Chapter 5 Review
Please complete the following to be corrected on Tuesday. Additionally, please review your prior tests and bring any questions, etc you may have to class Tuesday for review of Chapters 1-5, for your test on Wednesday.

43. Net income is gross profit less
   a. financing expenses.
   b. operating expenses.
   c. other expenses and losses.
   d. other expenses.

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

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.

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.

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 Revenue.
   d. Inventory.

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. Paden Company purchased merchandise from Emmett 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.
69. Jake’s Market recorded the following events involving a recent purchase of merchandise:

- Received goods for $60,000, terms 2/10, n/30.
- Returned $1,200 of the shipment for credit.
- Paid $300 freight on the shipment.
- Paid the invoice within the discount period.

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

a. $57,624.
b. $57,918.
c. $57,924.
d. $59,100.

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

a. Cash ................................................................. 5,000
   Accounts Receivable ........................................ 5,000

b. Cash ................................................................. 5,000
   Sales Discounts ............................................... 50
   Accounts Receivable ........................................ 4,950

c. Cash ................................................................. 4,950
   Sales Discounts ............................................... 50
   Accounts Receivable ........................................ 5,000

d. Cash ................................................................. 5,050
   Sales Discounts ............................................... 50
   Accounts Receivable ........................................ 5,000

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

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

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

a. Cash ................................................................. 3,400
   Accounts Receivable ........................................ 3,400

b. Cash ................................................................. 3,332
   Sales Returns and Allowances ............................... 68
   Accounts Receivable ........................................ 4,000

c. Cash ................................................................. 3,332
   Sales Returns and Allowances ............................... 600
   Sales Discounts ............................................... 68
   Accounts Receivable ........................................ 4,000

d. Cash ................................................................. 3,920
   Sales Discounts ............................................... 80
   Sales Returns and Allowances ............................... 600
   Accounts Receivable ........................................ 3,400
85. 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.

89. 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.

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

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

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

     a. Cost of Goods Sold .................................................. 150
        Inventory.............................................................. 150

     b. Inventory .......................................................... 150
        Cost of Goods Sold ............................................... 150

     c. Income Summary .................................................. 150
        Inventory.............................................................. 150

     d. Cost of Goods Sold ................................................. 4,500
        Inventory.............................................................. 4,500

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

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

     Net sales for the month is
     a. $7,800
     b. $15,300.
     c. $15,600.
     d. $16,200.

124. If a company has net sales of $700,000 and cost of goods sold of $455,000, the gross profit percentage is
     a. 25%.
     b. 35%.
     c. 65%.
     d. 100%.
BE 190

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

<table>
<thead>
<tr>
<th>Sales Revenue</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</td>
<td>(c)</td>
<td>$35,000</td>
<td>(b) $17,000</td>
<td>(d) $48,000</td>
</tr>
</tbody>
</table>

a. $40,000
b. $18,000
c. $145,000
d. $11,000

BE 191

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

(a) Kelly purchased $45,000 of merchandise on account, terms 2/10, n/30.
(b) Returned $3,000 of damaged merchandise for credit.
(c) Paid for the merchandise purchased within 10 days.

(a) Inventory ........................................................................................................ 45,000
     Accounts Payable ....................................................................................... 45,000

(b) Accounts Payable .......................................................................................... 3,000
    Inventory ......................................................................................................... 3,000

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

BE 196

Hoyt Company provides this information for the month of November, 2014: sales on credit $170,000; cash sales $70,000; sales discounts $2,000; and sales returns and allowances $9,000. Prepare the sales revenues section of the income statement based on this information.

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

Sales Revenue ........................................................................................................ $240,000
Less:  Sales Returns and Allowances ......................................................... $9,000
      Sales Discounts ........................................................................................... 2,000
Net Sales ............................................................................................................... $229,000
BE 194

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

May 13 Sold 8 motors at a cost of $45 each to Scruffy Brothers Supply Company, terms 4/10, n/30. The motors cost Charlie $26 each.

May 16 One defective motor was returned to Charlie.

May 23 Received payment in full from Scruffy Brothers. Round to nearest dollar.

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

May 13 Accounts Receivable ................................................................. 360
    Sales Revenue ........................................................................... 360
    Cost of Goods Sold ................................................................. 208
    Inventory .................................................................................. 208

May 16 Sales Returns and Allowances ........................................... 45
    Accounts Receivable .................................................................. 45
    Inventory .................................................................................... 26
    Cost of Goods Sold ................................................................. 26

May 23 Cash .................................................................................. 302
    Sales Discounts ($315 × .04) ...................................................... 13
    Accounts Receivable ($360 − $45) ........................................... 315

Ex. 204

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

Sept. 4 Purchased 70 backpacks at $20 each from Hunter, terms 2/10, n/30.

Sept. 6 Received credit of $100 for the return of 5 backpacks purchased on Sept. 4 that were defective.

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

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

Sept. 14 Paid Hunter in full, less discount.

Instructions
Journalize the September transactions for Reid Supply.

Sept. 4 Inventory ........................................................................... 1,400
    Accounts Payable ...................................................................... 1,400

Sept. 6 Accounts Payable ............................................................... 100
    Inventory .................................................................................... 100

Sept. 9 Accounts Receivable .......................................................... 1,400
    Sales Revenue ........................................................................... 1,400
    Cost of Goods Sold .................................................................. 800
    Inventory .................................................................................... 800
Ex. 216
In 2014, Rondelli Company had net sales of $650,000 and cost of goods sold of $455,000. Operating expenses were $150,000, and interest expense was $10,000. Rondelli prepares a multiple-step income statement.

Instructions
(a) Compute Rondelli gross profit.
(b) Compute the gross profit rate.
(c) What is Rondelli income from operations and net income?
(d) If Rondelli prepared a single-step income statement, what amount would it report for net income?

(a) $650,000 – $455,000 = $195,000.
(b) $195,000/$650,000 = 30%.
(c) Income from operations is $45,000 ($195,000 – $150,000), and net income is $35,000 ($45,000 – $10,000).
(d) The amount shown for net income is the same in a multiple-step income statement and a single-step income statement. Therefore, net income in Rondelli single-step income statement is also $35,000.

Ex. 217
Argentina Company gathered the following condensed data for the year ended December 31, 2014:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>$750,000</td>
</tr>
<tr>
<td>Net sales</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>275,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>48,000</td>
</tr>
<tr>
<td>Dividend revenue</td>
<td>38,000</td>
</tr>
<tr>
<td>Casualty loss from vandalism</td>
<td>125,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$1,238,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Dividend revenue</td>
<td>38,000</td>
</tr>
<tr>
<td>Total revenues</td>
<td>1,238,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>$1,198,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>750,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>275,000</td>
</tr>
<tr>
<td>Casualty loss from vandalism</td>
<td>125,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>48,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>1,198,000</td>
</tr>
</tbody>
</table>

   Net income                          | $40,000    |
# ARGENTINA COMPANY

**Income Statement**

For the Year Ended December 31, 2014

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