

**KRUG PRACTICE TEST****ACCTG 1 - CHAP 5,6**

*PRACTICE TEST -- The following is a practice test for Accounting 1, Chapters 5 and 6. It is only a representation of what the test could be like. It is not a guarantee in any way that ONLY these types of questions will be asked, on the number of questions, nor on the breakdown between multiple choice and problems.*

- 1 The records for Uptown Pet Shop showed the following: Sales \$225,000 Beginning merchandise inventory \$ 30,000 Purchases 135,000 Cost of goods sold 150,000 What was the ending merchandise inventory?
  - A) \$120,000
  - B) \$ 75,000
  - C) \$ 45,000
  - D) \$ 15,000
  - E) None of the above
  
- 2 Under a perpetual inventory system merchandise is purchased for cash. Which is the correct journal entry to record this purchase?
  - A) Debit to Purchases and a credit to Cash
  - B) Debit to Merchandise Inventory and a credit to Accounts Payable
  - C) Debit to Merchandise Inventory and a credit to Cash
  - D) Debit to Purchases Returns and Allowances and a credit to Cost of Goods Sold
  - E) None of the above
  
- 3 An item of merchandise with a list price of \$200 was purchased with a trade discount of 40% and credit terms of 3/10, n/30. The vendor was paid within the discount period. From the buyer's standpoint, which is the correct journal entry to record the payment?
  - A) Accounts Payable, debit, \$200.00; Purchases Discount, credit, \$86.00; Cash, credit, \$114.00
  - B) Accounts Payable, debit, \$80.00; Merchandise Inventory, credit, \$2.40; Cash, credit, \$77.60
  - C) Accounts Payable, debit, \$120.00; Merchandise Inventory, credit, \$3.60; Cash, credit, \$116.40
  - D) Purchases, debit, \$200.00; Purchase Discount, credit, \$86.00; Cash, credit, \$114.00
  - E) None of the above
  
- 4 The buyer received an invoice from the seller for merchandise with a list price of \$400 and credit terms of 2/10, n/60. The term 'n/60' in the credit terms is which of the following?
  - A) Credit period
  - B) Trade discount
  - C) Cash discount allowed for early payment of the invoice
  - D) Discount period
  - E) None of the above

- 5 Part of the merchandise purchased for cash at an earlier time is now being returned. Which of the following is the correct journal entry FOR THE BUYER for this return, assuming the seller grants cash refunds and a perpetual inventory system is used?
- A) A debit to Cash and a credit to Purchases
  - B) A debit to Cash and a credit to Merchandise Inventory
  - C) A debit to Purchases Returns and Allowances and a credit to Cost of Goods Sold
  - D) A debit to Merchandise Inventory and a credit to Cash
  - E) None of the above
- 6 Net sales is Sales less
- A) Sales returns.
  - B) Sales discounts.
  - C) Sales returns and allowances.
  - D) Sales returns and allowances and sales discounts.
  - E) None of the above
- 7 Gross margin (gross profit) from sales is the difference between which of the following?
- A) Net sales and the cost of goods sold plus all the expenses
  - B) Net sales and operating expenses
  - C) Gross sales less the sales discounts and sales returns and allowances
  - D) Net sales and the cost of goods sold
  - E) None of the above
- 8 A retailer who uses a perpetual inventory system purchased \$8,000 of merchandise on credit. The credit terms were 2/10, n/30, FOB destination. The freight costs were \$130. What was the journal entry for the purchaser to record this transaction?
- A) Merchandise Inventory, debit, \$8,000; Freight-In, debit, \$130; Accounts Payable, credit, \$8,130
  - B) Merchandise Inventory, debit, \$8,130; Accounts Payable, credit, \$8,130
  - C) Merchandise Inventory, debit, \$8,000; Accounts Payable, credit, \$8,000
  - D) Merchandise Inventory, debit, \$7,870; Freight-In, debit, \$130; Accounts Payable, credit, \$8,000
  - E) None of the above
- 9 In a perpetual inventory system, which of the following would be debited when inventory is sold on account (from the SELLER's standpoint)?
- A) Cost of goods sold.
  - B) Merchandise inventory
  - C) Sales
  - D) Accounts receivable
  - E) CGS and A/R

- 10 FOB Shipping Point means that the
- A) Goods are placed free on board to the buyer's place of business
  - B) Buyer pays the freight
  - C) Seller pays the freight
  - D) The trucking company pays the freight
  - E) None of the above
- 11 In a perpetual inventory system. From the buyer's standpoint, a return of defective merchandise is recorded by crediting
- A) Purchases
  - B) Purchase Returns
  - C) Purchase Allowance
  - D) Merchandise Inventory
  - E) None of the above
- 12 In a perpetual inventory system, which of the following is not part of the series of journal entries made by the seller when merchandise is sold on credit?
- A) Credit the Cost of Goods Sold account
  - B) Credit the Sales account
  - C) Credit the Merchandise Inventory account
  - D) Debit the Accounts Receivable account
  - E) None of the above
- 13 Beginning inventory 15 units @ \$6 per unit, First purchase 30 units @ \$7 per unit  
First sale 25 units  
Second purchase 35 units @ \$8 per unit  
Second sale 40 units  
Third purchase 20 units @ \$9 per unit  
**What is the value of the ending inventory using a perpetual inventory system with the LIFO costing method?**
- A) \$270
  - B) \$285
  - C) \$300
  - D) \$490
  - E) None of the above

