

1.

Award: 3.52 points

TB TF Qu. 04-21 (Algo) A company's quick assets...

A company's quick assets are \$155,000 and its current liabilities are \$150,000. This company's acid-test ratio is 1.03.

→ True

False

Acid-Test Ratio = Quick Assets/Current Liabilities

Acid-Test Ratio = \$155,000/\$150,000 = 1.03

References**True / False**

Difficulty: 3 Hard

**TB TF Qu. 04-21
(Algo) A
company's
quick assets...**Learning Objective:
04-A1 Compute and
analyze the acid-test
ratio and gross
margin ratio.

2.

Award: 3.52 points

TB TF Qu. 04-23 (Static) The gross margin ratio is defined as...

The gross margin ratio is defined as gross margin divided by net sales.

→ True

False

References

True / False

Difficulty: 1 Easy

TB TF Qu.
04-23 (Static)
The gross
margin ratio is
defined as...

Learning Objective:
04-A1 Compute and
analyze the acid-test
ratio and gross
margin ratio.

3.

Award: 3.52 points

TB TF Qu. 04-24 (Static) The profit margin ratio is the same as the...

The profit margin ratio is the same as the gross profit ratio.

True

→ False

References

True / False

Difficulty: 1 Easy

TB TF Qu.
04-24 (Static)
The profit
margin ratio is
the same as
the...

Learning Objective:
04-A1 Compute and
analyze the acid-test
ratio and gross
margin ratio.

4.

Award: 3.52 points

TB TF Qu. 04-25 (Static) A company had net sales of...

A company had net sales of \$340,000, its cost of goods sold was \$256,700, and its net income was \$13,750. The company's gross margin ratio equals 24.5%.

→ True

False

Gross Margin Ratio = (Net Sales – Cost of Goods Sold)/Net Sales

Gross Margin Ratio = (\$340,000 – \$256,700)/\$340,000 = 24.5%

References

True / False

Difficulty: 3 Hard

TB TF Qu.
04-25 (Static) A
company had
net sales of...

Learning Objective:
04-A1 Compute and
analyze the acid-test
ratio and gross
margin ratio.

5.

Award: 3.52 points

TB TF Qu. 04-29 (Static) Purchases allowances refer to a...

Purchases allowances refer to a seller granting a price reduction (allowance) to a buyer of defective or unacceptable merchandise.

→ True

False

References

True / False

Difficulty: 1 Easy

**TB TF Qu.
04-29 (Static)
Purchases
allowances
refer to a...**

Learning Objective:
04-P1 Analyze and
record transactions
for merchandise
purchases using a
perpetual system.

6.

Award: 3.52 points

TB TF Qu. 04-35 (Static) The seller is responsible for paying...

The seller is responsible for paying shipping charges and bears the risk of loss in transit if goods are shipped FOB destination.

→ True

False

References

True / False Difficulty: 2 Medium

**TB TF Qu.
04-35 (Static)
The seller is
responsible for
paying...**

Learning Objective:
04-P1 Analyze and
record transactions
for merchandise
purchases using a
perpetual system.

7.

Award: 3.52 points

TB TF Qu. 04-36 (Static) If goods are shipped FOB destination,...

If goods are shipped FOB destination, the seller does not record revenue from the sale until the goods arrive at their destination.

→ True

False

References

True / False

Difficulty: 2 Medium

**TB TF Qu.
04-36 (Static) If
goods are
shipped FOB
destination,...**

Learning Objective:
04-P1 Analyze and
record transactions
for merchandise
purchases using a
perpetual system.

8.

Award: 3.52 points

TB TF Qu. 04-37 (Static) If goods are shipped FOB shipping...

If goods are shipped FOB shipping point, the seller does not record revenue from the sale until the goods arrive at their destination.

True

→ False

References

True / False

Difficulty: 2 Medium

**TB TF Qu.
04-37 (Static) If
goods are
shipped FOB
shipping...**

Learning Objective:
04-P1 Analyze and
record transactions
for merchandise
purchases using a
perpetual system.

9.

Award: 3.52 points

TB TF Qu. 04-45 (Static) A journal entry with a debit to cash...

A journal entry with a debit to cash of \$980, a debit to Sales Discounts of \$20, and a credit to Accounts Receivable of \$1,000 means that a customer has taken a 10% cash discount for early payment.

