UNIVERSITY OF SANTO TOMAS

**SCARLET – ACCOUNTANCY UNIT**

ACCOUNTING 1A&B MERCHANDISING REVIEWER

**ANSWER WITHIN TWO HOURS ONLY**

**I. THEORIES (1.25 pts each)** Choose the best answer by encircling the letter of your choice. Write E if the answer is indeterminate.

1. Cost of goods sold is deducted from sales in accordance with what accounting principle?

a. Objectivity c. Substance over form

b. Materiality d. Matching

2. If a customer returns goods to a merchandiser, what effect will it have on the books of the latter?

a. A decrease in sales account

b. A decrease in the accounts payable and allowance account

c. An increase in the purchase returns and allowances account

d. An increase in the sales returns and allowances account

3. Net Sales minus gross margin is equal to ending inventory deducted from cost of goods available for sale. Transportation cost under terms FOB seller need not be recorded in the seller’s books as Delivery expense.

a. True; True c. False; True

b. False; False d. True; False

4. The major expense of a merchandising business is

a. Freight out c. Depreciation on Inventory

b. Supplies Expense d. Sales net of gross profit

5. If a seller of merchandise accepts goods returned by a credit customer, the seller will typically issue a credit memorandum. This source informs the buyer that his accounts payable in the books of the seller is credited with the amount of the said returns.

a. True; True c. False; True

b. False; False d. True; False

6. All are contra accounts except

a. Purchase returns and allowances c. Accumulated Depreciation

b. Sales discount d. Freight in

7. An overstatement in ending inventory in Year 2011 will result in which of the following?

a. Understatement in owner’s equity in 2012

b. Overstated income in 2012

c. Overstated total operating expenses in 2011

d. Understated cost of goods sold in 2011

8. Which of the following would not be reported as inventory?

a. Land acquired for resale by a real estate firm

b. Agricultural products held by a farm

c. Partially completed goods held by a manufacturing company

d. Machinery acquired by a manufacturing company for use in the production process

9. A company using a periodic inventory system neglected to record a purchase of merchandise on account at year-end. This merchandise was omitted from the year-end physical count. How will these errors affect inventory at year-end and cost of goods sold for the year?

Inventory Cost of goods sold

a. no effect understated

b. no effect overstated

c. understated understated

d. understated no effect

10. How would the following costs affect a retailer’s inventory?

Freight-in Interest on inventory loan

a. increase no effect

b. increase increase

c. no effect increase

d. no effect no effect

11. The following are excluded from the cost of inventories, except

a. selling costs

b. freight charges on goods acquired FOB destination

c. abnormal amounts of wasted materials, labor or other production costs d. storage costs that are necessary in the production process prior to a further production stage

12. Inventories do not encompass

a. merchandise purchased by a retailer and held for resale

b. land and other property held for resale by real estate developer

c. finished goods purchased

d. abnormal amounts of wasted materials, labor and other production costs

13. Which of the following is not true of perpetual inventory method?

a. Purchases are recorded as debits to inventory account

b. The entry to record a sale includes a debit to cost of goods sold and a credit to inventory

c. After a physical inventory count, inventory is credited for any missing inventory

d. Purchase returns are recorded by debiting accounts payable and crediting purchase returns and allowances

14. Enterprises presenting expenses on the statement of comprehensive income according to nature neither computes nor sets up cost of sales. Physical count of inventory is normally made at the end of period under the perpetual system.

a. True; True c. False; True

b. False; False d. True; False

15. The company may choose to continuously record the arising of cost of sales or just set it up at the end of the period using an appropriate adjusting entry under the perpetual system. This system is more appropriate for relatively low value, but numerous inventory items.

a. True; True c. False; True

b. False; False d. True; False

16. Which of the following is false about perpetual inventory system?

a. Included in the entry to record sale of goods is a debit to cost of sales and credit to inventory.

b. This system is essential when management wants to maintain effective planning and control over inventory and to avoid stock outs.

c. Companies maintaining inventory items in small quantities with high unit costs usually adopt this method.

d. The system has a disadvantage of providing inventory information on a timely basis.

