Chapter 5 Questions

Multiple Choice

1. At the beginning of the year, Paradise Co. had an inventory of $200,000. During the year, the company purchased goods costing $900,000. Paradise Co reported ending inventory of $300,000 at the end of the year. Their **cost of goods sold** is
a. $1,000,000
b. $800,000
c. $1,400,000
d. $400,000

2. Under the **perpetual** inventory system, in addition to making the entry to record a sale, a company would
a. debit Inventory and credit Cost of Goods Sold.
b. debit Cost of Goods Sold and credit Purchases.
c. debit Cost of Goods sold and credit Inventory.
d. make no additional entry until the end of the period.

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

4. **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.

5. The entry for a **buyer** to record the **return of goods** under a **perpetual** inventory system assuming the purchase was made on account would include a
a. debit to inventory
b. debit to purchase returns and allowances
c. credit to accounts payable
d. debit to accounts payable

6. Under the perpetual system, cash **freight costs** incurred by the **buyer** for the transporting of goods is recorded in which account?
a. Freight Expense
b. Freight-In
c. Inventory
d. Freight-Out

7. **Cost of goods sold** can be calculating by which of the following formulas?
a. Beginning Inventory + Net Purchases – Ending Inventory
b. Ending Inventory + Net Purchases – Beginning Inventory
c. Beginning Inventory + Sales – Ending Inventory
d. Ending Inventory + Sales – Beginning Inventory

8. The entry to record a sale of $1,800 with **terms of 2/10, n/30** will include a
a. debit to Sales Discounts for $36.
b. debit to Sales Revenue for $1,764.
c. credit to Accounts Receivable for $1,800.
d. credit to Sales Revenue for $1,800.

9. The entry to record the receipt of payment within the discount period on a sale of $10,000 with **terms of 3/15, n/60** will include a
a. credit to Sales Discounts for $300.
b. debit to Cash for $9,700.
c. credit to Accounts Receivable for $9,700.
d. credit to Sales Revenue for $10,000.

10. 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.

11. 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.

12. In the credit **terms of 3/15, n/60**, the "15" 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.

13. Under the perpetual system, cash **freight costs** incurred by the **seller** for the transporting of goods is recorded in which account?
a. Freight Expense
b. Freight-In
c. Inventory
d. Freight-Out

14. Livingston Company sells merchandise on account for $6,000 to Briggs Inc. on April 10 with credit terms 3/15, n/60. Briggs returns $1,000 of the merchandise on April 15. Briggs paid for the remainder of the goods within the discount period on April 20. What entry would Briggs make to record the return on April 15 if it uses the perpetual inventory system?

a. Cash	1,000	
Inventory		1,000
b. Accounts Payable	1,000	
Inventory		1,000
c. Accounts Payable	970	
Inventory		970
d. Purchase Returns	1,000	
Inventory		1,000

15. Livingston Company sells merchandise on account for $6,000 to Briggs Inc. on April 10 with credit terms 3/15, n/60. Briggs returns $1,000 of the merchandise on April 15. Briggs paid for the remainder of the goods within the discount period on April 20. What entry would Briggs make to record the payment on April 20 if it uses the perpetual inventory system?

a. Accounts Payable	6,000	
Cash		6,000
b. Accounts Payable	5,820	
Cash		5,820
c. Accounts Payable	5,000	
Inventory		150
Cash		4,850
d. Accounts Payable	5,000	
Sales discounts		150
Cash		4,850

EXERCISES

1. Menke Company is a furniture retailer and uses the perpetual inventory system. On January 14, Menke purchased merchandise inventory at a cost of $45,000. Credit terms were 2/10, n/30. The inventory was sold on account for $60,000 on January 21. Credit terms were 1/10, n/30. The accounts payable was settled on January 23, and the accounts receivables were settled on January 30, 2017. **Prepare journal entries to record each of these transactions.**

	Date	Debit	Credit

2. Lovett Company provides this information for the month of November, 20XX: sales on credit $140,000; cash sales $50,000; sales discount $2,000; and sales returns and allowances $8,000. **Prepare the sales revenues section of the multi step income statement based on this information.**

3. Presented below is information for Zales Company for the month of January 20XX.

Cost of goods sold	$280,000	Rent expense	$35,000
Freight-out	7,000	Sales discounts	8,000
Insurance expense	12,000	Sales returns and allowances	13,000
Salaries and wages expense	42,000	Sales revenue	421,000

Instructions: Prepare a multiple-step income statement.

