<td>c</td>
</tr>
</tbody>
</table>

BRIEF EXERCISES

BE 165

Presented here are the components in Sanders Company’s income statement. Determine the missing amounts.

<table>
<thead>
<tr>
<th>Sales</th>
<th>Cost of Goods Sold</th>
<th>Gross Profit</th>
<th>Operating Expenses</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000 (c)</td>
<td>$56,000</td>
<td>$40,000</td>
<td>$64,000</td>
<td>$48,000 (d)</td>
</tr>
</tbody>
</table>

Solution 165 (5 min.)

a. $35,000
b. $23,000
c. $120,000
d. $16,000
BE 166
Prepare the necessary journal entries on the books of Tri-State Carpet Company to record the following transactions, assuming a perpetual inventory system (you may omit explanations):
(a) Tri-State purchased $40,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $4,000 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

Solution 166  (5 min.)
(a) Merchandise Inventory .................................................................  40,000
   Accounts Payable ........................................................................  40,000
(b) Accounts Payable.........................................................................  4,000
   Merchandise Inventory .....................................................   4,000
(c) Accounts Payable ($40,000 – $4,000) .........................................  36,000
   Merchandise Inventory ($36,000 × .02)............................   720
   Cash ($36,000 – $720).....................................................   35,280

BE 167
Erving Company sold goods on account to Farley Enterprises with terms of 2/10, n/30. The goods had a cost of $600 and a selling price of $900. Both Erving and Farley use a perpetual inventory system. Record the sale on the books of Erving and the purchase on the books of Farley.

Solution 167  (3 min.)
Journal entry on Erving’s books:
   Accounts Receivable.... .................................................................  900
      Sales. ....................................................................................   900
   Cost of Goods Sold…….................................................................  600
      Merchandise Inventory..................................................   600

Journal entry on Farley’s books:
   Merchandise Inventory .................................................................  900
      Accounts Payable .................................................................  900

BE 168
Manning Company sells merchandise on account for $2,000 to Tiger Company with credit terms of 3/10, n/60. Tiger Company returns $200 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Manning Company make upon receipt of the check and the damaged merchandise?
Solution 168 (3 min.)

Sales Returns and Allowances .......................................................... 200
Sales Discounts ($1,800 × .03) ........................................................... 54
Cash ($2,000 – $200 – $54) ............................................................. 1,746
Accounts Receivable ................................................................. 2,000

BE 169

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

May 13 Sold 6 motors at a cost of $44 each to Waller Brothers Supply Company, terms 1/10, n/30. The motors cost Ord $25 each.

May 16 One defective motor was returned to Ord.

May 23 Received payment in full from Waller Brothers.

Instructions

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

Solution 169 (8 min.)

May 13 Accounts Receivable .......................................................... 264
     Sales .................................................................................. 264
     Cost of Goods Sold .............................................................. 150
     Merchandise Inventory ....................................................... 150

May 16 Sales Returns and Allowances ........................................... 44
     Accounts Receivable .......................................................... 44
     Merchandise Inventory ........................................................ 25
     Cost of Goods Sold ............................................................. 25

May 23 Cash .................................................................................. 218
     Sales Discounts ($220 × .01) .................................................. 2
     Accounts Receivable ($264 – $44) ........................................... 220
The income statement for Avery Company for the year ended December 31, 2008 is as follows:

AVERY COMPANY
Income Statement
For the Year Ended December 31, 2008

Revenues
Sales..........................................................................................   $55,000
Interest revenue.........................................................................       3,000
Total revenues.....................................................................   58,000

Expenses
Cost of goods sold.....................................................................  $36,000
Selling expenses .......................................................................  7,000
Administrative expenses............................................................  5,000
Interest expense........................................................................        1,000
Total expenses ....................................................................      49,000

Net income ............................................................................................   $   9,000

Prepare the entries to close the revenue and expense accounts at December 31, 2008. You may omit explanations for the transactions.

Solution 170  (5 min.)