 True False

$\$20/\$1,000 = \underline{2\%}$ discount

References

True / False

Difficulty: 3 Hard

**TB TF Qu.
04-45 (Static) A
journal entry
with a debit to
cash...**

**Learning Objective:
04-P2 Analyze and
record transactions
for merchandise
sales using a
perpetual system.**

10.

Award: 3.52 points

TB TF Qu. 04-62 (Static) Under the net method,...

Under the net method, when a company uses a perpetual inventory system, an invoice for \$2,000 with terms of 2/10, n/30 should be recorded with a debit to Merchandise Inventory and a credit to Accounts Payable of \$2,000.

 True False

$$\$2,000 \times 0.98 = \$1,960$$

References

True / False

Difficulty: 2 Medium

TB TF Qu.
04-62 (Static)
Under the net
method,...

Learning Objective:
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

11.

Award: 3.52 points

TB TF Qu. 04-63 (Static) When purchases are recorded...

When purchases are recorded at net amounts, any discounts lost are recorded in the Discounts Lost expense account reported on the income statement.

→ True

False

References**True / False**

Difficulty: 2 Medium

**TB TF Qu.
04-63 (Static)
When
purchases are
recorded...**Learning Objective:
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

12.

Award: 3.52 points

TB TF Qu. 04-64 (Static) The net method records...

The net method records an invoice at its net amount (net of any cash discount).

→ True

False

References**True / False**

Difficulty: 2 Medium

**TB TF Qu.
04-64 (Static)
The net method
records...****Learning Objective:**
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

13.

Award: 3.52 points

TB TF Qu. 04-66 (Static) Under the net method...

Under the net method of recording purchases, the Discounts Lost account is used when the purchaser fails to take a discount offered by the seller.

→ True

False

References

True / False

Difficulty: 2 Medium

TB TF Qu.
04-66 (Static)
Under the net
method...

Learning Objective:
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

14.

Award: 3.52 points

TB MC Qu. 04-70 (Static) A company has net sales...

A company has net sales of \$375,000 and its gross profit is \$157,500. Its cost of goods sold is:

- \$197,000.
- \$375,000.
- \$157,500.
- \$217,500.
- \$532,500.

Gross Profit = Net Sales – Cost of Goods Sold

Cost of Goods Sold = \$375,000 – \$157,500 = \$217,500

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-70 (Static) A company has net sales...	Learning Objective: 04-C1 Describe merchandising activities and cost flows.
--	---

15.

Award: 3.52 points

TB MC Qu. 04-79 (Static) Quick assets are defined as:

Quick assets are defined as:

- Cash, short-term investments, and accounts payable.
- Cash, short-term investments, and current receivables.
- Cash, inventory, and current receivables.
- Cash, noncurrent receivables, and prepaid expenses.
- Accounts receivable, inventory, and prepaid expenses.

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu. 04-79 (Static) Quick assets are defined as:	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
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16.

Award: 3.52 points

TB MC Qu. 04-81 (Static) A company's current assets...

A company's current assets are \$17,980, its quick assets are \$11,468 and its current liabilities are \$12,200. Its quick ratio is closest to:

- 0.94.
- 1.07.
- 1.47.
- 1.57.
- 2.40.

Acid-Test Ratio = Quick Assets/Current Liabilities

Acid-Test Ratio = $\$11,468/\$12,200 = 0.94$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-81 (Static) A company's current assets...	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
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17.

Award: 3.52 points

TB MC Qu. 04-82 (Static) Liquidity problems are likely to exist...

Liquidity problems are likely to exist when a company's acid-test ratio:

- Is less than the current ratio.
- Equals 1.
- Is higher than 1.
- Is substantially lower than 1.
- Is higher than the current ratio.

References**Multiple Choice** Difficulty: 2 Medium

TB MC Qu. 04-82 (Static) Liquidity problems are likely to exist...	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
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18.

Award: 3.52 points

TB MC Qu. 04-83 (Static) In calculating the acid-test ratio, which...

In calculating the acid-test ratio, which of the following is *not* considered a quick asset?

- Prepaid expenses.
- Cash.
- Cash equivalents.
- Accounts receivable.
- Short-term investments.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 04-83 (Static) In calculating the acid-test ratio, which...	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
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19.

Award: 3.52 points

TB MC Qu. 04-84 (Algo) Using the following year-end...