17. Which of the following terms of sale passes the title of the goods to the purchaser at the point of destination?

a. FOB shipping point c. FOB buyer

b. FOB seller d. A and C

18. Which of the following statements is not true?

a. Inventories are held for sale in the ordinary course of business.

b. Inventories are classified as non-current if it takes more than one year for the company to sell such goods.

c. Inventories are not quick assets

d. Inventories may be assets of an enterprise which are in the form of materials or supplies to be consumed in the rendering of services.

19. The company bought 10,000 goods worth P2.50 each and was able to sell 40% of them for P4.00 each. The company should recognize a gross profit of

a. P25,000 c. P 0 because not all were sold

b. P15,000 d. P6,000

20. The company is in its first year of operations. As a starting point, it bought P10,000 worth of inventory. Not all goods received passed the quality inspection of the company and so it returned P2,500 worth of goods. The company was able to sell half of the remaining inventory. How much is the cost of ending inventory?

a. P7,500 c. P3,750

b. P5,000 d. P6,250

**II. PROBLEMS (3 pts each)** Supply the answer. Round off your final answers to the nearest peso. Ignore tax computations unless stated or most probably implied in the problem.

A. On August 5, Kristoffer sold 35 leather basketballs to the University of Santo Tomas IPEA, credit terms 2/10, n/60. Selling price is P1,800 each. Cost is P1,000 each. On August 10, UST-IPEA returned one defective basketball to Kristoffer. The buyer paid the correct amount due on August 15. Both, on the ground of possible ball losses, monitor their respective inventory as often as appropriately possible.

**1. Compute for the amount of cash received by Kristoffer from UST-IPEA on August 15.**

B. The inventory account of Scarlet, Inc., a VAT-registered company, was worth P10,000 at November 30, 2011. It purchased additional goods for P11,200 on December 1, 2011. 15 days after, it returned goods worth P3,000. At the end of 2011, a physical count was conducted and a P3,000 worth of goods remained as accounted for. The aforementioned transactions did not have an effect on the cash account of the company except for the payment of the tax due of the preceding month. Scarlet, Inc. prepares its financial statements monthly and pays monthly tax due on the 15th day of the subsequent month.

**2. How much is the total liabilities to be presented regarding the aforementioned transactions?**

**3. How much should Scarlet, Inc. remit to Bureau of Internal Revenue?**

C. WWE network reported net income of P20,000,000 at December 31, 2011. However, a review of the inventory records reveal that the January 1, 2011 inventory was overstated by P2,000,000 and the December 31, 2011 inventory was understated by P, 4,000,000.

**4. The correct net income for December 31, 2011 should be?**

D. Silver Trading company, which continuously regulates the amount of its inventory, made a cash purchase of 1,000 units of marble paperweights at P65 per unit from its supplier in Romblon. The company agreed to shoulder and capitalize the local government tax of P500 for the transaction as well as storage costs of P750. Ownership vests on Silver Trading, only upon the arrival of the goods at its warehouse in Aklan. The carrier was charging shipping costs of P1,000 to handle the delivery. The company subsequently sold 100 units at P80 each to a souvenir shop.

**5. How much Cost of Goods Sold should be recorded for the sale?**

**6. If Silver Trading grants an allowance of P500, what is the gross margin for the sale?**

E. At December 31, 2012, Hall Co. recorded inventory of merchandise for P1.5M , and accounts payable of P420,000. The net income was P5.5M. The inventory of merchandise was based on physical count of goods priced at cost, and before any necessary year-end adjustment relating to the following:

a. Included in the physical count were goods billed to a customer FOB seller on December 31, 2012. These goods had a cost of P30,000. No entry was made until January 10, 2013 when the goods were picked up by the carrier.

b. Goods shipped FOB seller on December 28, 2012 from a vendor to Hall were received on January 4, 2013. The invoice cost was P50,000. It was recorded on January 4, 2013.

c. Included in the count were merchandise ready for shipment to a customer, FOB buyer, costing P20,000. Hall Co. was notified that the goods arrived to the customer on January 4, 2013.

d. Not included in the count were merchandise sold on December 29, 2012, FOB shipping point. Hall Co. was notified that the goods arrived to the customer on January 3, 2013.

