Assume for each of the following questions that the company uses a perpetual inventory system.

1. Which of the following is not a product cost?

A. List price of merchandise purchased for resale

B. Transportation cost on merchandise purchased from suppliers

C. Cost of shipping merchandise to customers

D. Neither B nor C is a product cost

2. Which of the following is not primarily a merchandising company?

A. Costco Warehouse Store

B. Barnes and Noble

C. Whole Foods

D. Netflix

3. A merchandising company that sells goods to end consumers is known as a

A. wholesale company.

B. retail company.

C. service company.

D. manufacturing company.

4. Product costs are recognized on the income statement

A. when goods are purchased for resale.

B. when invoices on goods purchased for resale are paid.

C. when merchandise is sold.

D. in the period following the sale of merchandise.

5. The expense account associated with merchandise is called

A. merchandise expense.

B. selling expense.

C. inventory expense.

D. cost of goods sold.

6. Babcock Company purchased merchandise with a list price of $1,000 on account. Payment terms were 2/10, n 30. What will be the effect of the entry to record the purchase?

A. Assets will increase $1,000.

B. Liabilities will increase $980.

C. Equity will decrease $980.

D. Assets will be unaffected.

7. Babcock Company purchased merchandise with a list price of $1,000 on account. Payment terms were 2/10, n 30. Babcock paid the invoice on the purchase within the discount period. What will be the effect of the entry to record payment of the invoice?

A. Liabilities will decrease $1,000.

B. Cash will decrease $980.

C. Merchandise inventory will decrease $20.

D. All of the above are true.

8. Madison Company paid $100 to have inventory shipped to customers. The $100 payment

A. was recorded as a selling and administrative expense.

B. was recorded as a cash outflow for operating activities.

C. had no effect on total assets.

D. Both A and B are correct.

9. Madison Company purchased merchandise on account. Transportation costs associated with the purchase were $200. Freight terms on the purchase were FOB shipping point. What is true about the transportation cost?

A. Madison’s merchandise inventory account will increase $200.

B. Total assets will decrease $200.

C. Madison will record a $200 selling and administrative expense.

D. Madison will not record anything.

10. Jacobs Company sold merchandise that had cost $40 for $75 on account. When the sale was recorded,

A. Assets increased $75.

B. Equity increased $35.

C. Expenses increased $40.

D. Both B and C are correct.

11. Burton Company sold merchandise that had cost $50 for $80 cash. Which of the following is the correct journal entry to record the sale?

A. 

B. 

C. 

D. 

12. Wythe Company purchased $500 of merchandise on account. Payment terms were 1/10, n 30. Wythe paid the invoice on the purchase within the discount period. What is the correct journal entry to record payment of the invoice?

A. 

B. 

C. 

D. 

13. Which of the following is a false statement?

A. The accounting treatment of purchase returns and purchase allowances is identical.

B. The accounting treatment of sales returns and sales allowances is identical.

C. The purchase of merchandise for cash has no effect on total assets.

D. The payment of transportation-in cost for cash has no effect on total assets.

14. Oliver Company experienced an event that had the following effect on its financial statements:



Which event would have had this effect?

A. Paid transportation-in costs with cash.

B. Collected on an account receivable.

C. Returned merchandise to a vendor for credit.

D. Purchased merchandise on account.

15. Baker Company experienced an event that had the following effect on its financial statements:



A. Paid an invoice for merchandise purchased on account within the discount period.

B. Returned merchandise to a vendor for credit.

C. Accepted merchandise returned by a customer for credit.

D. Paid to ship merchandise to customers.

16. Parker Company experienced an event that had the following effect on its financial statements:



A. Sold merchandise that cost $30 for $55 cash.

B. Sold merchandise that cost $30 for $55 on account.

C. Returned merchandise to a vendor for credit.

D. None of the above.

17. Freight terms FOB Destination mean:

A. The merchandising company will always record an expense.

B. The merchandising company will never increase the merchandise inventory account.

C. The seller pays freight costs.

D. Both B and C are correct.

18. Payment terms 2/10, n 30 mean:

A. The seller can impose a 2% penalty if the invoice is not paid within 30 days.

B. The buyer can take a 2% discount if the invoice is paid within 30 days.

C. The buyer has 10 days to return merchandise to the vendor; otherwise they must pay a 2% penalty.

D. The buyer can take a 2% discount if the invoice is paid within 10 days; otherwise they must pay the full amount within 30 days.

19. A customer returned merchandise to Richmond Company for credit. The merchandise had been sold for $100 and had originally cost $60. Which of the following is true?

A. Equity will decrease by $100.

B. Inventory will increase by $60.

C. Liabilities will decrease by $100.

D. Assets will decrease by $100.

20. What is the effect of a cash sale of inventory in a perpetual inventory system?

A. Total assets will increase by the amount of the gross margin.

B. Total equity will increase by the amount of the selling price.

C. Expenses will increase by the amount of the merchandise’s original cost.

D. Both A and C are correct.