Using the following year-end information for Work-Fit calculate the acid-test ratio:

Cash	\$ 53,590
Short-term investments	10,500
Accounts receivable (all current)	51,000
Inventory	200,000
Supplies	9,870
Accounts payable	104,500
Wages payable	30,900

- 0.35
- 0.44
- 0.55
- 0.76
- 0.85

$$\text{Quick Assets} = \$115,090 = \$53,590 + 10,500 + 51,000$$

$$\text{Acid-Test Ratio} = \text{Quick Assets} / \text{Current Liabilities}$$

$$\text{Acid-Test Ratio} = \$115,090 / \$135,400 = 0.85$$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-84 (Algo) Using the following year- end...	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
---	---

20. Award: 3.52 points

TB MC Qu. 04-85 (Static) The gross margin ratio:

The gross margin ratio:

- Is also called the net profit ratio.
- Indicates the percent of net sales remaining after covering the cost of the goods sold.
- Is also called the profit margin.
- Is a measure of liquidity and should exceed 2.0 to be acceptable.
- Should be greater than 1 for merchandising companies.

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 04-85 (Static) The gross margin ratio:	Learning Objective: 04-A1 Compute and analyze the acid-test ratio and gross margin ratio.
---	--

21.

Award: 3.52 points

TB MC Qu. 04-95 (Static) A company uses the perpetual...

A company uses the *perpetual* inventory system and recorded the following entry:

Account Title	Debit	Credit
Accounts Payable	2,500	
Merchandise Inventory		50
Cash		2,450

This entry reflects a:

- Purchase of merchandise on credit.
- Return of merchandise.
- Sale of merchandise on credit.
- Payment of the account payable less a 2% cash discount taken.
- Payment of the account payable less a 1% cash discount taken.

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-95 (Static) A company uses the perpetual... Learning Objective: 04-P1 Analyze and record transactions for merchandise purchases using a perpetual system.

22. Award: 3.52 points

TB MC Qu. 04-103 (Algo) A company purchased...

A company purchased \$3,950 worth of merchandise. Transportation costs for the buyer were an additional \$350. The company returned \$270 worth of merchandise and then paid the invoice within the 1% cash discount period. The total cost of this merchandise is:

- \$3,870.00.
- \$3,822.50.
- \$3,990.50.
- \$3,993.20.
- \$4,030.00.

Cash Paid = $[(\$3,950 - \$270) \times 0.99] + \$350 = \$3,993.20$
No discount may be taken on the transportation costs.

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-103 (Algo) A company purchased...	Learning Objective: 04-P1 Analyze and record transactions for merchandise purchases using a perpetual system.
---	--

23.

Award: 3.52 points

TB MC Qu. 04-129 (Static) Which of the following accounts is used...

Which of the following accounts is used in the *periodic* inventory system but *not* used in the *perpetual* inventory system?

- Merchandise Inventory
- Sales
- Sales Returns and Allowances
- Accounts Payable
- Purchases

References

Multiple Choice Difficulty: 1 Easy

TB MC Qu.
04-129 (Static)
Which of the
following
accounts is
used...

Learning Objective:
04-P5 Appendix 4A-
Record and compare
merchandising
transactions using
both periodic and
perpetual inventory
systems.

24.

Award: 3.52 points

TB MC Qu. 04-155 (Static) In its first year of business,...

In its first year of business, Laker Corporation had sales of \$2,000,000 and cost of goods sold of \$1,200,000. Laker expects returns in the following year to equal 8% of sales and 8% of cost of goods sold. The adjusting entry or entries to record the expected sales returns is (are):

Account Title	Debit	Credit
Accounts Receivable	2,000,000	
Sales		2,000,000

Account Title	Debit	Credit
Sales returns and Allowances	160,000	
Sales		160,000
Cost of Goods Sold	96,000	
Inventory Returns Estimated		96,000

Account Title	Debit	Credit
Sales	2,000,000	
Sales Refund Payable		160,000
Accounts Receivable		1,840,000

Account Title	Debit	Credit
Sales Refund Payable	160,000	
Accounts receivable		160,000

→

Account Title	Debit	Credit
Sales Returns and Allowances	160,000	
Sales Refund Payable		160,000
Inventory Returns Estimated	96,000	
Cost of goods sold		96,000

Sales Refund Payable = \$2,000,000 × 0.08 = \$160,000

Inventory Returns Estimated = \$1,200,000 × 0.08 = \$96,000

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu.
04-155 (Static)
In its first year
of business,...

Learning Objective:
04-P6 Appendix 4B-
Prepare adjustments
for discounts,
returns, and
allowances per
revenue recognition
rules.

