

ACCOUNTING 201

CHAPTER 5

TRUE-FALSE STATEMENTS

1. Retailers and wholesalers are both considered merchandisers.
2. The steps in the accounting cycle are different for a merchandiser than for a service enterprise.
3. Sales minus operating expenses equals gross profit.
4. Under a perpetual inventory system, detailed records of the cost of each purchase and sale are continuously updated.
5. Periodic inventory systems have traditionally been used by companies that sell merchandise with high unit values such as automobiles and major appliances.
6. Freight terms of FOB Destination means that the seller pays the freight costs.
7. Freight costs incurred by the seller on outgoing merchandise are an operating expense to the seller.
8. Sales revenues are earned during the period cash is collected from the buyer.
9. The Sales Returns and Allowances account and the Sales Discount account are both deducted from Sales Revenue to arrive at Net Sales on the Income Statement.
10. The revenue recognition principle requires merchandisers to recognize sales revenues at the point of sale.

MULTIPLE CHOICE QUESTIONS

11. Income from operations is gross profit less
 - a. administrative expenses.
 - b. operating expenses.
 - c. other expenses and losses.
 - d. selling expenses.
12. An enterprise which sells goods to consumers is known as a
 - a. proprietorship.
 - b. corporation.
 - c. retailer.
 - d. service firm.
13. Which of the following would *not* be considered a merchandiser?
 - a. house cleaning business
 - b. drugstore
 - c. book store
 - d. grocery store

14. A merchandiser that sells directly to consumers is a
 - a. retailer.
 - b. wholesaler.
 - c. broker.
 - d. service enterprise.

15. Two categories of expenses for merchandisers 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.

Use the following information to answer questions 16-18.

During 2006, California Salon Enterprises generated revenues of \$60,000. Their expenses were as follows: cost of goods sold of \$30,000, operating expenses of \$12,000 and a loss on the sale of equipment of \$2,000.

16. California Salon's gross profit is
 - a. \$60,000
 - b. \$30,000
 - c. \$18,000
 - d. \$16,000

17. California Salon's operating income is
 - a. \$60,000
 - b. \$30,000
 - c. \$18,000
 - d. \$12,000

18. California Salon's net income is
 - a. \$60,000
 - b. \$30,000
 - c. \$18,000
 - d. \$16,000

19. Flynn Flint Company purchased merchandise inventory with an invoice price of \$3,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Flynn Company pays within the discount period?
 - a. \$3,000.
 - b. \$2,940.
 - c. \$2,700.
 - d. \$2,760.

20. Sales revenues are usually considered earned when
 - a. cash is received from credit sales.
 - b. an order is received.
 - c. goods have been transferred from the seller to the buyer.
 - d. adjusting entries are made.

21. West Eaton Company sells merchandise on account for \$1,000 to Little Tang Company with credit terms of 2/10, n/30. Little Tang Company returns \$300 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does West Eaton Company make upon receipt of the check?

a. Cash.....	700	
Accounts Receivable.....		700
b. Cash.....	686	
Sales Returns and Allowances	314	
Accounts Receivable.....		1,000
c. Cash.....	686	
Sales Returns and Allowances	300	
Sales Discounts	14	
Accounts Receivable.....		1,000
d. Cash.....	980	
Sales Discounts	20	
Sales Returns and Allowances		300
Accounts Receivable.....		700

Use the following information to answer questions 22-25.

During August, 2006, Green Grocery Supply Store generated revenues of \$30,000. Their operating expenses were as follows: cost of goods sold of \$12,000 and operating expenses of \$2,000. The company also had rent revenue of \$500 and a gain on the sale of a delivery truck of \$1,000.

22. Green Grocery,s gross profit for August, 2006 is:
- \$30,000
 - \$19,000
 - \$18,000
 - \$16,000
23. Green Grocery's non-operating income (loss) for the month of August 2006 is
- \$0
 - \$500
 - \$1,000
 - \$1,500
24. Green Grocery's operating income for the month of August 2006 is
- \$30,000
 - \$19,500
 - \$18,500
 - \$16,000
25. Green Grocery's net income for August 2006 is
- \$18,000
 - \$17,500
 - \$16,500
 - \$16,000

ANSWERS

True and False

1. T
2. F
3. F
4. T
5. F
6. T
7. T
8. F
9. T
10. T

Multiple Choice

11. B
12. C
13. A
14. A
15. C
16. B
17. C
18. D
19. B
20. C
21. C
22. C
23. D
24. D
25. B