4. The trial balance of Rachel Company at the end of its fiscal year, August 31, 20X2, includes these accounts: Inventory $29,200; Purchases $144,000; Sales Revenue $190,000; Freight-In $8,000; Sales Returns and Allowances $3,000; Freight-Out $1,000; and Purchases Returns and Allowances $5,000. The ending inventory is $25,000.

Prepare a cost of goods sold section for the year ending August 31.

5. Petersen Book Store entered into the transactions listed below. In the journal provided, prepare Petersen's necessary entries, assuming use of the perpetual inventory system.

July	6	Purchased $1,600 of merchandise on credit, terms n/30.
	8	Returned $100 of the items purchased on July 6.
	9	Paid freight charges of $90 on the items purchased July 6.
	19	Sold merchandise on credit for $4,400, terms 1/10, n/30. The merchandise had an inventory cost of $2,700.
	22	Of the merchandise sold on July 19, $300 of it was returned. The items had cost the store $150.
	28	Received payment in full from the customer of July 19.
	31	Paid for the merchandise purchased on July 6.

	Date	**Debit**	**Credit**

Chapter 5 Solutions

Multiple Choice Solutions

1. **B**
2. **C**
3. **B**
4. **D**
5. **D**
6. **C**
7. **A**
8. **D**
9. **B**
10. **B**
11. **A**
12. **A**
13. **D**
14. **B**
15. **C**

Exercise Solutions

1.

	Date	Debit	Credit
Inventory	**Jan. 14**	45,000	
Accounts Payable			45,000
Accounts Receivable	**Jan. 21**	60,000	
Service Revenue			60,000
Cost of Goods Sold	**Jan. 21**	45,000	
Inventory			45,000
Accounts Payable	**Jan. 23**	45,000	
Cash ($45,000 × 0.98)			44,100
Inventory ($45,000 × 0.02)			900
Cash ($60,000 x 0.99)	**Jan. 30**	59,400	
Sales Discounts ($60,000 × 0.01)		600	
Accounts Receivable			60,000

Chapter 5 Solutions (Cont.)

Exercise Solutions (Cont.)

2. LOVETT COMPANY

Income Statement(Partial)
For the Month Ended November 30, 20XX

Sales Revenue		$190,000
Less: Sales Returns and Allowances	$ 8,000	
Sales Discounts	2,000	10,000
Net Sales		180,000

3. (a) ZALES COMPANY

Income Statement
For the Month Ended January 31, 20XX

Sales		
Sales revenue............		$421,000
Less: Sales returns and allowances	$13,000	
Sales discounts	8,000	21,000
Net sales		400,000
Cost of goods sold............		280,000
Gross profit		120,000
Operating expenses		
Salaries and wages expense	42,000	
Rent expense	35,000	
Insurance expense............	12,000	
Freight-out............	7,000	
Total operating expense		96,000
Net income		$ 24,000

(sal. rev. – sal. ret./all. – sal. dis – COGS – oper. exp.)

Chapter 5 Solutions (Cont.)

Exercise Solutions (Cont.)

4. Inventory, September 1, 20X1		$ 29,200
Purchases	$144,000	
Less: Purchase returns and allowances	5,000	
Net purchases	139,000	
Add: Freight-in	8,000	
Cost of goods purchased		147,000
Cost of goods available for sale		176,200
Inventory, August 31, 20X2		25,000
Cost of goods sold		**$151,200**

(Beg. inv. + purch. – purch. ret./all. + fr. – in – end. inv.)

5.

	Date	Debit	Credit
Inventory	**Jul. 6**	1,600	
Accounts Payable			1,600
Accounts Payable	**Jul. 8**	100	
Inventory			100
Inventory	**Jul. 9**	90	
Cash			90
Accounts Receivable	**Jul. 19**	4,400	
Sales Revenue			4,400
Cost of Goods Sold	**Jul. 19**	2,700	
Inventory			2,700
Sales Returns and Allowances	**Jul. 22**	300	
Accounts Receivable			300
Inventory	**Jul. 22**	150	
Cost of Goods Sold			150
Cash ($4,100 x 0.99)	**Jul. 28**	4,059	
Sales Discounts ($4,100 × 0.01)		41	
Accounts Receivable ($4,400 - $300)			4,100
Accounts Payable ($1,600 - $100)	**Jul. 31**	1,500	
Cash			1,500