**7. What is the cost of inventory as of December 31, 2012?**

**8. How much is accounts payable as of calendar year-end?**

F. On March 1, 2011, Will Trading sold merchandise with a catalog price of P150,000 to Hill Co., FOB origin. Hill was granted trade discount of 30%, 25% and 10%. Terms: 3/10, 1/15, n/30. Will paid the freight of Hill for P2,000 which will be added to the bill of the latter. On March 4, Hill returned goods not in their specifications worth P15,000.

**9. When Hill paid the account on March 13, what amount of cash should Will Trading receive?**

G. After one year of operations, Baltazar Company had the following data in its operating results: Net income is P150,000. Selling expenses is 12.5% of sales and 25% of cost of sales. General and administrative expenses and other expenses are 17.5% and 5% of sales, respectively.

**10. What is the amount of gross profit?**

H. Forever 21, Inc. is preparing its 2011 year-end financial statements. Prior to any adjustments, inventory is valued at P562,500. The following information has been found relating to certain inventory transactions.

a. Goods costing P27,000 were received from a vendor on January 5, 2012. The related invoice was received and recorded on January 12, 2012. The goods where shipped on December 31, 2011, terms FOB shipping point.

b. Goods costing P85,000 were shipped on December 31, 2011, and were delivered to the customer on January 2, 2012. The terms of the sale were FOB shipping point. The goods were included in the ending inventory of 2011, even though the sale was recorded in 2011.

c. A 35,000 shipment of goods to a customer on December 31, 2011, terms FOB destination was not included in the yearend inventory. The goods cost P26,000 and were delivered to the customer on January 8, 2012. The sale was properly recorded in 2012.

d. An invoice for goods costing P35,000 was received and recorded as a purchase on December 31, 2011. The related goods, shipped FOB destination, were received on January 2, 2012, and thus were not included in the physical inventory.

e. A P60,000 shipment of goods to a customer on December 30, 2011, terms FOB destination, was recorded as a sale in 2011. The goods, costing P37,000 and delivered to the customer on January 6, 2012, were not included in 2011 ending inventory.

**11. What is the correct amount of inventory at December 31, 2011?**

I. The following data are obtained from the records of Russo Merchandising Co.

December 31, 2011 January 1, 2011

Inventory P78,000 P62,500

Accounts Payable 160,000 30,000

All the purchases for the year were on credit. Gross margin for the year is 75,000. Every P1 of sales yields a margin of 25 cents to cover all other expenses.

**12. How much are the total cash payments on inventory purchases for 2011?**

**13. Compute for the cost of goods sold for 2011.**

J. The following information is given for Healthy Options, Co.

Freight-in P4,000

Purchase returns 6,000

Operating Expense 300,000

Other Expenses 100,000

Increase in Inventory 75,000

Net Income 250,000

Purchases 1,100,000

**14. What is the amount of cost of goods available for sale?**

**15. What is the amount of sales to be reflected in the income statement for 2011?**

K. An inspection of the books of Sisig Company for the year ended December 31, 2011 revealed the following errors:

a. A cash purchase of inventory amounting to P2,500 was overlooked.

b. A sale transaction for cash was overstated by P4,000. The corresponding journal entry for cost of goods sold for P1,000 was not made.

c. Merchandise returned and restored to inventory for P600 was not made.

**16. As a result of the errors, what is the amount of ending inventory overstatement (understatement)?**

L. SM Megamall’s accounting records indicated the following information:

12/31/11 1/1/11

Inventory (based on physical count) P110,000 P180,000

Accounts Receivable 900,000 700,000

Accounts Payable 250,000 300,000

Collection from customers 2,800,000

Payment to suppliers 2,550,000

All sales and purchases are on credit. SM Megamall’s gross profit rate based on cost has remained constant at 25% in recent years.

**17. What is the amount of inventory overage (shortage)?**

M. On March 31, 2011, the store inventory of Mundo, Clothing Co. was destroyed by a fortuitous event. The following information was obtained from available records:

Sales Purchases

January P640,000 P400,000

February P750,000 P500,000

March P850,000 P600,000

The cost of inventory on December 31, 2010 was P600,000. The gross margin is 40% on cost.

