

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
- financing expenses.
 - operating expenses.
 - other expenses and losses.
 - other expenses.
46. A merchandising company that sells directly to consumers is a
- retailer.
 - wholesaler.
 - broker.
 - service company.
51. Cost of goods sold is determined only at the end of the accounting period in
- a perpetual inventory system.
 - a periodic inventory system.
 - both a perpetual and a periodic inventory system.
 - neither a perpetual nor a periodic inventory system.
56. In a perpetual inventory system, cost of goods sold is recorded
- on a daily basis.
 - on a monthly basis.
 - on an annual basis.
 - with each sale.
59. The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
- Accounts Payable.
 - Purchase Returns and Allowances.
 - Sales Revenue.
 - Inventory.
63. Freight costs paid by a seller on merchandise sold to customers will cause an increase
- in the selling expense of the buyer.
 - in operating expenses for the seller.
 - to the cost of goods sold of the seller.
 - to a contra-revenue account of the seller.
64. Paden Company purchased merchandise from Emmett Company with freight terms of FOB shipping point. The freight costs will be paid by the
- seller.
 - buyer.
 - transportation company.
 - buyer and the seller.

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

85. A sales invoice is a source document that
- provides support for goods purchased for resale.
 - provides evidence of incurred operating expenses.
 - provides evidence of credit sales.
 - serves only as a customer receipt.
89. The Sales Returns and Allowances account is classified as a(n)
- asset account.
 - contra asset account.
 - expense account.
 - contra revenue account.
103. Which of the following accounts has a normal credit balance?
- Sales Returns and Allowances
 - Sales Discounts
 - Sales Revenue
 - Selling Expense
110. A merchandising company using a perpetual system may record an adjusting entry by
- debiting Income Summary.
 - crediting Income Summary.
 - debiting Cost of Goods Sold.
 - debiting Sales Revenue.
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
- \$7,800
 - \$15,300.
 - \$15,600.
 - \$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
- 25%.
 - 35%.
 - 65%.
 - 100%.

BE 190

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

<u>Sales Revenue</u>	<u>Cost of Goods Sold</u>	<u>Gross Profit</u>	<u>Operating Expenses</u>	<u>Net Income</u>
\$75,000	(a)	\$35,000	(b)	\$17,000
(c)	\$86,000	\$59,000	\$48,000	(d)

- 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	11,000
Net Sales.....		<u>\$229,000</u>

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 ($\$315 \times .04$)	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

Sept. 13	Accounts Receivable	525	
	Sales Revenue		525
	Cost of Goods Sold	300	
	Inventory.....		300
Sept. 14	Accounts Payable (\$1,400– \$100).....	1,300	
	Cash (\$1,300 × .98).....		1,274
	Inventory (\$1,300 × .02).....		26

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:

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

Instructions

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

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

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

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