Dec. 31  Sales.................................................................  55,000
       Interest Revenue ..........................................................       3,000
       Income Summary..........................................................   58,000

31  Income Summary..........................................................   49,000
    Cost of Goods Sold.........................................................  36,000
    Selling Expenses ..........................................................  7,000
    Administrative Expenses ............................................  5,000
    Interest Expense..........................................................  1,000

BE 171

Milton Company provides this information for the month of November, 2008: sales on credit $150,000; cash sales $50,000; sales discounts $2,000; and sales returns and allowances $8,000. Prepare the sales revenues section of the income statement based on this information.
Solution 171  (3 min.)

MILTON COMPANY
Income Statement (Partial)
For the Month Ended November 30, 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$200,000</td>
</tr>
<tr>
<td>Less: Sales Returns and Allowances</td>
<td>$8,000</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>2,000</td>
</tr>
<tr>
<td>Net Sales</td>
<td>$190,000</td>
</tr>
</tbody>
</table>

BE 172
During October, 2008, Katie’s Catering Company generated revenues of $13,000. Sales discounts totalled $200 for the month. Expenses were as follows: Cost of goods sold of $7,000 and operating expenses of $2,000.

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

Solution 172  (4 min.)

(1) Gross profit: $5,800 ($13,000 - $200 - $7,000)
(2) Income from operations: $3,800 ($5,800 - $2,000)

BE 173
For each of the following, determine the missing amounts.

<table>
<thead>
<tr>
<th></th>
<th>Beginning Inventory</th>
<th>Purchases</th>
<th>Goods Available for Sale</th>
<th>Cost of Goods Sold</th>
<th>Ending Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$20,000</td>
<td></td>
<td>$40,000</td>
<td>$25,000</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>$220,000</td>
<td>$250,000</td>
<td></td>
<td>$40,000</td>
</tr>
</tbody>
</table>

Solution 173  (4 min.)

1. Purchases $20,000 ($40,000 – $20,000), Ending inventory $15,000 ($40,000 – $25,000)

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

BE 174
Assume that Guardian Company uses a periodic inventory system and has these account balances: Purchases $500,000; Purchase Returns and Allowances $14,000; Purchase Discounts $9,000; and Freight-in $15,000. Determine net purchases and cost of goods purchased.
Solution 174  (4 min.)
Calculation of Net Purchases and Cost of Goods Purchased

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Purchases</td>
<td>$500,000</td>
</tr>
<tr>
<td>Less: Purchase returns and Allowances</td>
<td>$14,000</td>
</tr>
<tr>
<td>Purchase discounts</td>
<td>$9,000</td>
</tr>
<tr>
<td>Net Purchases</td>
<td>$477,000</td>
</tr>
<tr>
<td>Add: Freight-in</td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Cost of Goods Purchased</strong></td>
<td>$492,000</td>
</tr>
</tbody>
</table>

BE 175
Assume that Guardian Company uses a periodic inventory system and has these account balances: Purchases $600,000; Purchase Returns and Allowances $25,000; Purchase Discounts $11,000; and Freight-in $19,000; beginning inventory of $45,000; ending inventory of $55,000; and net sales of $750,000. Determine the cost of goods sold.

Solution 175  (6 min.)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory, beginning</td>
<td>$45,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>$600,000</td>
</tr>
<tr>
<td>Less: Purchase returns and allowances</td>
<td>$25,000</td>
</tr>
<tr>
<td>Purchase discounts</td>
<td>$11,000</td>
</tr>
<tr>
<td>Net purchases</td>
<td>$564,000</td>
</tr>
<tr>
<td>Add: Freight-in</td>
<td>$19,000</td>
</tr>
<tr>
<td><strong>Cost of goods purchased</strong></td>
<td>$583,000</td>
</tr>
<tr>
<td>Cost of goods available for sale</td>
<td>$628,000</td>
</tr>
<tr>
<td>Inventory, ending</td>
<td>$55,000</td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td>$573,000</td>
</tr>
</tbody>
</table>

"BE 176
Waller Brothers Supply uses a periodic inventory system. During May, the following transactions and events occurred.

May 13  Purchased 6 motors at a cost of $44 each from Ord Company, terms 1/10, n/30. The motors cost Ord Company $25 each.

May 16  Returned 1 defective motor to Ord.

May 23  Paid Ord Company in full.

Instructions
Journalize the May transactions for Waller Brothers. You may omit explanations.
**Accounting for Merchandising Operations**

---

*aSolution 176*  (6 min.)

