Name: _____ Date: _____

1. Two categories of expenses for 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.

2. Sales revenue less cost of goods sold is called
   A) gross profit.
   B) net profit.
   C) net income.
   D) marginal income.

3. 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.

4. Which of the following is a true statement about inventory systems?
   A) Periodic inventory systems require more detailed inventory records.
   B) Perpetual inventory systems require more detailed inventory records.
   C) A periodic system requires cost of goods sold be determined after each sale.
   D) A perpetual system determines cost of goods sold only at the end of the accounting period.

5. If a company determines cost of goods sold each time a sale occurs, it
   A) must have a computer accounting system.
   B) uses a combination of the perpetual and periodic inventory systems.
   C) uses a periodic inventory system.
   D) uses a perpetual inventory system.

6. 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.

7. If a purchaser using a perpetual system agrees to freight terms of FOB shipping point, then the
   A) Inventory account will be increased.
   B) Inventory account will not be affected.
   C) seller will bear the freight cost.
   D) carrier will bear the freight cost.

8. Glenn Company purchased merchandise inventory with an invoice price of $7,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Glenn Company pays within the discount period?
   A) $6,300
   B) $6,440
   C) $6,860
   D) $7,000

9. If a company is given credit terms of 2/10, n/30, it should
   A) hold off paying the bill until the end of the credit period, while investing the money at 10% annual interest during this time.
   B) pay within the discount period and recognize a savings.
   C) pay within the credit period but don't take the trouble to invest the cash while waiting to pay the bill.
   D) recognize that the supplier is desperate for cash and withhold payment until the end of the credit period while negotiating a lower sales price.

10. Jake's Market recorded the following events involving a recent purchase of merchandise:
    Received goods for $50,000, terms 2/10, n/30.
    Returned $1,000 of the shipment for credit.
    Paid $250 freight on the shipment.
    Paid the invoice within the discount period.

    As a result of these events, the company's inventory increased by
    A) $48,020.
    B) $48,265.
    C) $48,270.
    D) $49,250.

11. Glover Co. returned defective goods costing $4,000 to Mal Company on April 19, for credit. The goods were purchased April 10, on credit, terms 3/10, n/30. The entry by Glover Co. on April 19, in receiving full credit is:

| | | | |
|---|---|---|---|
| A) | Accounts Payable | 4,000 | |
| | Inventory | | 4,000 |
| B) | Accounts Payable | 4,000 | |
| | Inventory | 120 | |
| | Cash | | 4,120 |
| C) | Accounts Payable | 4,000 | |
| | Purchase Discounts | | 120 |
| | Inventory | | 3,880 |
| D) | Accounts Payable | 4,000 | |
| | Inventory | | 120 |
| | Cash | | 3,880 |

12. In a perpetual inventory system, the Cost of Goods Sold account is used
    A) only when a cash sale of merchandise occurs.
    B) only when a credit sale of merchandise occurs.
    C) only when a sale of merchandise occurs.
    D) whenever there is a sale of merchandise or a return of merchandise sold.

13. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
    A) the customer must pay the bill within 10 days.
    B) the customer can deduct a 2% discount if the bill is paid between the 10th and 30th day from the invoice date.
    C) the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice date.
    D) two sales returns can be made within 10 days of the invoice date and no returns thereafter.

14. Arquette Company's financial information is presented below.

| | | | |
|---|---|---|---|
| Sales | $ ???? | Cost of Goods Sold | 270,000 |
| Sales Returns and Allowances | 20,000 | Gross Profit | ???? |
| Net Sales | 450,000 | | |

The missing amounts above are:

| | Sales | Gross Profit |
|---|---|---|
| a. | $470,000 | $180,000 |
| b. | $430,000 | $180,000 |
| c. | $470,000 | $210,000 |
| d. | $430,000 | $210,000 |

15. If a company has net sales of $700,000 and cost of goods sold of $490,000, the gross profit percentage is
A) 15%.
B) 30%.
C) 70%.
D) 100%.