**18. What is the cost of inventory loss?**

N. The inventory on hand on December 31, 2011 for Diva Corporation is valued at a cost of P3,000,000. The following items were not included in the inventory:

a. Goods purchased in transit shipped FOB destination, with price of P300,000, which includes freight charge of P30,000.

b. Goods sold in transit FOB destination with invoice price of P490,000 which includes freight charge of P40,000 to deliver the goods.

c. Goods purchased in transit FOB shipping point with invoice of P600,000. Freight cost amounts to P60,000.

The company sells goods at 150% of cost.

**19. What is the correct inventory on December 31, 2011?**

O. Suppose you have 10,000 units of bubble gum and you sell 35% of them for P8.00 each.

**20. How much is your cost per unit assuming gross profit on sales is 25%?**

**21. How much is your gross profit assuming the you sell goods at 112% of cost.**

P. The following balances were taken from the trial balance of IMBP Company at year end:

|  |  |
| --- | --- |
| Miscellaneous Expense | P 1,000 |
| Utilities Expense | 15,000 |
| Transportation-In | 12,000 |
| Purchase Discounts | 19,600 |
| Depreciation Expense | 10,000 |
| Salaries Expense | 120,000 |
| Interest Income | 21,200 |
| Sales Returns and Allowances | 8,000 |
| Purchases | 400,000 |
| Inventory, beginning | 90,000 |
| Inventory, end | 75,000 |
| Supplies Expense | 5,000 |
| Sales Discounts | 4,000 |
| Transportation-out | 6,000 |
|  | |
| Gross Profit is 25% of Net Sales | |

**22. How much is cost of goods available for sale?**

**23. How much is gross sales?**

**24. How much is operating income?**

**25. How much is net income?**

UNIVERSITY OF SANTO TOMAS

**SCARLET – ACCOUNTANCY UNIT**

ACCOUNTING 1A&B MERCHANDISING REVIEWER

**SUGGESTED ANSWER KEY**

|  |  |  |  |
| --- | --- | --- | --- |
| **I. THEORIES** | | **II. PROBLEMS** | |
| **1.** | **D** | **1.** | **59,976** |
| **2.** | **D** | **2.** | **8680** |
| **3.** | **A** | **3.** | **840** |
| **4.** | **D** | **4.** | **26,000,000** |
| **5.** | **D** | **5.** | **6,625** |
| **6.** | **D** | **6.** | **875** |
| **7.** | **D** | **7.** | **1,550,000** |
| **8.** | **D** | **8.** | **470,000** |
| **9.** | **D** | **9.** | **57,316** |
| **10.** | **A** | **10.** | **500,000** |
| **11.** | **D** | **11.** | **567,500** |
| **12.** | **D** | **12.** | **110,500** |
| **13.** | **D** | **13.** | **225,000** |
| **14.** | **D** | **14.** | **1,098,000** |
| **15.** | **B** | **15.** | **1,673,000** |
| **16.** | **D** | **16.** | **(2,100)** |
| **17.** | **C** | **17.** | **(170,000)** |
| **18.** | **B** | **18.** | **500,000** |
| **19.** | **D** | **19.** | **3,760,000** |
| **20.** | **C** | **20.** | **6.00** |
|  |  | **21.** | **3,000** |
|  |  | **22.** | **482,400** |
|  |  | **23.** | **555,200** |
|  |  | **24.** | **(21,200)** |
|  |  | **25.** | **0** |

**SOLUTIONS:**

**I. THEORIES**

19.

Sales 16,000

CGS (10,000)

GP 6,000

AR/Cash 16,000

Sales 16,000

CGS 10,000

Inventory 10,000

ANSWER: **D – 6,000**

20.

|  |  |  |  |
| --- | --- | --- | --- |
| INVENTORY | | | |
| Beginning Balance | 0 | CGS | 3,750 |
| Net Purchases | 7,500 |  |  |
| (10,000 – 2,500) |  |  |  |
| Ending Balance | 3,750 |  |  |

