
Chapter 6 | Practice Questions

Merchandising operations

Report to me (yu10j@cmich.edu) if you spot critical errors.

Set 1 | The Cost of Goods Sold Equation

INDEPENDENT

Q1. A department store reported Cost of Goods Sold of **\$940 million**, ending inventory for the quarter of **\$1,200 million**, and ending inventory for the previous quarter of **\$1,365 million**. Determine merchandise purchases for the quarter, in millions.

- ☐ **A.** \$165 ☐ **B.** \$775 ☐ **C.** \$1,105 ☐ **D.** \$3,505

Answers, Set 1:
Q1. B

Set 2 | What Inventory Costs

INDEPENDENT

A general store bought, on credit, a truckload of merchandise from a wholesaler costing **\$23,000**. The store paid a trucking company **\$650** cash for transportation, immediately returned goods to the wholesaler costing **\$1,200**, and then paid the wholesaler within the **2/30, n/60** purchase discount period. The store uses a perpetual inventory system.

Q1. How much did this inventory cost the store? Determine each amount.

		A		B		C		D
1. Amount the 2% purchase discount is calculated on	☐	\$21,150	☐	\$21,800	☐	\$22,450	☐	\$23,000
2. Total cost of the inventory	☐	\$21,800	☐	\$22,014	☐	\$22,450	☐	\$23,650

Q2. The store paid a trucking company **\$650 cash** to haul the merchandise in. How does that \$650 affect the cost of this inventory?

- ☐ **A.** It increases the cost, because getting the goods to the store is part of what they cost
- ☐ **B.** It has no effect on inventory; transportation is recorded as Delivery Expense
- ☐ **C.** It has no effect on inventory, because it was paid to a third party rather than the seller
- ☐ **D.** It reduces the amount owed to the wholesaler, so it lowers the cost

Answers, Set 2:

Q1. 1 B 2 B

Q2. A

Set 3 | Discounts Taken and Missed

INDEPENDENT

During January and February a corporation purchased goods from three suppliers:

- **January 6** — Purchased goods for \$1,200 from Green with terms 2/10, n/30.
- **January 6** — Purchased goods from Munoz for \$900 with terms 2/10, n/30.
- **January 14** — Paid Green in full.
- **February 2** — Paid Munoz in full.
- **February 28** — Purchased goods for \$350 from Reynolds with terms n/45.

The company uses a perpetual inventory system, had no inventory on hand at the beginning of January, and made no sales during January and February.

Q1. Calculate the cost of inventory as of February 28. Determine each amount.

	A		B		C		D	
1. Total purchases during the two months	☐	\$1,250	☐	\$1,550	☐	\$2,100	☐	\$2,450
2. Purchase discounts actually taken	☐	\$0	☐	\$24	☐	\$42	☐	\$49
3. Cost of inventory at February 28	☐	\$2,076	☐	\$2,100	☐	\$2,426	☐	\$2,450

Q2. The **February 2** payment to Munoz settled a January 6 purchase with terms **2/10, n/30**. What did the company record for the discount?

- ☐ **A.** No discount, because the payment came after the ten-day discount period
- ☐ **B.** A 2% discount, because the payment came within the thirty-day credit period
- ☐ **C.** A 2% discount, because Munoz offered the same terms as Green
- ☐ **D.** No discount, because discounts apply only to the largest purchase of the period

Answers, Set 3:

Q1. 1 D 2 B 3 C

Q2. A

Set 4 | Returns and Discounts

INDEPENDENT

During June a company purchased goods from two suppliers:

- **June 3** — Purchased goods for \$4,100 from Diamond Incorporated with terms 2/10, n/30.
- **June 5** — Returned goods costing \$1,100 to Diamond Incorporated for credit on account.
- **June 6** — Purchased goods from Club Corporation for \$1,000 with terms 2/10, n/30.
- **June 11** — Paid the balance owed to Diamond Incorporated.
- **June 22** — Paid Club Corporation in full.

The company uses a perpetual inventory system and had no inventory on hand at the beginning of the month.

Q1. Calculate the cost of inventory as of June 30. Determine each amount.

		A		B		C		D
1. Total purchases before returns	☐	\$4,100	☐	\$5,100	☐	\$5,200	☐	\$6,200
2. Amount the 2% discount is calculated on	☐	\$3,000	☐	\$4,000	☐	\$4,100	☐	\$5,100
3. Purchase discounts actually taken	☐	\$0	☐	\$60	☐	\$80	☐	\$82
4. Cost of inventory at June 30	☐	\$3,940	☐	\$4,000	☐	\$5,040	☐	\$5,100

Q2. Goods costing **\$1,100** were returned to Diamond on June 5, six days before the invoice was paid. What effect does the return have?

- ☐ **A.** It reduces both the inventory balance and the amount the discount is calculated on
- ☐ **B.** It reduces the inventory balance but not the amount the discount is calculated on
- ☐ **C.** It reduces the amount the discount is calculated on but not the inventory balance
- ☐ **D.** It has no effect until the goods are physically received by Diamond

Answers, Set 4:

Q1. 1 B 2 A 3 B 4 A

Q2. A

Set 5 | Multistep Income Statement Amounts

LINKED

Gross profit builds on the net sales computed first.

Three independent cases:

	Case A	Case B	Case C
Sales Revenues, gross	\$8,000	\$6,000	\$6,195
Sales Returns and Allowances	150	500	275
Cost of Goods Sold	5,750	4,050	5,400

Q1. Determine **Net Sales** for each case.