May 13  
\[
\begin{align*}
\text{Purchases} & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 264 \\
\text{Accounts Payable} & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 264
\end{align*}
\]

May 16  
\[
\begin{align*}
\text{Accounts Payable} & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 44 \\
\text{Purchase Returns and Allowances} & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 44
\end{align*}
\]

May 23  
\[
\begin{align*}
\text{Accounts Payable} \ ($264 - $44) & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 220 \\
\text{Purchase Discounts} \ ($220 \times .01) & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 2 \\
\text{Cash} & \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad \ldots \quad 218
\end{align*}
\]

---

**EXERCISES**

**Ex. 177**

For each of the following, determine the missing amounts.

<table>
<thead>
<tr>
<th>Sales</th>
<th>Cost of Goods Sold</th>
<th>Gross Profit</th>
<th>Operating Expenses</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. $100,000</td>
<td>_______</td>
<td>_______</td>
<td>$25,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>2. _______</td>
<td>$95,000</td>
<td>$120,000</td>
<td>_______</td>
<td>$80,000</td>
</tr>
</tbody>
</table>

**Solution 177**  (5 min.)

1. Gross Profit = $35,000  ($25,000 + $10,000)  
   Cost of Goods Sold = $65,000  ($100,000 – $35,000)

2. Sales = $215,000  ($95,000 + $120,000)  
   Operating Expenses = $40,000  ($120,000 – $80,000)

---

**Ex. 178**

On October 1, Taylor 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 30 bicycles at a cost of $200 each from Mann Bicycle Company, terms 2/10, n/30.

6  
Sold 18 bicycles to Team America for $300 each, terms 2/10, n/30.

7  
Received credit from Mann Bicycle Company for the return of 2 defective bicycles.

13  
Issued a credit memo to Team America for the return of a defective bicycle.

14  
Paid Mann Bicycle Company in full, less discount.

**Instructions**

Prepare the journal entries to record the transactions assuming the company uses a perpetual inventory system.
Ex. 179
On September 1, Snow Supply had an inventory of 15 backpacks at a cost of $25 each. The company uses a perpetual inventory system. During September, the following transactions and events occurred.

Sept.  4 Purchased 70 backpacks at $25 each from Jenks, terms 2/10, n/30.

Sept.  6 Received credit of $150 for the return of 6 backpacks purchased on Sept. 4 that were defective.

Sept.  9 Sold 40 backpacks for $35 each to McGill Books, terms 2/10, n/30.

Sept. 13 Sold 15 backpacks for $35 each to Calvin Office Supply, terms n/30.

Sept. 14 Paid Jenks in full, less discount.

Instructions
Journalize the September transactions for Snow Supply.
Solution 179  (20 min.)

Sept.  4  Merchandise Inventory ...................................................... 1,750
Account Payable ........................................................................ 1,750
Sept.  6  Accounts Payable .............................................................. 150
Merchandise Inventory ......................................................... 150
Sept.  9  Accounts Receivable ......................................................... 1,400
Sales .................................................................................... 1,400
Cost of Goods Sold ........................................................... 1,000
Merchandise Inventory ......................................................... 1,000
Sept. 13  Accounts Receivable ......................................................... 525
Sales .................................................................................... 525
Cost of Goods Sold ........................................................... 375
Merchandise Inventory ......................................................... 375
Sept. 14  Accounts Payable ($1,750 – $150) ................................... 1,600
Cash ($1,600 × .98) ................................................................ 1,568
Merchandise Inventory ($1,600 × .02) ...................... 32

Ex. 180
Tim Stark is a new accountant with Watts Company. Watts purchased merchandise on account for $9,000. The credit terms are 2/10, n/30. Tim has talked with the company's banker and knows that he could earn 8% on any money invested in the company's savings account.

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

(b) If Tim forgoes the discount, it may be viewed as paying an interest rate of 2% for the use of $9,000 for 20 days. Calculate the annual rate of interest that this is equivalent to.