16. A company shows the following balances:

| | |
|---|---|
| Sales Revenue | $2,000,000 |
| Sales Returns and Allowances | 360,000 |
| Sales Discounts | 40,000 |
| Cost of Goods Sold | 1,120,000 |

What is the gross profit percentage?
A) 30%
B) 44%
C) 56%
D) 70%

17. At the beginning of September, 2012, Stella Company reported Inventory of $4,000. During the month, the company made purchases of $17,800. At September 31, 2012, a physical count of inventory reported $4,200 on hand. Cost of goods sold for the month is
A) $17,600.
B) $17,800.
C) $18,000.
D) $21,800.

18. McKendrick Shoe Store has a beginning inventory of $30,000. During the period, purchases were $130,000; purchase returns, $4,000; and freight-in $10,000. A physical count of inventory at the end of the period revealed that $20,000 was still on hand. The cost of goods available for sale was
    A) $126,000.
    B) $136,000.
    C) $146,000.
    D) $166,000.

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

| Sales Revenue | Cost of Goods Sold | Gross Profit | Operating Expenses | Net Income |
|---|---|---|---|---|
| $75,000 | (a) | $30,000 | (b) | $17,000 |
| (c) | $86,000 | $64,000 | $48,000 | (d) |

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

| | | |
|---|---|---|
| May | 13 | Sold 6 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. |

**Instructions**
Journalize the May transactions for Charlie Company (seller) assuming that Charlie uses a perpetual inventory system. You may omit explanations.

21. For each of the following, determine the missing amounts.

| | Beginning Inventory | Purchases | Goods Available for Sale | Cost of Goods Sold | Ending Inventory |
|---|---|---|---|---|---|
| 1. | $10,000 | _____ | $ 40,000 | $25,000 | _____ |
| 2. | _____ | $220,000 | $245,000 | _____ | $40,000 |

22. Inventory is
    A) reported under the classification of Property, Plant, and Equipment on the balance sheet.
    B) often reported as a miscellaneous expense on the income statement.
    C) reported as a current asset on the balance sheet.
    D) generally valued at the price for which the goods can be sold.

23. The factor which determines whether or not goods should be included in a physical count of inventory is
    A) physical possession.
    B) legal title.
    C) management's judgment.
    D) whether or not the purchase price has been paid.

24. If goods in transit are shipped FOB destination
    A) the seller has legal title to the goods until they are delivered.
    B) the buyer has legal title to the goods until they are delivered.
    C) the transportation company has legal title to the goods while the goods are in transit.
    D) no one has legal title to the goods until they are delivered.

25. Which of the following should be included in the physical inventory of a company?
    A) Goods held on consignment from another company.
    B) Goods in transit to another company shipped FOB shipping point.
    C) Goods in transit from another company shipped FOB shipping point.
    D) Both b and c above.

26. Partridge Bookstore had 500 units on hand at January 1, costing $18 each. Purchases and sales during the month of January were as follows:

| Date | | Purchases | Sales |
|---|---|---|---|
| Jan. | 14 | | 375 @ $28 |
| | 17 | 250 @ $20 | |
| | 25 | 250 @ $22 | |
| | 29 | | 260 @ $32 |

Partridge does not maintain perpetual inventory records. According to a physical count, 365 units were on hand at January 31.

The cost of the inventory at January 31, under the FIFO method is:
    A) $6,570.
    B) $7,300.
    C) $7,800.
    D) $8,030.

27. A company just starting business made the following four inventory purchases in June:

| | | | |
|---|---|---|---|
| June | 1 | 150 units | $ 390 |
| June | 10 | 200 units | 585 |
| June | 15 | 200 units | 630 |
| June | 28 | 150 units | 510 |
| | | | $2,115 |

A physical count of merchandise inventory on June 30 reveals that there are 200 units on hand. Using the LIFO inventory method, the value of the ending inventory on June 30 is

A) $536.
B) $668.
C) $1,447.
D) $1,564.

