1. A company's net sales were $676,600, its cost of goods sold was $236,810 and its net income was $33,750. Its gross profit/margin ratio equals:



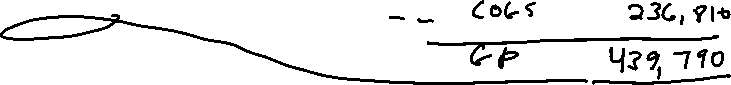
A) 5%.



B) 9.6%.

C) 35%.

D) 65%.



E) 285.7%.

Answer: D



Explanation: Gross Margin Ratio = (Net Sales - Cost of Goods Sold)/Net Sales

Gross Margin Ratio = ($676,600 - $236,810)/$676,600 = 65%



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

|  |  |  |
| --- | --- | --- |
| Accounts Payable | 2,500 |  |
| Merchandise Inventory |  | 50 |
| Cash |  | 2,450 |



This entry reflects a:



A) Purchase of merchandise on credit.

B) Return of merchandise.

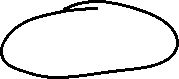
C) Sale of merchandise on credit.

D) Payment of the account payable less a 2% cash discount taken.



E) Payment of the account payable less a 1% cash discount taken.

Answer: D



Difficulty: 3 Hard

3. A company purchased $4,000 worth of merchandise. Transportation costs were an additional $350. The company returned $275 worth of merchandise and then paid the invoice within the 2% cash discount period. The total cost of this merchandise is:

A) $3,725.00.

B) $3,925.00.

C) $3,995.00.

D) $4,000.50.

E) $4,075.00.

Answer: D

Explanation: Cash Paid = [($4,000 - $275) \* .98] + $350 = $4,000.50

4. Garza Company had sales of $135,000, sales discounts of $2,000, and sales returns of $3,200. Garza Company's net sales equals:

A) $5,200.

B) $129,800.

C) $133,000.

D) $135,000.

E) $140,200.

Answer: B

Explanation: Net Sales = $135,000 - $2,000 - $3,200 = $129,800

5. A company has net sales of $752,000 and cost of goods sold of $543,000. Its net income is $17,530. The company's gross profit/margin and operating expenses, respectively, are:

A) $209,000 and $191,470

B) $191,470 and $209,000

C) $525,470 and $227,000

D) $227,000 and $525,470

E) $734,000 and $191,470

Answer: A

Explanation: Gross Margin = Net Sales - Cost of Goods Sold; $752,000 - $543,000 = $209,000

Operating Expenses = Gross Margin - Net Income; $209,000 - $17,530 = $191,470

6. Cushman Company had $800,000 in net sales, $350,000 in gross profit, and $200,000 in operating expenses. Cost of goods sold equals:

A) $150,000.

B) $450,000.

C) $800,000.

D) $350,000.

E) $200,000.

Answer: B

Explanation: Cost of Goods Sold = Net Sales - Gross Profit; $800,000 - $350,000 = $450,000

7. A company's net sales are $775,420, its costs of goods sold are $413,890, and its net income is $117,220. Its gross margin ratio equals:

A) 46.6%.

B) 53.4%.

C) 28.3%.

D) 31.5%.

E) 40.5%.

Answer: A

Explanation: Gross Margin Ratio = (Net Sales - Cost of Goods Sold)/Net Sales

Gross Margin Ratio = ($775,420 - $413,890)/$775,420 = 46.6%

8. On March 12, Klein Company sold merchandise in the amount of $7,800 to Babson Company, with credit terms of 2/10, n/30. The cost of the items sold is $4,500. Klein uses the *perpetual* inventory system and the gross method of accounting for sales. On March 15, Babson returns some of the merchandise. The selling price of the merchandise is $600 and the cost of the merchandise returned is $350. Babson pays the invoice on March 20, and takes the appropriate discount. The journal entry that Klein makes on March 20 is:

A)

|  |  |  |
| --- | --- | --- |
| Cash | 7,800 |  |
| Accounts receivable |  | 7,800 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 4,500 |  |
| Accounts receivable |  | 4,500 |

C)

|  |  |  |
| --- | --- | --- |
| Cash | 7,056 |  |
| Sales discounts | 144 |  |
| Accounts receivable |  | 7,200 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 7,056 |  |
| Accounts receivable |  | 7,056 |

E)

|  |  |  |
| --- | --- | --- |
| Cash | 7,644 |  |
| Sales discounts | 156 |  |
| Accounts receivable |  | 7,800 |

Answer: C

Explanation: Accounts Receivable = $7,800 - $600 = $7,200

Sales Discounts = $7,200 \* .02 = $144

Cash = $7,200 - $144 = $7,056

9.