Solution 180  (10 min.)
Tim should pay the invoice within the discount period to save $140:

(a) Discount of 2% on $9,000 $180
Interest received on $9,000 (for 20 days at 8%) 40 ($9,000 × 8% × 20 ÷ 360)
Savings by taking the discount $140

(b) The equivalent annual interest rate is:
2% × 360 ÷ 20 = 36%.
Ex. 181

(a) Boden Company purchased merchandise on account from Office Suppliers for $86,000, with terms of 2/10, n/30. During the discount period, Boden returned some merchandise and paid $78,400 as payment in full. Boden uses a perpetual inventory system. Prepare the journal entries that Boden Company made to record:

1. the purchase of merchandise.
2. the return of merchandise.
3. the payment on account.

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

1. the sale of merchandise.
2. the return of merchandise.
3. the collection on account.

Solution 181 (20 min.)

(a) To compute the amount due after returns but before the discount, divide $78,400 by .98 (100% – 2%).

$78,400 ÷ .98 = $80,000.

Subtract $80,000 from $86,000 to determine that $6,000 of merchandise was returned.

(1) Merchandise Inventory .......................................................... 86,000
    Accounts Payable .......................................................... 86,000

(2) Accounts Payable .......................................................... 6,000
    Merchandise Inventory .................................................. 6,000

(3) Accounts Payable .......................................................... 80,000
    Merchandise Inventory .................................................. 1,600
    Cash ................................................................. 78,400

(b) Wilsey Company returns $3,000 of merchandise and owes $70,000 to Boggs Company.

$69,300 ÷ $70,000 = .99

100% – 99% = 1%

The missing discount percentage is 1%. $70,000 × 1% = $700 sales discount.

$70,000 – $700 = $69,300 cash received on account.

(1) Accounts Receivable .................................................. 73,000
    Sales ................................................................. 73,000

Cost of Goods Sold ....................................................... 43,800
    Merchandise Inventory .............................................. 43,800

(2) Sales Returns and Allowances ........................................ 3,000
    Accounts Receivable ................................................ 3,000

Merchandise Inventory $3,000 × ($43,800 ÷ $73,000) ...... 1,800
    Cost of Goods Sold .................................................. 1,800
Solution 181  (cont.)

(3) Cash ................................................................. 69,300
Sales Discounts ....................................................... 700
Accounts Receivable ........................................... 70,000

Ex. 182

Prepare the necessary journal entries to record the following transactions, assuming Barone Company uses a perpetual inventory system.
(a) Purchased $30,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $500 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

Solution 182  (6-8 min.)

(a) Merchandise Inventory ........................................... 30,000
Accounts Payable .................................................... 30,000

(b) Accounts Payable ............................................. 500
Merchandise Inventory ........................................... 500

(c) Accounts Payable ($30,000 – $500) ......................... 29,500
Merchandise Inventory ($29,500 × .02) ...................... 590
Cash ($29,500 – $590) ............................................. 28,910

Ex. 183

Prepare the necessary journal entries to record the following transactions, assuming Moran Company uses a perpetual inventory system.
(a) Moran sells $50,000 of merchandise, terms 1/10, n/30. The merchandise cost $30,000.
(b) The customer in (a) returned $5,000 of merchandise to Moran. The merchandise returned cost $3,000.
(c) Moran received the balance due within the discount period.

Solution 183  (7-9 min.)

(a) Accounts Receivable .......................................... 50,000
Sales ........................................................................... 50,000
Cost of Goods Sold .................................................. 30,000
Merchandise Inventory ........................................... 30,000
Solution 183  (cont.)

(b) Sales Returns and Allowances ..................................................  5,000
    Accounts Receivable ...........................................................  5,000
    Merchandise Inventory .........................................................  3,000
    Cost of Goods Sold ..............................................................  3,000

(c) Cash ($45,000 – $450) .............................................................  44,550
    Sales Discounts ($45,000 × .01) ..............................................  450
    Accounts Receivable ...........................................................  45,000

Ex. 184

Rosen Company completed the following transactions in October:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Terms</th>
<th>Date</th>
<th>Amount</th>
<th>Date of Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 3</td>
<td>600</td>
<td>2/10, n/30</td>
<td>Oct. 8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 11</td>
<td>1,200</td>
<td>3/10, n/30</td>
<td>Oct. 14</td>
<td>400</td>
<td>Oct. 16</td>
</tr>
<tr>
<td>Oct. 17</td>
<td>5,000</td>
<td>1/10, n/30</td>
<td>Oct. 20</td>
<td>1,000</td>
<td>Oct. 29</td>
</tr>
<tr>
<td>Oct. 21</td>
<td>1,400</td>
<td>2/10, n/60</td>
<td>Oct. 23</td>
<td>200</td>
<td>Oct. 27</td>
</tr>
<tr>
<td>Oct. 23</td>
<td>1,800</td>
<td>2/10, n/30</td>
<td>Oct. 27</td>
<td>400</td>
<td>Oct. 28</td>
</tr>
</tbody>
</table>

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.

