ANSWERS TO QUESTIONS

1. (a) Disagree. The steps in the accounting cycle are the same for both a merchandising company and a service company.
(b) The measurement of income is conceptually the same. In both types of companies, net income (or loss) results from the matching of expenses with revenues.

2. The normal operating cycle for a merchandising company is likely to be longer than in a service company because inventory must first be purchased and sold, and then the receivables must be collected.

3. (a) The components of revenues and expenses differ as follows:

	Merchandising	Service
Revenues	Sales	Fees, Rents, etc.
Expenses	Cost of Goods Sold and Operating	Operating (only)

(b) The income measurement process is as follows:

Sales Revenue	Less	Cost of Goods Sold	Equals	Gross Profit	Less	Operating Expenses	Equals	Net Income

4. Income measurement for a merchandising company differs from a service company as follows: (a) sales are the primary source of revenue and (b) expenses are divided into two main categories: cost of goods sold and operating expenses.

5. In a perpetual inventory system, cost of goods sold is determined each time a sale occurs.

6. The letters FOB mean Free on Board. FOB shipping point means that goods are placed free on board the carrier by the seller. The buyer then pays the freight and debits Inventory. FOB destination means that the goods are placed free on board to the buyer's place of business. Thus, the seller pays the freight and debits Freight-out.

7. Credit terms of 2/10, n/30 mean that a 2% cash discount may be taken if payment is made within 10 days of the invoice date; otherwise, the invoice price, less any returns, is due 30 days from the invoice date.

8.

July 24	Accounts Payable (\$2,000 – \$200)	1,800	
	Inventory (\$1,800 X 2%)		36
	Cash (\$1,800 – \$36)		1,764

9. Agree. In accordance with the revenue recognition principle, sales revenues are generally considered to be earned when the goods are transferred from the seller to the buyer; that is, when the exchange transaction occurs. The earning of revenue is not dependent on the collection of credit sales.

10. (a) The primary source documents are: (1) cash sales—cash register tapes and (2) credit sales—sales invoice.

(b) The entries are:

		Debit	Credit
Cash sales—	Cash	XX	
	Sales Revenue		XX
	Cost of Goods Sold	XX	
	Inventory		XX
Credit sales—	Accounts Receivable	XX	
	Sales Revenue		XX
	Cost of Goods Sold	XX	
	Inventory		XX

11.

July 19	Cash ($800 – $16)	784	
	Sales Discounts ($800 X 2%)	16	
	Accounts Receivable ($900 – $100)		800

12. The perpetual inventory records for merchandise inventory may be incorrect due to a variety of causes such as recording errors, theft, or waste.

13. Two closing entries are required:

(1)	Sales Revenue	200,000	
	Income Summary		200,000
(2)	Income Summary	145,000	
	Cost of Goods Sold		145,000

14. Of the merchandising accounts, only Inventory will appear in the post-closing trial balance.

15.

Sales revenues	$105,000
Cost of goods sold	70,000
Gross profit	$ 35,000

Gross profit rate: $35,000 ÷ $105,000 = 33.3%

16.

Gross profit	$370,000
Less: Net income	240,000
Operating expenses	$130,000

17. There are three distinguishing features in the income statement of a merchandising company: (1) a sales revenues section, (2) a cost of goods sold section, and (3) gross profit.

18. (a) The operating activities part of the income statement has three sections: sales revenues, cost of goods sold, and operating expenses.

(b) The nonoperating activities part consists of two sections: other revenues and gains, and other expenses and losses.

19. The single-step income statement differs from the multiple-step income statement in that: (1) all data are classified into two categories: revenues and expenses, and (2) only one step, subtracting total expenses from total revenues, is required in determining net income (or net loss).

20. PepsiCo's gross profit rate for 2009 was 52.6% [($42,232 – $20,009) ÷ $42,232]. Its gross profit rate in 2008 was 52.9% [($43,251 – $20,351) ÷ $43,251] so the rate decreased from 2008 to 2009.

21.

Accounts	Added/Deducted
Purchase Returns and Allowances	Deducted
Purchase Discounts	Deducted
Freight-in	Added

***22.**

Date	Account	Debit	Credit
July 24	Accounts Payable ($3,000 – $200)	2,800	
	Purchase Discounts ($2,800 X 2%)		56
	Cash ($2,800 – $56)		2,744

***23.** The columns are:

(a) Inventory—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Balance Sheet (Dr.).

(b) Cost of Goods Sold—Trial Balance (Dr.), Adjusted Trial Balance (Dr.), and Income Statement (Dr.).

