53. Merchandising companies that sell to retailers are known as
    a. brokers.
    b. corporations.
    c. wholesalers.
    d. service firms.

57. Gross profit equals the difference between
    a. net income and operating expenses.
    b. net sales revenues and cost of goods sold.
    c. net sales revenues and operating expenses.
    d. net sales revenues and cost of goods sold plus operating expenses.

59. Net income will result if gross profit exceeds
    a. cost of goods sold.
    b. operating expenses.
    c. purchases.
    d. cost of goods sold plus operating expenses.

62. Two categories of expenses in 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.

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

65. Under a perpetual inventory system
    a. accounting records continuously disclose the amount of inventory.
    b. increases in inventory resulting from purchases are debited to purchases.
    c. there is no need for a year-end physical count.
    d. the account purchase returns and allowances is credited when goods are returned to vendors.

69. 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

75. The primary difference between a periodic and perpetual inventory system is that a periodic system
    a. keeps a record showing the inventory on hand at all time.
    b. provides better control over inventories.
    c. records the cost of the sale on the date the sale is made.
    d. determines the inventory on hand only at the end of the accounting period.

77. Inventory becomes part of cost of goods sold when a company
    a. pays for the inventory.
    b. purchases the inventory.
    c. sells the inventory.
    d. receives payment from the customer.

80. The periodic inventory system is used most commonly by companies that sell
   a. low-priced, high-volume merchandise.
   b. high-priced, high-volume merchandise.
   c. high-priced, low-volume merchandise.
   d. high-priced, low and high-volume merchandise.

84. 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.

86. A company using a perpetual inventory system that returns goods previously purchased on credit would
   a. debit Accounts Payable and credit Inventory.
   b. debit Sales and credit Accounts Payable.
   c. debit Cash and credit Accounts Payable.
   d. debit Accounts Payable and credit Purchases.

89. Conway Company purchased merchandise inventory with an invoice price of $8,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Conway Company pays within the discount period?
   a. $8,000
   b. $7,840
   c. $7,200
   d. $7,360

91. In the credit terms of 1/10, n/30, the “1” represents the
   a. number of days in the discount period.
   b. full amount of the invoice.
   c. number of days when the entire amount is due.
   d. percent of the cash discount.

94. A credit sale of $1,600 is made on April 25, terms 2/10, net/30, on which a return of $100 is granted on April 28. What amount is received as payment in full on May 4?
   a. $1,470
   b. $1,568
   c. $1,600
   d $1,500

98. A purchase invoice is a document that
   a. provides support for goods purchased for cash.
   b. provides evidence of incurred operating expenses.
   c. provides evidence of credit purchases.
   d. serves only as a customer receipt.

101. When using a perpetual inventory system, why are discounts credited to Inventory?
   a. The discounts are debited to discount expense and thus the credit has to be made to merchandise inventory.
   b. The discounts reduce the cost of the inventory.
   c. The discounts are a reduction of business expenses.
   d. None of the answers is correct.

103. Stan's Market recorded the following events involving a recent purchase of inventory:

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

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

106. Which of the following accounts is classified as a contra revenue account?

a. Sales Revenue
b. Cost of Goods Sold
c. Sales Returns and Allowances
d. Purchase Discounts

109. The journal entry to record a credit sale is

a. Cash
    Sales Revenue
b. Cash
    Service Revenue
c. Accounts Receivable
    Sales Returns and Allowances
d. Accounts Receivable
    Sales Revenue

116. The entry to record the receipt of payment within the discount period on a sale of $500 with terms of 2/10, n/30 will include a

a. credit to Sales Discounts for $10.
b. debit to Sales Revenue for $490.
c. credit to Accounts Receivable for $500.
d. credit to Sales Revenue for $500.

120. 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.

127. Anderson Inc. sells $600 of merchandise on account to Baltic Company with credit terms of 2/10, n/30. If Baltic Company remits a check taking advantage of the discount offered, what is the amount of Baltic Company's check?

a. $588
b. $600
c. $540
d. $560

131. Fehr Company sells merchandise on account for $2,500 to Kelly Company with credit terms of 2/10, n/30. Kelly Company returns $500 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?

a. $2,450
b. $2,460
c. $2,000
d. $1,960

151. 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.

154. Interest expense would be classified on a multiple-step income statement under the heading
   a. Other expenses and losses
   b. Other revenues and gains
   c. Selling expenses
   d. Cost of goods sold

161. Financial information is presented below:

Operating Expenses	$ 45,000
Sales Revenue	150,000
Cost of Goods Sold	90,000

The gross profit rate would be
   a. .60.
   b. .10
   c. .30.
   d. .40.