Rosen uses a perpetual inventory system.

Solution 184  (20 min.)

(a) Oct. 8  $588  [Sales $600 – Sales discount $12 ($600 × .02)]

Oct. 16 $776 [Sales $1,200 – Sales return $400 = $800;
$800 – Sales discount $24 ($800 × .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 $1,372 [Sales $1,800 – Sales return $400 = $1,400;
$1,400 – Sales discount $28 ($1,400 × .02)]
Solution 184  (cont.)

(b) (1) Oct. 17  
Accounts Receivable .......................... 5,000  
Sales ............................................... 5,000  
Cost of Goods Sold ........................... 3,500  
Merchandise Inventory ...................... 3,500  

(2) Oct. 23  
Sales Returns and Allowances ................ 200  
Accounts Receivable ......................... 200  
Merchandise Inventory ...................... 140  
Cost of Goods Sold ........................... 140  

(3) Oct. 28  
Cash ................................................................ 1,372  
Sales Discounts ....................................... 28  
Accounts Receivable ......................... 1,400

Ex. 185

The following information is available for Siler Company:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Siler, Capital</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>Siler, Drawing</td>
<td>$ 32,000</td>
</tr>
<tr>
<td>Sales</td>
<td>510,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>20,000</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>7,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>347,000</td>
</tr>
<tr>
<td>Freight-out</td>
<td>2,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>15,000</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>19,000</td>
</tr>
<tr>
<td>Store Salaries Expense</td>
<td>45,000</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>18,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>7,000</td>
</tr>
<tr>
<td>Interest Revenue</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Instructions

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

Solution 185  (10 min.)

Dec. 31  
Interest Revenue ......................................... 25,000  
Sales ................................................................ 510,000  
Income Summary ........................................... 535,000
Solution 185  (cont.)

31 Income Summary .................................................................  480,000
   Sales Returns and Allowances ........................................  20,000
   Sales Discounts .............................................................  7,000
   Cost of Goods Sold ..........................................................  347,000
   Freight-out .......................................................................  2,000
   Advertising Expense .......................................................  15,000
   Interest Expense ...............................................................  19,000
   Store Salaries Expense .....................................................  45,000
   Utilities Expense ...............................................................  18,000
   Depreciation Expense ..........................................................  7,000

31 Income Summary .................................................................  55,000
   Siler, Capital ........................................................................  55,000

31 Siler, Capital .........................................................................  32,000
   Siler, Drawing .......................................................................  32,000

Ex. 186

The adjusted trial balance of Unruh Book Company appears below.

UNRUH BOOK COMPANY
Adjusted Trial Balance
December 31, 2008

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>32,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>25,000</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>35,000</td>
</tr>
<tr>
<td>Building</td>
<td>150,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Building</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>12,000</td>
</tr>
<tr>
<td>Unruh, Capital</td>
<td>149,000</td>
</tr>
<tr>
<td>Unruh, Drawing</td>
<td>20,000</td>
</tr>
<tr>
<td>Sales</td>
<td>305,000</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>6,000</td>
</tr>
<tr>
<td>Sales Returns &amp; Allowances</td>
<td>8,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>173,000</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>18,000</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>19,000</td>
</tr>
<tr>
<td></td>
<td>486,000</td>
</tr>
<tr>
<td></td>
<td>486,000</td>
</tr>
</tbody>
</table>

Instructions
Using the information given, prepare the year-end closing entries.
Solution 186  (10 min.)