ANSWER: **C – 3,750**

**II. PROBLEMS**

A. Journal entries:

8/5/10 Accounts Receivable 63,000

Sales 63,000

Cost of Goods Sold 35,000

Inventory 35,000

8/10/10 Sales Returns & Allow. 1,800

Accounts Rec. 1,800

Inventory 1,000

CGD 1,000

Cash **59,976**

Sales Discount 1,224

Accounts Rec. 61,200

1. ANSWER: **59,976**

B. Journal Entries:

12/1/11 Purchases 10,000

Input Tax 1,200

Accounts Payable 11,200

12/15/11 VAT Payable XX

Cash XX

12/16/11 A. Payable 3,360

Input Tax 360

Purchase R & A 3,000

12/31/11 A. Receivable 15,680

Output Tax 1,680

Sales 14,000

Total liabilities:

Accounts Payable 7,840

VAT Payable 840

8,680

VAT Payable = Output Tax - Input Tax = 1680 – 840 = 840

2. ANSWER: **9,040**

3. ANSWER: **1,200**

C.

Adjustments Effect to CGS

Beg. Invty (2,000,000) (2,000,000)

Ending. Invty 4,000,000 (4,000,000)

(6,000,000) = Increase in Net Income by 6,000,000

BI (2,000,000)

Purchases -

CGAS (2,000,000)

Less: EI 4,000,000)

CGS (6,000,000)

Sales -

Less: CGS (6,000,000)

GP 6,000,000

Less: Op. Exp. -

Net Income 6,000,000 + 20,000,000 = 26,000,000

4. ANSWER: 2**6,000,000**

D. Journal entries:

Inventory 65,000

Cash 65,000

Inventory 1,250

Cash 1,250

Cash 8,000

***CGS 6,625***

Sales 8,000

Inventory 6,625

Sales 8,000

Less: SRA 500

Net Sales 7,500

CGS 6,625

***Gross Margin 875***

5. ANSWER: **6,625**

6. ANSWER: **875**

E. Inventory Accounts Payable

Beg. 1,500,000 420,000

a) - -

b) 50,000 50,000

c) - -

d) - -

1,550,000 470,000

7. ANSWER: **1,550,000**

8. ANSWER: **470,000**

F.

Journal Entries:

3/1/11 AR 70,875

Sales 70,875

(150,000 x .7 x .75 x .9)

AR 2,000

Cash 2,000

3/4/11 SRA 15,000

AR 15,000

3/13/11 **Cash 57316**

SD 559

AR 57875

(70,875 – 15,000 = 55875 x .01 = 559)

9. ANSWER: **57,316**

G.

Sales 100% 1,000,000

Less: CGS 50% 500,000

GP 50% 500,000 (12.5%/25%)

Less: Sell. Exp. 12.5% 125,000

Less: GA Exp. 17.5% 175,000

Less: Oth. Exp. 5% 50,000

Net Income 15% 150,000

10. ANSWER: **500,000**

H.

Unadjusted Inventories 562,500

a) Purchase – Shipping pt. 27,000

b) Sale – Shipping pt. (85,000)

c) Sale – Destination 26,000

d) Purchase – Destination -

e) Sale – Destination 37,000

Adjusted Inventories 567,500

11. ANSWER: **567,500**

I.

.25 cents/1 peso = 25%

Sales 100% 300,000 (75,000/.25)

CGS 75% 225,000

GP 25% 75,000

|  |  |  |  |
| --- | --- | --- | --- |
| INVENTORY | | | |
| Beginning Balance | 62,500 | CGS | 225,000 |
| Net Purchases | 240,500 |  |  |
| (1.1M+4K-6K) |  |  |  |
| Ending Balance | 78,000 |  |  |
| ACCOUNTS PAYABLE | | | |
|  |  | Beginning Balance | 30,000 |
| Payment to Suppliers | 110,500 | Purchases | 240,500 |
|  |  | Ending Balance | 160,000 |

12. ANSWER: **110,500**

13. ANSWER: **225,000**

J.

|  |  |  |  |
| --- | --- | --- | --- |
| INVENTORY | | | |
| Beginning Balance | 0 | CGS | 1,023,000 |
| Net Purchases | 1,098,000 |  |  |
| (1.1M+4K-6K) |  |  |  |
| Ending Balance | 75,000 |  |  |

COGAS = Beg. Inv + Net Purchases = 0 + 1,098,000 = 1,098,000

**Sales 1,673,000**

Less: CGS 1,023,000

**GP 650,000**

Less: Op. Exp. 300,000

Less: Other Exp. 100,000

Net Income 250,000

14. ANSWER: **1,098,000**

15. ANSWER: **1,673,000**

K.