25. Award: 3.52 points

TB MC Qu. 04-156 (Algo) In the current year, Laker Corporation...

In the current year, Laker Corporation had sales of \$2,050,000 and cost of goods sold of \$1,225,000. Laker expects returns in the following year to equal 6% of sales and 6% of cost of goods sold. The unadjusted balance in Inventory Returns Estimated is a debit of \$11,000, and the unadjusted balance in Sales Refund Payable is a credit of \$15,000. The adjusting entry or entries to record the expected sales returns is (are):

Account Title	Debit	Credit
Accounts Receivable	2,050,000	
Sales		2,050,000

Account Title	Debit	Credit
Sales returns and allowances	108,000	
Sales		108,000
Cost of Goods Sold	62,500	
Inventory Returns Estimated		62,500

Account Title	Debit	Credit
Sales	2,050,000	
Sales Refund Payable		123,000
Accounts Receivable		1,927,000

Account Title	Debit	Credit
Sales Refund Payable	108,000	
Accounts Receivable		108,000

→

Account Title	Debit	Credit
Sales Returns and Allowances	108,000	
Sales Refund Payable		108,000
Inventory Returns Estimated	62,500	
Cost of goods sold		62,500

$$\text{Sales Refund Payable} = \$2,050,000 \times 0.06 = \$123,000 - \$15,000 = \$108,000$$

$$\text{Inventory Returns Estimated} = \$1,225,000 \times 0.06 = \$73,500 - \$11,000 = \$62,500$$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.
04-156 (Algo) In
the current
year, Laker
Corporation...

Learning Objective:
04-P6 Appendix 4B-
Prepare adjustments
for discounts,
returns, and
allowances per
revenue recognition
rules.

26. Award: 3.52 points

TB MC Qu. 04-157 (Algo) Netherland Corporation has the following...

Netherland Corporation has the following unadjusted balances: Accounts Receivable, \$93,000 (debit), and Allowance for Sales Discounts \$430 (credit). Of the receivables, \$63,000 of them are within the 2% discount period, and Netherland expects buyers to take \$1,260 in future-period discounts ($\$63,000 \times 2\%$) arising from this period's sales. The adjusting entry or entries to estimate sales discounts is (are):

Account Title	Debit	Credit
Accounts Receivable	93,000	
Sales		93,000

Account Title	Debit	Credit
Sales Discounts	63,000	
Sales		63,000
Cost of Goods Sold	1,260	
Inventory Returns Estimated		1,260

→

Account Title	Debit	Credit
Sales Discounts	830	
Allowance for Sales Discounts		830

Account Title	Debit	Credit
Sales Discounts	1,260	
Accounts Receivable		1,260

Account Title	Debit	Credit
Sales Discounts	1,260	
Allowance for Sales Discounts		1,260

Allowance for Sales Discounts = $\$63,000 \times 0.02 = \$1,260$; $\$1,260 - \$430 = \$830$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-157 (Algo) Netherland Corporation has the following...
Learning Objective: 04-P6 Appendix 4B- Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

27.

Award: 3.52 points

TB MC Qu. 04-158 (Static) An expense resulting from failing...

An expense resulting from failing to take advantage of cash discounts when using the net method of recording purchases is called:

- Sales discounts.
- Sales refund payable.
- Purchases discounts.
- Discounts lost.
- Discounts earned.

References**Multiple Choice** Difficulty: 1 Easy

TB MC Qu. 04-158 (Static) An expense resulting from failing...
Learning Objective: 04-P7 Appendix 4C- Record and compare merchandising transactions using the gross method and net method.

28.

Award: 3.52 points

TB MC Qu. 04-159 (Algo) A company that uses the net method...

A company that uses the *net* method of recording purchases and a *perpetual* inventory system purchased \$2,600 of merchandise on July 5 with terms 3/10, n/30. On July 7, it returned \$600 worth of merchandise. On July 28, it paid the full amount due. The correct journal entry to record the payment on July 28 is:

- Debit Merchandise Inventory \$2,000; credit Cash \$2,000.
- Debit Cash \$2,000; credit Accounts Payable \$2,000.
- Debit Accounts Payable \$2,000; credit Merchandise Inventory \$60; credit Cash \$1,940.
- Debit Accounts Payable \$2,600; credit Cash \$2,600.
- Debit Accounts Payable \$1,940; debit Discounts Lost \$60; credit Cash \$2,000.