Dec. 31 Sales 305,000

Income Summary 305,000
(To close credit balance accounts)

31 Income Summary 224,000
Sales Discounts 6,000
Sales Returns and Allowances 8,000
Cost of Goods Sold 173,000
Selling Expense 18,000
Administrative Expense 19,000
(To close accounts with debit balances)

31 Income Summary 81,000
Unruh, Capital 81,000
(To transfer net income to capital)

31 Unruh, Capital 20,000
Unruh, Drawing 20,000
(To close drawing account to capital)

Ex. 187

Deloy Company gathered the following condensed data for the year ended December 31, 2008:

Cost of goods sold $690,000
Net sales 1,250,000
Administrative expenses 234,000
Interest expense 58,000
Dividend revenue 38,000
Loss from employee strike 233,000
Selling expenses 45,000

Instructions
Solution 187  (25 min.)

1. DELOY COMPANY
   Income Statement
   For the Year Ended December 31, 2008

   Revenues
   Net sales .......................................................... $1,250,000
   Dividend revenue ................................................. 38,000
   Total revenues .................................................. 1,288,000

   Expenses
   Cost of goods sold .................................................. $690,000
   Administrative expenses ........................................ 234,000
   Loss from employee strike ...................................... 233,000
   Interest expense .................................................... 58,000
   Selling expenses ................................................... 45,000
   Total expenses .................................................... 1,260,000

   Net income .......................................................... $  28,000

2. DELOY COMPANY
   Income Statement
   For the Year Ended December 31, 2008

   Net sales ......................................................... $1,250,000
   Cost of goods sold ................................................ 690,000
   Gross profit ....................................................... 560,000

   Operating expenses
   Administrative expenses ......................................... $234,000
   Selling expenses ................................................... 45,000
   Total operating expenses ....................................... 279,000
   Income from operations ......................................... 281,000

   Other revenues and gains
   Dividend revenue ................................................ 38,000

   Other expenses and losses
   Loss from employee strike ...................................... $233,000
   Interest expense ................................................... 58,000
   Net income .......................................................... $  28,000

Ex. 188

Instructions
State the missing items identified by ?.

1. Gross profit – Operating expenses = ?
2. ? + ? = Operating expenses
3. Sales – (? + ?) = Net sales
5. Net sales – Cost of goods sold = ?
6. Cost of goods sold + Gross profit on sales = ?
Solution 188  (5 min.)

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

Ex. 189

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

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$560,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>7,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>386,000</td>
</tr>
<tr>
<td>Freight-out</td>
<td>2,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>15,000</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>18,000</td>
</tr>
<tr>
<td>Store Salaries Expense</td>
<td>55,000</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>28,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>7,000</td>
</tr>
<tr>
<td>Interest Revenue</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Instructions

1. Use the above information to prepare a multiple-step income statement for the year ended December 31, 2008.

Solution 189  (20 min.)

1. NOTSON COMPANY
   Income Statement
   For the Year Ended December 31, 2008

Sales revenues
Sales................................................................. $560,000
Less:  Sales returns and allowances.................. $ 20,000
       Sales discounts........................................ 7,000
Net sales......................................................... 533,000
Cost of goods sold........................................... 386,000
Gross profit..................................................... 147,000

Operating expenses
   Selling expenses
      Store salaries expense ...................... $55,000
      Advertising expense ....................... 15,000
      Freight-out ........................................ 2,000
      Total selling expenses ..................... 72,000
   Administrative expenses
      Utilities expense .............................. 28,000
      Depreciation expense ......................... 7,000
      Total administrative expenses ............. 35,000
      Total operating expenses ................. 107,000

Income from operations............................................ $40,000
Other revenues and gains
   Interest revenue .................................... 30,000
Other expenses and losses
   Interest expense ...................................... 18,000
Net income ..................................................... $ 52,000

2. NOTSON COMPANY
   Income Statement
   For the Year Ended December 31, 2008

Revenues
Net sales.......................................................... $533,000
Interest revenue.................................................. 30,000
Total revenues................................................... 563,000

Expenses
Cost of goods sold.............................................. $386,000
Selling expenses ................................................ 72,000
Administrative expenses ...................................... 35,000
Interest expense ............................................... 18,000
Total expenses................................................... 511,000

Net income ......................................................... $ 52,000
Ex. 190

The following information is available for Miley Company:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>$ 30,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>245,000</td>
</tr>
<tr>
<td>Sales</td>
<td>350,000</td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>15,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Instructions

Compute each of the following:

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

Solution 190  (6 min.)