28. A company just starting business made the following four inventory purchases in June:

| | | | |
|---|---|---|---|
| June | 1 | 150 units | $ 390 |
| June | 10 | 200 units | 585 |
| June | 15 | 200 units | 630 |
| June | 28 | 150 units | 510 |
| | | | $2,115 |

A physical count of merchandise inventory on June 30 reveals that there are 200 units on hand. Using the FIFO inventory method, the amount allocated to cost of goods sold for June is

A) $536.
B) $668.
C) $1,447.
D) $1,564.

29. The cost of goods available for sale is allocated between

A) beginning inventory and ending inventory.
B) beginning inventory and cost of goods on hand.
C) ending inventory and cost of goods sold.
D) beginning inventory and cost of goods purchased.

30. At May 1, 2012, Kibbee Company had beginning inventory consisting of 100 units with a unit cost of $7. During May, the company purchased inventory as follows:

    200 units at $7
    300 units at $8

    The company sold 500 units during the month for $12 per unit. Kibbee uses the average cost method. Kibbee's gross profit for the month of May is

    A) $2,250.00.
    B) $3,750.00.
    C) $3,787.50.
    D) $4,500.00.

31. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2012 are as follows:

| | Units | Per unit price | Total |
|---|---|---|---|
| Balance, 1/1/12 | 200 | $5.00 | $1,000 |
| Purchase, 1/15/12 | 100 | 5.30 | 530 |
| Purchase, 1/28/12 | 100 | 5.50 | 550 |

    An end of the month (1/31/12) inventory showed that 140 units were on hand. If the company uses FIFO, what is the value of the ending inventory?

    A) $700
    B) $728
    C) $742
    D) $762

32. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2012 are as follows:

| | Units | Per unit price | Total |
|---|---|---|---|
| Balance, 1/1/12 | 200 | $5.00 | $1,000 |
| Purchase, 1/15/12 | 100 | 5.30 | 530 |
| Purchase, 1/28/12 | 100 | 5.50 | 550 |

    An end of the month (1/31/12) inventory showed that 140 units were on hand. If the company uses LIFO, what is the value of the ending inventory?

    A) $700
    B) $728
    C) $742
    D) $762

33. Eneri Company's inventory records show the following data:

| | | Units | Unit Cost |
|---|---|---|---|
| Inventory, January 1 | | 5,000 | $9.20 |
| Purchases: | June 18 | 4,500 | 8.00 |
| | November 8 | 3,000 | 7.00 |

A physical inventory on December 31 shows 2,000 units on hand. Eneri sells the units for $13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. If the company uses FIFO, what is the gross profit for the period?

A) $47,500
B) $49,633
C) $49,980
D) $51,900

34. In periods of rising prices, the inventory method which results in the inventory value on the balance sheet that is closest to current cost is the

A) FIFO method.
B) LIFO method.
C) average-cost method.
D) tax method.

35. In a period of increasing prices, which inventory flow assumption will result in the lowest amount of income tax expense?

A) FIFO
B) LIFO
C) Average Cost
D) Income tax expense for the period will be the same under all assumptions.

36. Under the lower-of-cost-or-market basis in valuing inventory, market is defined as

A) current replacement cost.
B) selling price.
C) historical cost plus 10%.
D) selling price less markup.

37. Alfalfa Company developed the following information about its inventories in applying the lower-of-cost-or-market (LCM) basis in valuing inventories:

| Product | Cost | Market |
|---|---|---|
| A | $110,000 | $120,000 |
| B | 80,000 | 76,000 |
| C | 155,000 | 162,000 |

If Alfalfa applies the LCM basis, the value of the inventory reported on the balance sheet would be

A) $341,000.
B) $345,000.
C) $358,000.
D) $362,000.

38. Understating beginning inventory will understate

A) assets.
B) cost of goods sold.
C) net income.
D) owner's equity.