Purchase, net of discount = $\$2,600 \times 0.97 = \$2,522$

Purchase return, net of discount = $\$600 \times 0.97 = \582

Debit to Accounts Payable = $\$2,522 - 582 = \$1,940$

No discount may be taken because the payment is made after the discount period.

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-159 (Algo) A company that uses the net method...	Learning Objective: 04-P7 Appendix 4C- Record and compare merchandising transactions using the gross method and net method.
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29.

Award: 3.52 points

TB MC Qu. 04-160 (Algo) Morgan, Incorporated uses a perpetual inventory...

Morgan, Incorporated uses a *perpetual* inventory system and the *net* method of recording purchases. On May 12, a merchandise purchase of \$20,200 was made on credit, 2/10, n/30. The journal entry to record this purchase is:

Account Title	Debit	Credit
Merchandise Inventory	20,200	
Accounts Payable		20,200

Account Title	Debit	Credit
Accounts Payable	20,200	
Merchandise Inventory		20,200

Account Title	Debit	Credit
Purchases	20,200	
Accounts Payable		20,200

Account Title	Debit	Credit
Purchases	19,796	
Accounts Payable		19,796

→

Account Title	Debit	Credit
Merchandise Inventory	19,796	
Accounts Payable		19,796

$$\$20,200 \times 0.98 = \$19,796$$

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 04-160 (Algo) Morgan, Incorporated uses a perpetual inventory... Learning Objective: 04-P7 Appendix 4C- Record and compare merchandising transactions using the gross method and net method.

30. Award: 3.52 points

TB MC Qu. 04-162 (Algo) On March 12, Fret Company...

On March 12, Fret Company sold merchandise in the amount of \$11,600 to Babson Company, with credit terms of 2/10, n/30. The cost of the items sold is \$6,400. Fret uses the *perpetual* inventory system and the net method of accounting for sales. On March 15, Babson returns some of the merchandise. The selling price of the returned merchandise is \$980 and the cost of the merchandise returned is \$540. The entry or entries that Fret must make on March 15 is (are):

→

Account Title	Debit	Credit
Sales Returns and Allowances	960	
Accounts Receivable		960
Merchandise Inventory	540	
Cost of Goods Sold		540

Account Title	Debit	Credit
Sales Returns and Allowances	960	
Accounts Receivable		960
Merchandise Inventory	529	
Cost of Goods Sold		529

Account Title	Debit	Credit
Accounts Receivable	980	
Sales Returns and Allowances		980

Account Title	Debit	Credit
Accounts Receivable	980	
Sales Returns and Allowances		980
Cost of Goods Sold	540	
Merchandise Inventory		540

Account Title	Debit	Credit
Sales Returns and Allowances	540	
Accounts Receivable		540

Net return = Sales – discount
 $\$960 = \$980 - \$19.60$

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu.
04-162 (Algo)
On March 12,
Fret Company...

Learning Objective:
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

31.

Award: 3.52 points

TB MC Qu. 04-164 (Static) B. Lopez Company reports unadjusted...

B. Lopez Company reports unadjusted first-year sales of \$200,000 and cost of sales of \$50,000. The company expects future returns and allowances equal to 5% of sales and 5% cost of sales. Prepare the year-end adjusting journal entry for future returns and allowances related to sales.

- | Account Title | Debit | Credit |
|-----------------------|--------|--------|
| Sales Refunds Payable | 10,000 | |
| Accounts Receivable | | 10,000 |
- | Account Title | Debit | Credit |
|------------------------------|--------|--------|
| Sales Returns and Allowances | 10,000 | |
| Sales Refunds Payable | | 10,000 |
- | Account Title | Debit | Credit |
|-----------------------|--------|--------|
| Merchandise Inventory | 10,000 | |
| Sales Refunds Payable | | 10,000 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 2,500 | |
| Sales Refunds Payable | | 2,500 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Refunds Payable | 2,500 | |
| Sales Returns and Allowances | | 2,500 |

$$\text{Sales Refunds Payable} = \$200,000 \times .05 = \$10,000$$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu. 04-164 (Static) B. Lopez Company reports unadjusted... Learning Objective: 04-P6 Appendix 4B- Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

32.

Award: 3.52 points

TB MC Qu. 04-165 (Static) B. Lopez Company reports unadjusted...

B. Lopez Company reports unadjusted first-year sales of \$200,000 and cost of sales of \$50,000. The company expects future returns and allowances equal to 5% of sales and 5% cost of sales. Prepare the year-end adjusting journal entry for future returns and allowances related to cost of sales.