		A		B		C		D
1. Case A	☐	\$7,850	☐	\$8,000	☐	\$8,150	☐	\$13,750
2. Case B	☐	\$1,450	☐	\$5,500	☐	\$6,000	☐	\$6,500
3. Case C	☐	\$795	☐	\$5,645	☐	\$5,920	☐	\$6,195

Q2. Determine **Gross Profit** for each case.

		A		B		C		D
1. Case A	☐	\$2,100	☐	\$2,250	☐	\$5,750	☐	\$7,850
2. Case B	☐	\$950	☐	\$1,450	☐	\$1,950	☐	\$4,050
3. Case C	☐	\$275	☐	\$520	☐	\$795	☐	\$5,400

Answers, Set 5:

Q1. 1 A 2 B 3 C

Q2. 1 A 2 B 3 B

Set 6 | Purchase and Sale Entries

INDEPENDENT

One transaction per view.

Inventory at the beginning of the year cost **\$13,400**. During the year:

- **a.** The company purchased, on account, inventory costing \$84,000.
- **b.** Inventory that had cost \$80,000 was sold on account for \$95,000.
- **c.** The cost of that inventory was removed from the Inventory account.

At the end of the year, inventory was counted and its cost was determined to be \$17,400.

Q1. Show the cost of goods sold equation using these numbers, then determine gross profit.

	A		B		C		D	
1. Ending Inventory	☐	\$4,000	☐	\$13,400	☐	\$15,000	☐	\$17,400
2. Gross Profit	☐	\$11,000	☐	\$15,000	☐	\$80,000	☐	\$95,000

Q2. a. The company purchased, on account, inventory costing \$84,000. Select the account for each blank.

General Journal	Debit	Credit
(a) _____	84,000	
(b) _____		84,000

	A. Inven- tory	B. Ac- counts Payable	C. Cost of Goods Sold	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q3. b. Inventory was sold on account for \$95,000. Select the account for each blank for the revenue side of the sale.

General Journal	Debit	Credit
(a) _____	95,000	
(b) _____		95,000

	A. Ac- counts Receivable	B. Sales Revenue	C. Inven- tory	D. Cost of Goods Sold
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q4. c. The \$80,000 cost of the goods sold in **b** is removed from inventory. Select the account for each blank.

General Journal	Debit	Credit
(a)	80,000	
(b)		80,000

	A. Cost of Goods Sold	B. Inven- tory	C. Sales Revenue	D. Ac- counts Receivable
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Answers, Set 6:

Q1. 1 D 2 B

Q2. 1 A 2 B

Q3. 1 A 2 B

Q4. 1 A 2 B

Set 7 | Perpetual Entries with Units

INDEPENDENT

One date per view.

A company reported beginning inventory of **100 units** at a per unit cost of **\$25**. It had the following transactions during the year:

Date	Transaction
January 14	Sold 25 units at a unit sales price of \$45 on account.
April 9	Purchased 15 additional units at a per unit cost of \$25 on account.
September 2	Sold 50 units at a sales price of \$50 on account.
December 31	Counted inventory and determined 40 units were still on hand.

The company uses a perpetual inventory system.

Q1. Every unit in this company costs \$25, but the two sales were made at different prices. Determine each amount.

	A	B	C	D
1. January 14 — Sales Revenue	☐ \$625	☐ \$1,125	☐ \$1,250	☐ \$2,250
2. January 14 — Cost of Goods Sold	☐ \$375	☐ \$625	☐ \$650	☐ \$1,125
3. April 9 — Inventory purchased	☐ \$375	☐ \$400	☐ \$625	☐ \$675
4. September 2 — Sales Revenue	☐ \$1,250	☐ \$2,250	☐ \$2,500	☐ \$3,750
5. September 2 — Cost of Goods Sold	☐ \$625	☐ \$1,250	☐ \$1,875	☐ \$2,500

Q2. January 14 — Sold 25 units at a unit sales price of \$45 on account. Select the account for each blank.

General Journal	Debit	Credit
(a)	1,125	
(b)		1,125
(c)	625	
(d)		625

	A. Accounts Receivable	B. Sales Revenue	C. Cost of Goods Sold	D. Inventory	E. Cash	F. Accounts Payable
1. (a)	☐	☐	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐	☐	☐
3. (c)	☐	☐	☐	☐	☐	☐
4. (d)	☐	☐	☐	☐	☐	☐

Q3. April 9 — Purchased 15 additional units at a per unit cost of \$25 on account. Select the account for each blank.

General Journal	Debit	Credit
(a)	375	
(b)		375

	A. Inven- tory	B. Ac- counts Payable	C. Cost of Goods Sold	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q4. September 2 — Sold 50 units at a sales price of \$50 on account. Select the account for each blank.

General Journal	Debit	Credit
(a)	2,500	
(b)		2,500
(c)	1,250	
(d)		1,250

	A. Ac- counts Receivable	B. Sales Revenue	C. Cost of Goods Sold	D. Inven- tory	E. Cash	F. Ac- counts Payable
1. (a)	☐	☐	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐	☐	☐
3. (c)	☐	☐	☐	☐	☐	☐
4. (d)	☐	☐	☐	☐	☐	☐

Q5. December 31 — A count determines 40 units are still on hand. What entry is required?

- ☐ **A.** No journal entry required, because the perpetual records already show 40 units
- ☐ **B.** Debit Cost of Goods Sold and credit Inventory for the 40 units on hand
- ☐ **C.** Debit Inventory and credit Accounts Payable for the 40 units counted
- ☐ **D.** Debit Inventory and credit Sales Revenue for the 40 units still available to sell

Answers, Set 7:

Q1. 1B 2B 3A 4C 5B

Q2. 1A 2B 3C 4D

Q3. 1A 2B

Q4. 1A 2B 3C 4D

Q5. A