39. The following information is available for Everett Company at December 31, 2012: beginning inventory $80,000; ending inventory $120,000; cost of goods sold $700,000; and sales $1,200,000. Everette's inventory turnover in 2012 is

A) 5.8 times.
B) 7 times.
C) 8.8 times.
D) 12 times.

40. The following information was available for Pete Company at December 31, 2012: beginning inventory $90,000; ending inventory $70,000; cost of goods sold $656,000; and sales $900,000. Pete's days in inventory in 2012 was

A) 32.3 days.
B) 38.8 days.
C) 44.5 days.
D) 50.0 days.

41. The following information is available for Waldrip Company:

| | |
|---|---|
| Beginning inventory | 600 units at $4 |
| First purchase | 900 units at $6 |
| Second purchase | 500 units at $7.20 |

Assume that Waldrip uses a periodic inventory system and that there are 700 units left at the end of the month.

**Instructions**
Compute the cost of ending inventory under the
(a) FIFO method.
(b) LIFO method.

42. Snodderly Pharmacy reported cost of goods sold as follows:

| | 2012 | 2013 |
|---|---|---|
| Beginning inventory | $ 54,000 | $ 64,000 |
| Cost of goods purchased | 847,000 | 891,000 |
| Cost of goods available for sale | 901,000 | 955,000 |
| Ending inventory | 64,000 | 55,000 |
| Cost of goods sold | $837,000 | $900,000 |

Holt, the bookkeeper, made two errors:
(1) 2012 ending inventory was overstated by $7,000.
(2) 2013 ending inventory was understated by $16,000.

**Instructions**
Assuming the errors had not been corrected, indicate the dollar effect that the errors had on the items appearing on the financial statements listed below. Also indicate if the amounts are overstated (O) or understated (U).

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | Amount | Overstated/ Understated | Amount | Overstated/ Understated |
| Total assets | $_____ | _____ | $_____ | _____ |
| Owner's equity | $_____ | _____ | $_____ | _____ |
| Cost of goods sold | $_____ | _____ | $_____ | _____ |
| Net income | $_____ | _____ | $_____ | _____ |

43. A subsidiary ledger is
    A) used in place of the general ledger if the general ledger is destroyed or stolen.
    B) a group of accounts used by branches and subsidiaries of a corporate business.
    C) a group of accounts with a common characteristic that provides detailed information about a control account in the general ledger.
    D) used to post excess transactions if a general ledger account becomes full during an accounting period.

44. Postings are made daily to the
    A) Accounts Receivable control account.
    B) Accounts Payable control account.
    C) Accounts Receivable subsidiary ledger.
    D) control accounts in the general ledger.

45. A company would *not* likely use subsidiary ledgers for
    A) inventory.
    B) owner's capital.
    C) equipment.
    D) accounts receivable.

46. The composite balance of individual accounts in the accounts payable subsidiary ledger must
    A) equal the composite balance of the individual accounts in the accounts receivable subsidiary ledger.
    B) always be zero.
    C) equal the balance of the accounts payable account in the general ledger.
    D) agree with the total of the Accounts payable column in the cash receipt journal.

47. In which journal would a customer's partial payment on account be recorded?
    A) Sales journal
    B) Cash receipts journal
    C) General journal
    D) Cash payments journal

48. A sales journal is used to record
    A) only cash sales of merchandise.
    B) sales of all assets on credit and for cash.
    C) only credit sales of merchandise.
    D) credit sales of merchandise, sales returns and allowances, and sales discounts.

49. A one column purchases journal indicates that
    A) only purchases of merchandise on account can be recorded.
    B) all purchases of merchandise can be recorded.
    C) all acquisitions on account can be recorded.
    D) another column must be added so that debits and credits can be recorded.

50. Which of the following is *not* a special journal?
    A) Sales journal
    B) Purchases journal
    C) General journal
    D) Cash receipts journal

51. Posting a sales journal to the accounts in the general ledger requires a
    A) debit to Cash and a credit to Sales Revenue.
    B) debit to Sales Revenue and a credit to Inventory.
    C) debit to Accounts Receivable and a credit to Inventory.
    D) debit to Accounts Receivable and a credit to Sales Revenue.