- | Account Title | Debit | Credit |
|-----------------------------|--------|--------|
| Inventory Returns Estimated | 10,000 | |
| Cost of Goods Sold | | 10,000 |
- | Account Title | Debit | Credit |
|-----------------------------|--------|--------|
| Cost of Goods Sold | 10,000 | |
| Inventory Returns Estimated | | 10,000 |
- | Account Title | Debit | Credit |
|-----------------------------|-------|--------|
| Cost of Goods Sold | 5,000 | |
| Inventory Returns Estimated | | 5,000 |
- | Account Title | Debit | Credit |
|-----------------------------|-------|--------|
| Inventory Returns Estimated | 2,500 | |
| Cost of Goods Sold | | 2,500 |
- | Account Title | Debit | Credit |
|-----------------------------|-------|--------|
| Accounts Receivable | 2,500 | |
| Inventory Returns Estimated | | 2,500 |

Inventory Returns Estimated = $\$50,000 \times .05 = \$2,500$

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu. 04-165 (Static) B. Lopez Company reports unadjusted... Learning Objective: 04-P6 Appendix 4B- Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

33.

Award: 3.52 points

TB MC Qu. 04-166 (Static) On September 12, Fang Company...

On September 12, Fang Company sold merchandise of \$5,800 to Brown Company, with credit terms of 2/10, n/30. The cost of the items sold is \$4,000. Brown uses the perpetual inventory system and the net method of accounting for purchases. Brown pays the invoice on September 18 and takes the appropriate discount. The journal entry that Brown makes on September 18 is:

- | Account Title | Debit | Credit |
|-----------------------|-------|--------|
| Merchandise Inventory | 5,684 | |
| Cash | | 5,684 |
- | Account Title | Debit | Credit |
|-----------------------|-------|--------|
| Accounts Payable | 4,000 | |
| Merchandise Inventory | | 80 |
| Cash | | 3,920 |
- | Account Title | Debit | Credit |
|-----------------------|-------|--------|
| Accounts Payable | 5,800 | |
| Merchandise Inventory | | 116 |
| Cash | | 5,684 |
- | Account Title | Debit | Credit |
|------------------|-------|--------|
| Accounts Payable | 5,684 | |
| Cash | | 5,684 |
- | Account Title | Debit | Credit |
|------------------|-------|--------|
| Cash | 5,684 | |
| Discounts Lost | 116 | |
| Accounts Payable | | 5,800 |

$$\text{Net Method} = \$5,800 \times 0.02 = \$116$$

$$\text{Cash} = \$5,800 - \$116 = \$5,684$$

References

Multiple Choice Difficulty: 2 Medium

TB MC Qu.
04-166 (Static)
On September
12, Fang
Company...

Learning Objective:
04-P7 Appendix 4C-
Record and compare
merchandising
transactions using
the gross method
and net method.

34.

Award: 3.84 points

TB MC Qu. 04-167 (Static) On September 12, Fang Company sold...

On September 12, Fang Company sold merchandise of \$5,800 to Brown Company, with credit terms of 2/10, n/30. The cost of the items sold is \$4,000. Fang uses the *perpetual* inventory system and the *net* method of accounting for sales. On September 14, Brown returns some of the merchandise, which is restored to inventory. The selling price of the returned merchandise is \$500 and the cost of the merchandise returned is \$350. The entry or entries that Fang must make on September 14 is (are):

- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 490 | |
| Accounts Receivable | | 490 |
| Merchandise Inventory | 350 | |
| Cost of Goods Sold | | 350 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 500 | |
| Accounts Receivable | | 500 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 490 | |
| Accounts Receivable | | 490 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 490 | |
| Accounts Receivable | | 490 |
| Merchandise Inventory | 343 | |
| Cost of Goods Sold | | 343 |
- | Account Title | Debit | Credit |
|------------------------------|-------|--------|
| Sales Returns and Allowances | 350 | |
| Accounts Receivable | | 350 |

$$\text{Sales return} = \$500 \times (1 - 0.02) = \$490$$

$$\text{Sales return} = \$500 \times 0.98 = \$490$$

References

Multiple Choice Difficulty: 3 Hard

TB MC Qu.	Learning Objective:
04-167 (Static)	04-P7 Appendix 4C-
On September	Record and compare
12, Fang	merchandising
Company sold...	transactions using
	the gross method
	and net method.