165. Financial information is presented below:

Operating Expenses	$ 21,000
Sales Returns and Allowances	7,000
Sales Discounts	3,000
Sales Revenue	150,000
Cost of Goods Sold	105,000

The profit margin ratio would be
   a. .16.
   b. .14.
   c. .09.
   d. .10.

192. The gross profit rate is computed by dividing gross profit by
   a. sales.
   b. cost of goods sold.
   c. net sales.
   d. operating expenses

Be. 207

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

Sales	Cost of Goods Sold	Gross Profit	Operating Expenses	Net Income
$75,000	(a)	$30,000	(b)	$17,000
(c)	$56,000	$54,000	$48,000	(d)

a. $ 45,000
b. $ 13,000
c. $110,000
d. $ 6,000

Be. 208

On September 4, Roberta's Knickknacks buys merchandise on account from Dolan Company. The selling price of the goods is $600 and the cost of goods is $400. Both companies use the perpetual inventory systems Journalize the transactions on the books of both companies.

Roberta's Knickknacks records

Sept. 4	Inventory	600	
	Accounts Payable		600

Dolan Company records

Sept. 4	Accounts Receivable	600	
	Sales		600
	Cost of Goods Sold	400	
	Inventory		400

Be. 209

Menke Company is a furniture retailer and uses the perpetual inventory system. On January 14, 2012, Menke purchased merchandise inventory at a cost of $30,000. Credit terms were 2/10, n/30. The inventory was sold on account for $40,000 on January 21, 2012. Credit terms were 1/10, n/30. The accounts payable was settled on January 23, 2012, and the accounts receivables were settled on January 30, 2012. Prepare journal entries to record each of these transactions.

Jan. 14	Inventory	30,000	
	Accounts Payable		30,000
Jan. 21	Accounts Receivable	40,000	
	Sales Revenue		40,000
	Cost of Goods Sold	30,000	
	Inventory		30,000
Jan. 23	Accounts Payable	30,000	
	Cash		29,400
	Inventory		600
Jan. 30	Cash	39,600	
	Sales Discounts	400	
	Accounts Receivable		40,000

Be. 211

Lovett Company provides this information for the month of November, 2012: sales on credit $150,000; cash sales $50,000; sales discount $2,000; and sales returns and allowances $8,000. Prepare the sales revenues section of the income statement based on this information.

LOVETT COMPANY

Income Statement(Partial)
For the Month Ended November 30, 2012

Sales Revenue			$200,000
Less:	Sales Returns and Allowances	$ 8,000	
	Sales Discounts	2,000	10,000
Net Sales			190,000

Be. 213

Assume that Mitchell Company uses a periodic inventory system and has these account balances: Purchases $650,000; Purchase Returns and Allowances $25,000; Purchases 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 amounts to be reported for cost of goods sold and gross profit.

Calculation of cost of goods sold

Inventory, beginning			$45,000
Cost of goods sold			
Purchases		$650,000	
Less: Purchases returns and allowances	$25,000		
Purchase discounts	11,000	36,000	
Net purchases		614,000	
Add: Freight-in		19,000	
Cost of goods Purchased			633,000
Cost of goods available for sale			678,000
Inventory, ending			55,000
Cost of goods sold			$623,000

Calculation of gross profit

Net sales	$750,000
Cost of goods sold	623,000
Gross profit	$127,000

Ex. 218

June 4 Black Company purchased $7,000 worth of merchandise, terms n/30 from Hayes Company. The cost of the merchandise was $4,900.

12 Black returned $500 worth of goods to Hayes for full credit. The goods had a cost of $350 to Hayes.

12 Black paid the account in full.

Instructions

Prepare the journal entries to record these transactions in (a) Black's records and (b) Hayes' records. Assume use of the perpetual inventory system for both companies.

(a) Black's books

June	4	Inventory ……………………………………	7,000	
		Accounts Payable……………………………….		7,000
	12	Accounts Payable………………………………………	500	
		Inventory………………………….		500
	12	Accounts Payable………………………………………	6,500	
		Cash……………………………………………..		6,500

(b) Hayes' books

June	4	Accounts Receivable…………………………………..	7,000	
		Sales Revenue………………………………………………		7,000
	4	Cost of Goods Sold…………………………………….	4,900	
		Inventory…………………………..		4,900
	12	Sales Returns and Allowance……………………………	500	
		Accounts Receivable…………………………….		500
	12	Inventory……………………………………	350	
		Cost of Goods Sold………………………………		350
	12	Cash……………………………………………………..	6,500	
		Accounts Receivable…………………………….		6,500