52. Richey Company maintains four special journals and a general journal to record its transactions. Using the code below, indicate in the space provided the appropriate journal for recording the transactions listed.

| Code | Journals |
|---|---|
| S | Sales journal |
| CR | Cash receipts journal |
| CP | Cash payments journal |
| P | Single-column purchases journal |
| G | General journal |

_____ 1. Mr. Richey invested cash in the business.

_____ 2. Purchased store supplies on account.

_____ 3. Sold merchandise to customer on account.

_____ 4. Purchased a 2-year fire insurance policy for cash.

_____ 5. Received a check from a customer as payment on account.

_____ 6. Paid for store supplies purchased in transaction 2.

_____ 7. Purchased merchandise on account.

_____ 8. Issued a credit memorandum to a customer who returned defective merchandise previously sold on account.

_____ 9. Purchased office equipment for cash.

_____ 10. Made an adjusting entry for store supplies used during the preiod.

## Answer Key

1. C
2. A
3. B
4. B
5. D
6. D
7. A
8. C
9. B
10. C
11. A
12. D
13. C
14. A
15. B
16. A
17. A
18. D
19. (5 min.)
    a. $45,000
    b. $13,000
    c. $150,000
    d. $16,000
20. (8 min.)

| | | | | |
|---|---|---|---|---|
| May | 13 | Accounts Receivable | 270 | |
| | | Sales Revenue | | 270 |
| | | Cost of Goods Sold | 156 | |
| | | Inventory | | 156 |
| May | 16 | Sales Returns and Allowances | 45 | |
| | | Accounts Receivable | | 45 |
| | | Inventory | 26 | |
| | | Cost of Goods Sold | | 26 |
| May | 23 | Cash | 216 | |
| | | Sales Discounts ($225 × .04) | 9 | |
| | | Accounts Receivable ($270 – $45) | | 225 |

21. (4 min.)
    1. Purchases $30,000 ($40,000 – $10,000), Ending inventory $15,000 ($40,000 – $25,000)

    2. Beginning inventory $25,000 ($245,000 – $220,000), Cost of Goods Sold $205,000 ($245,000 – $40,000)
22. C
23. B
24. A
25. C
26. C
27. A
28. C
29. C
30. A
31. D
32. A
33. A
34. A
35. B
36. A
37. A
38. B
39. B
40. C
41. (7 min.)
    (a) FIFO Ending inventory
    Cost:

| | | |
|---|---|---|
| $500 \times \$7.20$ | = | $3,600 |
| $200 \times \$6$ | = | 1,200 |
| | | $4,800 |

    (b) LIFO Ending inventory
    Cost:

| | | |
|---|---|---|
| $600 \times \$4$ | = | $2,400 |
| $100 \times \$6$ | = | 600 |
| | | $3,000 |

42. (20 min.)

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | Amount | Overstated/ Understated | Amount | Overstated/ Understated |
| Total assets | $7,000 | O | $16,000 | U |
| Owner's equity | $7,000 | O | $16,000 | U |
| Cost of goods sold | $7,000 | U | $23,000 | O |
| Net income | $7,000 | O | $23,000 | U |

Correct cost of goods sold:

| | 2012 | 2013 |
|---|---|---|
| Beginning inventory | $ 54,000 | $ 57,000 |
| Cost of goods purchased | 847,000 | 891,000 |
| Cost of goods available for sale | 901,000 | 948,000 |
| Ending inventory | 57,000 | 71,000 |
| Cost of goods sold | $844,000 | $877,000 |

43. C
44. C
45. B
46. C
47. B
48. C
49. A
50. C
51. D
52. (5 min.)

| | | | |
|---|---|---|---|
| 1. | CR | 6. | CP |
| 2. | G | 7. | P |
| 3. | S | 8. | G |
| 4. | CP | 9. | CP |
| 5. | XR | 10. | G |