(a) Net sales = $335,000  ($350,000 – $15,000)
(b) Gross profit = $90,000  ($335,000 – $245,000)
(c) Income from operations = $10,000  ($90,000 – $30,000 – $50,000)

Ex. 191

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$900,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>320,000</td>
</tr>
<tr>
<td>Beginning inventory</td>
<td>80,000</td>
</tr>
<tr>
<td>Purchase discounts</td>
<td>15,000</td>
</tr>
<tr>
<td>Purchase returns and allowances</td>
<td>8,000</td>
</tr>
<tr>
<td>Freight-in</td>
<td>10,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>300,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>540,000</td>
</tr>
</tbody>
</table>

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.

Solution 191  (15 min.)

(a) Net sales – Cost of goods sold = Gross profit
$900,000 – Cost of goods sold = $320,000
Cost of goods sold = $580,000
Solution 191 (cont.)

(b) Beginning inventory $80,000
Purchases $540,000
Less: Purchase discounts $15,000
Purchase returns and allowances 8,000 23,000
Net Purchases 517,000
Add: Freight-in 10,000
Cost of goods purchased 527,000
Cost of goods available for sale $607,000

(c) Cost of goods available for sale – Ending inventory = Cost of goods sold
$607,000 – Ending inventory = $580,000
Ending inventory = $27,000

Ex. 192

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Sales</th>
<th>$</th>
<th>Sales returns and allowances</th>
<th>$</th>
<th>Sales discounts</th>
<th>$</th>
<th>Net sales</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(a)</td>
<td></td>
<td>(b)</td>
<td></td>
<td></td>
<td></td>
<td>(c)</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>$840,000</td>
<td></td>
<td>20,000</td>
<td></td>
<td></td>
<td></td>
<td>(d)</td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>25,000</td>
<td></td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td>(e)</td>
<td></td>
</tr>
<tr>
<td>Sales discounts</td>
<td>10,000</td>
<td></td>
<td>15,000</td>
<td></td>
<td></td>
<td></td>
<td>(f)</td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>420,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning inventory</td>
<td>(b)</td>
<td>300,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods purchased</td>
<td>220,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending inventory</td>
<td>170,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>260,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>(c)</td>
<td>555,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Instructions
Calculate the missing amounts and identify them by letter.

Solution 192 (15 min.)

(a) $455,000 (d) $805,000
(b) $210,000 (e) $558,000
(c) $160,000 (f) $250,000

Ex. 193

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

Sept. 3 Purchased 80 backpacks at $20 each from Cole Company, terms 2/10, n/30.
Sept. 6 Received credit of $100 for the return of 5 backpacks purchased on Sept. 3 that were defective.
Sept. 9 Sold 15 backpacks for $40 each to Starr Books, terms 2/10, n/30.
Sept. 13 Paid Cole Company in full.
Instructions
Journalize the September transactions for Morton Supply Company.

**Solution 193** (12 min.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 3</td>
<td>Purchases</td>
<td>1,600</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Sept. 6</td>
<td>Accounts Payable</td>
<td></td>
<td>Purchase Returns and Allowances</td>
</tr>
<tr>
<td>Sept. 9</td>
<td>Accounts Receivable</td>
<td>600</td>
<td>Sales</td>
</tr>
<tr>
<td>Sept. 13</td>
<td>Accounts Payable ($1,600 – $100)</td>
<td>1,500</td>
<td>Purchase Discounts ($1,500 × .02)</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Ex. 194**

The following information is available for Olson Company:

- Beginning inventory: $45,000
- Ending inventory: $70,000
- Freight-in: $10,000
- Purchases: $270,000
- Purchase returns and allowances: $8,000

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

**Solution 194** (6 min.)

(a) Net purchases = $262,000 ($270,000 – $8,000)
(b) Cost of goods purchased = $272,000 ($262,000 + $10,000)
(c) Cost of goods sold = $247,000 ($45,000 + $272,000 – $70,000)
The adjusted trial balance of Gorman Music Company appears below. Gorman Music Company prepares monthly financial statements and uses the perpetual inventory method.

