

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

Practice Quiz Solutions

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.

Answer: *b*

Rationale: $(2\% \times \$10,000)$

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

Answer: *a*

Rationale: $[\$5,000 - (\$5,000 \times 3\%)]$

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

Answer: *b*

Rationale: $[\$3,000 - (\$3,000 \times 2\%) + \$100]$

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

Answer: c

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.

Answer: a

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

Answer: b

Rationale: $(\$400,000 + \$20,000 - \$50,000 - \$10,000 - \$300,000)$

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

Answer: c

Rationale: $(\$5,000 - \$3,000)/\$5,000$

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

Answer: b

Rationale: $(\$100,000 - \$60,000)/\$100,000$

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

Answer: a

Rationale: $(\$20,000/\$100,000)$

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

Answer: *d*

Rationale: $(\$10,000 + \$20,000 - \$2,000 - \$15,000)$