

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?
- Beginning Inventory + Net Purchases – Ending Inventory
 - Ending Inventory + Net Purchases – Beginning Inventory
 - Beginning Inventory + Sales – Ending Inventory
 - 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
- debit to Sales Discounts for \$36.
 - debit to Sales Revenue for \$1,764.
 - credit to Accounts Receivable for \$1,800.
 - 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
- credit to Sales Discounts for \$300.
 - debit to Cash for \$9,700.
 - credit to Accounts Receivable for \$9,700.
 - credit to Sales Revenue for \$10,000.
10. Under a perpetual inventory system
- accounting records continuously disclose the amount of inventory.
 - increases in inventory resulting from purchases are debited to purchases.
 - there is no need for a year-end physical count.
 - 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
- debit Accounts Payable and credit Inventory.
 - debit Sales and credit Accounts Payable.
 - debit Cash and credit Accounts Payable.
 - debit Accounts Payable and credit Purchases.
12. In the credit terms of 3/15, n/60, the “15” represents the
- number of days in the discount period.
 - full amount of the invoice.
 - number of days when the entire amount is due.
 - 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?
- Freight Expense
 - Freight-In
 - Inventory
 - 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

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

- (a) **Prepare a multiple-step income statement.**
- (b) **Calculate the profit margin and the gross profit rate.**

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.

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 ($\$45,000 \times 0.98$)			44,100
Inventory ($\$45,000 \times 0.02$)			900
Cash ($\$60,000 \times 0.99$)	Jan. 30	59,400	
Sales Discounts ($\$60,000 \times 0.01$)		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	<u>2,000</u>	<u>10,000</u>
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	<u>8,000</u>	<u>21,000</u>
Net sales		400,000
Cost of goods sold		<u>280,000</u>
Gross profit		120,000
Operating expenses		
Salaries and wages expense	42,000	
Rent expense	35,000	
Insurance expense	12,000	
Freight-out.....	<u>7,000</u>	
Total operating expense		<u>96,000</u>
Net income		<u>\$ 24,000</u>

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

$$(b) \text{ Profit margin} = \frac{\$24,000}{\$400,000} = \mathbf{.06}$$

$$\text{Gross profit rate} = \frac{\$120,000}{\$400,000} = \mathbf{.30}$$

Chapter 5 Solutions (Cont.)**Exercise Solutions (Cont.)**

4. Inventory, September 1, 20X1		\$ 29,200
Purchases	\$144,000	
Less: Purchase returns and allowances	<u>5,000</u>	
Net purchases	139,000	
Add: Freight-in	<u>8,000</u>	
Cost of goods purchased.....		<u>147,000</u>
Cost of goods available for sale		176,200
Inventory, August 31, 20X2.....		<u>25,000</u>
Cost of goods sold		<u>\$151,200</u>
(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 x 0.01)		41	
Accounts Receivable (\$4,400 - \$300)			4,100
Accounts Payable (\$1,600 - \$100)	Jul. 31	1,500	
Cash			1,500