Adjusting Entries:

**Inventory 2,500**

Cash 2,500

Sales 400,000

Cash 400,000

Cost of Sales 1,000

**Inventory 1,000**

**Inventory 600**

Cash 600

2,500 – 1,000 + 600 = 2,100 understated

16. ANSWER: **(2,100)**

L.

Sales 125% 3,000,000

CGS 100% 2,400,000

GP 25% 600,000

|  |  |  |  |
| --- | --- | --- | --- |
| ACCOUNTS PAYABLE | | | |
|  |  | Beginning Balance | 300,000 |
| Payment to Suppliers | 2,550,000 | **Purchases** | **2,500,000** |
|  |  | Ending Balance | 250,000 |
| ACCOUNTS RECEIVABLE | | | |
| Beginning Balance | 700,000 | Collection from Cust. | 2,800,000 |
| **Credit Sales** | **3,000,000** |  |  |
| Ending Balance | 900,000 |  |  |
| INVENTORY | | | |
| Beginning Balance | 180,000 | CGS | 2,400,000 |
| Net Purchases | 2,500,000 |  |  |
|  |  | (3M/1.25=2.4M) |  |
| Estimated Ending Balance | 280,000 |  |  |

Estimated Ending Balance 280,000

Ending Balance based on Physical Count (110,000)

(Shortage)Overage (170,000)

17. ANSWER: **(170,000)**

M.

Sales 140% 2,240,000

CGS 100% 1,600,000

GP 40% 640,000

|  |  |  |  |
| --- | --- | --- | --- |
| INVENTORY | | | |
| Beginning Balance | 600,000 | CGS | 1,600,000 |
| Net Purchases | 1,500,000 | (640K+750K+850K=2240K)  (2240K/1.4=1600K) |  |
| (10,000 – 2,500) |  |  |  |
| Ending Balance/Inv. Loss | 500,000 |  |  |

18. ANSWER: **500,000**

N.

Sales 150%

CGS 100%

GP 50%

Unadjusted Inventories 3,000,000

a) Purchase – Destination - -

b) Sale - Destination 300,000 (490K-40K=450K; 450K/1.5=300K)

c) Purchase – Shipping Pt. 400,000 (600K/1.5)

Freight-in 60,000

Adjusted Inventories 3,760,000

19. ANSWER: **3,760,000**

O.

Sales – 100% 28,000 Sales – 112% 28,000

CGS – 75% (21,000) CGS – 100% (25,000)

GP – 25% 7,000 GP – 12% **3,000**

P21,000 / 3,500 units = P6.00/unit

20. ANSWER: **P6.00/unit**

21. ANSWER: **3,000**

P.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| INVENTORY | | | | | | | |
| Beginning Balance | | 90,000 | | | CGS | | 407,400 |
| Net Purchases | | 392,400 | | |  | |  |
| (400,000-19,600+12,000) | |  | | |  | |  |
| Ending Balance | | 75,000 | | |  | |  |
|  | |  | | |  | |  |
| Sales | | | P **555,200** | |
| SRA | | | (8,000) | |
| Sales Discounts | | | (4,000) | |
| Net Sales | | | 543,200 | |
| Cost of Sales | | | (407,400) | |
| Gross Margin | | | 135,800 | |
| Misc. Expense | | | (1,000) | |
| Utilities Expense | | | (15,000) | |
| Transportation Out | | | (6,000) | |
| Supplies Expense | | | (5,000) | |
| Depreciation Expense | | | (10,000) | |
| Salaries Expense | | | (120,000) | |
| Operating Income | | | **(21,200)** | |
| Other Income | | | 21,200 | |
| Net Income | | **0** | | |
|  | | | | |

22. 90,000 + 392,400 = 482,400

ANSWER: **482,400**

23. ANSWER: **555,200**

24. ANSWER: **(21,200)**

25. ANSWER: **0**