- 14 Beginning inventory 15 units @ \$6 per unit, First purchase 30 units @ \$7 per unit ,  
First sale 25 units  
Second purchase 35 units @ \$8 per unit  
Second sale 40 units  
Third purchase 20 units @ \$9 per unit  
**What is the value of the ending inventory using a perpetual inventory system with the FIFO costing method?**
- A) \$270
  - B) \$275
  - C) \$300
  - D) \$460
  - E) None of the above
- 15 Beginning inventory 15 units @ \$6 per unit, First purchase 30 units @ \$7 per unit  
First sale 25 units  
Second purchase 35 units @ \$8 per unit  
Second sale 40 units  
Third purchase 20 units @ \$9 per unit  
**What is the total value of the ending inventory using a perpetual inventory system with the weighted average costing method? (Your answer may not be exact to the penny, but it should be within a dollar of those given below).**
- A) \$255.41
  - B) \$264.28
  - C) \$268.52
  - D) \$273.54
  - E) \$292.95
- 16 Which of the following is not a legitimate reason for taking a physical inventory count?
- A) To check the accuracy of the perpetual inventory records
  - B) To determine cost of goods sold
  - C) To keep employees busy during a slow time in the business
  - D) To determine if any inventory has been lost from waste, shoplifting or employee theft
  - E) None of the above
- 17 When prices are rising, which of the following will result in the highest amount of income tax expense?
- A) LIFO
  - B) Weighted average
  - C) FIFO
  - D) None of the above
  - E) Not enough information is given

- 18 The FIFO inventory costing method (when using a perpetual inventory system) assumes that the cost of the earliest units purchased are allocated in which of the following ways?
- A) First to be allocated to the ending inventory
  - B) Last to be allocated to the cost of goods sold
  - C) Last to be allocated to the ending inventory
  - D) First to be allocated to the cost of good sold
  - E) None of the above
- 19 When prices are rising over time, which of the following inventory costing methods will result in the lowest gross margin?
- A) FIFO
  - B) LIFO
  - C) Weighted Average
  - D) Cannot be determined
  - E) None of the above

**Problem #1**

Steve's Skateboards uses the perpetual inventory system and had the following sales transactions during April:

2-Apr Sold merchandise to Happy Hobby Shop on credit for \$4800, terms 1/15, n/60.  
The item sold had a cost of \$2700.

4-Apr Happy Hobby Shop returned merchandise that had a selling price of \$200. The cost of the merchandise returned was \$110.

13-Apr Happy Hobby Shop paid for the merchandise sold on April 2, taking an appropriate discount earned.

Prepare the journal entries that Steve's Skateboards must make to record these transactions.

**Problem #2**

A company reported the following information for the month of November:

Sales	\$	50,475
Sales discounts		235
Sales Returns and Allowances		2,840
Cost of Goods Sold		33,975

REQUIRED: Calculate the Gross Margin ratio for November.

**Problem #3**

Evaluate each inventory error separately and determine whether it overstates or understates cost of goods sold and net income.

INVENTORY ERROR	CGS IS:	NET INCOME IS:
Understatement of Beg Inventory	_____	_____
Understatement of End Inventory	_____	_____
Overstatement of Beg inventory	_____	_____
Overstatement of End inventory	_____	_____

**Problem #4**

SUMMIT INC.

		<u>Units</u>	<u>Unit Cost</u>	
1-Apr	Beg Inventory	3	\$18.00	\$ 54.00
4-Apr	Purchase	8	\$17.25	\$ 138.00
6-Apr	Purchase	5	\$16.00	\$ 80.00
7-Apr	Sales of 9 units at a selling price of \$26 each			

*Required: Summit uses the perpetual inventory system. Determine the costs assigned to April 30 ending inventory and calculate CGS for the month under each of the following 3 cost methods:*

	<u>CGS</u>	<u>END INV.</u>
FIFO	_____	_____
LIFO	_____	_____
WEIGHTED AVERAGE	_____	_____

**Problem #5**

Simmons Company purchased merchandise from Crystal Inc. with an invoice price of \$168,000 and credit terms of 2/15, n/30. The merchandise had cost Crystal, Inc. an amount of \$140,000. Simmons Company paid within the discount period. Assume that both the buyer and seller use the perpetual inventory system.

REQUIRED: Prepare journal entries for BOTH the buyer and the seller for the purchase/sale and for the cash payment/collection.