**Instructions**
Complete the worksheet below.

<table>
<thead>
<tr>
<th>GORMAN MUSIC COMPANY</th>
<th>Worksheet</th>
<th>For the Month Ended April 30, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Trial Balance</strong></td>
<td><strong>Income Statement</strong></td>
<td><strong>Balance Sheet</strong></td>
</tr>
<tr>
<td>Debit</td>
<td>Credit</td>
<td>Debit</td>
</tr>
<tr>
<td>Cash</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation—Equipment</td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Gorman, Capital</td>
<td></td>
<td>92,000</td>
</tr>
<tr>
<td>Gorman, Drawing</td>
<td>8,000</td>
<td>39,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>23,000</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Utility Expense</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>166,000</strong></td>
<td><strong>166,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
### GORMAN MUSIC COMPANY

Worksheet

For the Month Ended April 30, 2008

<table>
<thead>
<tr>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>Cash</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Gorman, Capital</td>
<td>92,000</td>
<td>92,000</td>
</tr>
<tr>
<td>Gorman, Drawing</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>23,000</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Utility Expense</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>166,000</td>
<td>166,000</td>
</tr>
<tr>
<td>Net Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>42,500</td>
<td>42,500</td>
</tr>
</tbody>
</table>

### aEx. 196

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

(a) Purchased $400,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $40,000 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

### aSolution 196 (6 min.)

(a) Purchases ................................................................. 400,000
    Accounts Payable .................................................. 400,000

(b) Accounts Payable .................................................. 40,000
    Purchase Returns and Allowances .......................... 40,000

(c) Accounts Payable ($400,000 – $40,000) ................. 360,000
    Purchase Discounts ($360,000 × .02) ................. 7,200
    Cash ($360,000 – $7,200) ................................ 352,800
COMPLETION STATEMENTS

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

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

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

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

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

202. When a customer returns merchandise previously purchased on credit, the entry to record the return requires a debit to the ____________ account and a credit to the ____________ account.

203. Sales Returns and Allowances and Sales Discounts are both ____________ accounts and have ____________ normal balances.

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

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

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

Answers to Completion Statements

197. merchandising company
198. gross profit
199. perpetual
200. Merchandise Inventory
201. freight-out
202. Sales Returns and Allowances, Accounts Receivable
203. contra revenue, debit
204. business document
205. cost of goods sold, net sales
206. gross profit
MATCHING

207. 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. Selling expenses
E. FOB destination  J. Income from operations

____ 1. An incentive to encourage customers to pay their accounts early.
____ 2. Expenses associated with making sales.
____ 3. Freight terms that require the seller to pay the freight cost.
____ 4. Sales less sales returns and allowances and sales discounts.
____ 5. A document that supports each credit purchase.
____ 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.

Answers to Matching

1. B  6. H
2. I  7. G
3. E  8. D
5. C  10. F
SHORT-ANSWER ESSAY QUESTIONS

S-A E 208
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.

Solution 208
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 209
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?

Solution 209
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 selling and administrative expenses, income from operations, and other revenues and gains, and other expenses and losses.

S-A-E 210
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?

Solution 210
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.
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.

Solution 211

The items reported for a merchandising company that are not reported for a service company are sales, sales returns and allowances, sales discounts, cost of goods sold, and gross profit. Sales, 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 212 (Ethics)

Feeney 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, Feeney 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.

Deb Rush, a new accountant, was asked to record about $50,000 in inventory as having been received before month end. She argued that the shipping documents clearly showed that the goods were actually received on the 8th of the current month. Her boss, busy with month-end reports, curtly tells Deb 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, Feeney should consider it received when it reached Feeney's dock. She did not record the sale 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.

Solution 212

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. Deb does not appear to know enough about reading shipping documents to make a proper determination of ownership. The goods were owned by Feeney 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 Deb 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.
Anne Stine and Rita Lott, 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. Anne's sale was FOB shipping point, and Rita's was FOB destination. The company "counts" sales for purposes of calculating bonuses on the date that ownership passes to the purchaser. Anne's sale was therefore counted in her monthly total of sales, Rita's was not. Rita is quite upset. She has asked you to just include it, or to take Anne's off as well. She also has told you that you are being unethical for allowing Anne to get a bonus just for choosing a particular shipping method.

Write a memo to Rita. Explain your position.

Solution 213

M E M O

TO: Rita Lott
FROM: Martha King, Accounting
RE: Sales Bonuses
DATE: June 15, 200x

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

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

(signature)