Many of the important ideas and concepts discussed in Chapter 5 are reflected in the following list of key terms. Test your understanding of these terms by matching the appropriate definitions with the terms. Record the number identifying the most appropriate definition in the blank space next to each term.

_______ Cash discount

_______ Credit memorandum

_______ Credit period

_______ Credit terms

_______ Debit memorandum

_______ Discount period

_______ EOM

_______ FOB

_______ General and administrative expenses

_______ Gross profit

_______ Inventory

_______ List price

_______ Merchandise

_______ Multiple-step income statement

_______ Periodic inventory system

_______ Perpetual inventory system

_______ Purchases discounts

_______ Retained earnings statement

_______ Sales discount

_______ Selling expenses

_______ Single-step income statement

_______ Trade discount

_______ Transportation-in

1. The difference between revenue and the cost of goods sold.
2. A method of accounting for inventories in which cost of goods sold is recorded each time a sale is made and an up-to-date record of goods on hand is maintained.
3. A deduction from a list or catalogue price that is used to determine the actual sales price of goods.
4. A deduction from the invoice price granted to customers in return for early payment; that is, cash discounts to customers.
5. Memorandum sent to notify its recipient that the sender has debited the recipient's account in its records.
6. An income statement on which cost of goods sold and the expenses are subtracted in steps to get net income.
7. An abbreviation for the words end-of-month that is sometimes used in expressing the credit terms of a sales agreement.
8. The nominal price of an item from which any trade discount is deducted to determine the actual sales price; also known as the catalogue price.
9. A financial statement that reports the changes in a corporation's retained earnings that occurred during an accounting period.
10. The specified amounts and timing of payments that a buyer agrees to make in return for being granted credit to purchase goods or services.
11. The agreed period of time for which credit is granted and at the end of which payment is expected.
12. Costs incurred by a purchaser for transporting purchased merchandise to its place of business.
13. Deductions from the invoice price of purchased items granted by suppliers in return for early payment; that is, cash discounts from suppliers.
14. A memorandum sent to notify its recipient that the sender has credited the recipient's account in its records.

15. A method of accounting for inventories in which the inventory account is brought up to date once each period; requires the business to count the items on hand at the end of the period.
16. The period of time during which, if payment is made, a cash discount may be deducted from the invoice price.
17. An income statement on which cost of goods sold and operating expenses are added together and subtracted from net sales in one step to get net income.
18. A deduction from the invoice price of goods that is granted if payment is made within a specified period of time.
19. The expenses of preparing and storing merchandise for sale, promoting sales, actually making sales, and delivering goods to customers.
20. Goods bought and sold to others.
21. Expenses that support the overall management and operations of a business, such as central office, accounting, personnel, and credit and collection expenses.
22. The abbreviation for free on board, which is the legal arrangement for identifying the location (shipping point or destination) at which the seller transfers ownership of purchased goods to the buyer; if the terms are FOB factory (or shipping point), the buyer must pay the shipping costs; if the terms are FOB destination, the seller must pay the shipping costs.
23. The collection of goods on hand waiting to be sold to customers.

(INVENTORIABLE COSTS) The Sun-Dog Manufacturing Company maintains a general ledger account for each class of inventory, debiting such accounts for increases during the period, and crediting them for decreases. The transactions below relate to the Raw Materials inventory account, which is debited for materials purchased and credited for materials requisitioned for use:

1. An invoice for $7,500, terms f.o.b. destination, was received and entered January 2, 1995. The receiving report shows that they were received December 28, 1994.
2. Materials costing $29,000, shipped f.o.b. destination, were not entered by December 31, 1994 "because they were in a railroad car on the company's siding on that date and had not been unloaded."
3. Materials costing $7,300 were returned on December 29, 1994 to the creditor and were shipped f.o.b. shipping point. They were entered on that date, even though they were not expected to reach the creditor's place of business until January 6, 1995.
4. An invoice for $10,100, terms f.o.b. shipping point, was received and entered December 30, 1994. The receiving report shows that the materials were received January 4, 1995 and the bill of lading shows that they were shipped January 2, 1995.
5. Materials costing $20,525 were received December 30, 1994 but no entry was made for them because "they were ordered with a specified delivery of no earlier than January 10, 1995."

Instructions

Prepare correcting general journal entries required on December 31, 1994, assuming that the books have not been closed.

(INVENTORIABLE COSTS: ERROR ADJUSTMENTS) The following purchase transactions occurred during the last few days of the Alco Company's business year, which ends October 31, or in the first few days after that date. A periodic inventory system is used.

1. An invoice for $4,000, terms f.o.b. shipping point, was received and entered November 1. The invoice shows that the material was shipped October 29, but the receiving report indicates receipt of goods on November 3.
2. An invoice for $2,800, terms f.o.b. destination, was received and entered November 2. The receiving report indicates that the goods were received October 29.
3. An invoice for $3,375, terms f.o.b. shipping point, was received October 15 but never entered. Attached to it is a receiving report indicating that the goods were received October 18. Across the face of the receiving report is the following notation: "Merchandise not of same quality as ordered—returned for credit October 19."
4. An invoice for $3,250, terms f.o.b. shipping point, was received and entered October 27. The receiving report attached to the invoice indicates that the shipment was received October 27 in satisfactory condition.
5. An invoice for $5,400, terms f.o.b. destination, was received and entered October 28. The receiving report indicates that the merchandise was received November 2.

Before preparing financial statements for the year, you are instructed to review these transactions and to determine whether any correcting entries are required and whether the inventory of $74,200 determined by physical count should be changed.

(PERIODIC VERSUS PERPETUAL ENTRIES) The Phoenix Company sells one product, the Wipplesnip. Presented below is information for January for the Phoenix Company:

Jan. 1	Inventory	100 units at $5 each
Jan. 4	Sale	70 units at $8 each
Jan. 11	Purchase	150 units at $6 each
Jan. 13	Sale	130 units at $8.50 each
Jan. 20	Purchase	150 units at $7 each
Jan. 27	Sale	110 units at $9 each

Phoenix uses the FIFO cost flow assumption. All purchases and sales are on account.

Instructions

(a) Assume Phoenix uses a periodic system. Prepare all necessary journal entries, including the end-of-month adjusting/closing entry to record cost of goods sold. A physical count indicates that the ending inventory for January is 90 units.

(b) Compute gross profit using the periodic system.

(c) Assume Phoenix uses a perpetual system. Prepare all necessary journal entries.

(d) Compute gross profit using the perpetual system.