Financial Accounting for Undergraduates
3rd Edition by Wallace, Nelson, Christensen, and Ferris

Practice Quiz

Chapter 5. Accounting for Merchandising Operations

1. Smith & Sons purchased $10,000 of merchandise from the Claremont Company with terms of 2/10, n/30. How much discount is Smith & Sons entitled to take if it pays for the merchandise within the allowed discount period of 10 days?

a. $ 20
b. $200
c. $400
d. There is insufficient information to determine the discount.

2. Smith & Sons purchased merchandise with a list price of $5,000 from the Claremont Company. Claremont offers its customers credit terms of 3/10, n/45. What amount should Smith & Sons pay if the cash discount is taken?

a. $4,850
b. $4,900
c. $4,950
d. $5,000

3. On January 1, Smith & Sons purchased merchandise with an invoice price of $3,000 and credit terms of 2/10, n/30. On January 4, Smith & Sons paid $100 transportation costs on the purchased merchandise. On January 9, Smith & Sons paid for the merchandise. What is the total cost of the purchased merchandise?

a. $3,100
b. $3,040
c. $3,000
d. $2,940

4. Smith & Sons uses the perpetual inventory system. The company purchased merchandise with an invoice price of $800, with terms of 2/10, n/30. If the company returns merchandise with an invoice price of $200 to the supplier before any payment was made for the merchandise, what should the journal entry to record the return include?

a. Debit to inventory for $200
b. Debit to inventory for $196
c. Credit to inventory for $200
d. Credit to inventory for $100

5. A merchandising company's classified income statement differs from that of a service company in what way?

a. A service company's income statement does not include a line item for cost of goods sold.
b. A service company's income statement has a line for selling expenses whereas the income statement for a merchandising company does not.
c. A merchandising company's income statement will have a line for income from operations whereas a service company will not.
d. There is no difference.

6. During the year, Smith & Sons purchased inventory with an invoice price of $400,000. The company also paid $20,000 freight charges on the inventory, and returned $50,000 of inventory to the supplier. After the return, the inventory was paid for in a timely manner, so Smith & Sons took a $10,000 cash discount. During the year, the company sold $300,000 of the inventory for $525,000. What is the year-end balance in the company's inventory account assuming that it began the year with no inventory on hand?

a. $70,000
b. $60,000
c. $50,000
d. $40,000

7. Smith & Sons reports net sales of $5,000, cost of goods sold of $3,000, and net income of $500. What is the gross profit percentage for the company?

a. 10 percent
b. 17 percent (rounded)
c. 40 percent
d. 90 percent

8. Smith & Sons reports the following data at year-end:

Net sales	$100,000
Cost of goods sold	60,000
Net income	20,000

What is the company's gross profit percentage?

a. 20 percent
b. 40 percent
c. 60 percent
d. 80 percent

9. Using the data from Question 8, calculate the company's return on sales ratio.

a. 20 percent
b. 40 percent
c. 60 percent
d. 80 percent

10. Smith & Sons began the period with $10,000 in inventory. The company also purchased $20,000 of inventory and returned $2,000 for a full credit. A physical count of the inventory at year-end revealed $15,000 of inventory on hand. What was the company's cost of goods sold for the period?

a. $32,000
b. $30,000
c. $28,000
d. $13,000