Use the following to answer questions 1-2:

Assume the perpetual inventory method is used.

1) The company purchased $5,000 of merchandise on account under terms 5/10/net 30.
2) The company returned $600 of merchandise to the supplier before payment was made.
3) The liability was paid within the discount period.
4) All of the merchandise purchased was sold for $6,500 cash.

1. What effect will the return of merchandise to the supplier have on the accounting equation?
   A) Assets and equity are reduced by $600.
   B) Liabilities are reduced by $570 and assets are reduced by $600.
   C) Assets and liabilities are reduced by $600.
   D) Liabilities and equity are reduced by $600.

2. The amount of gross margin from the four transactions is
   A) $4,150.
   B) $2,320.
   C) $1,500.
   D) $1,283.

3. Gutter Company sold merchandise costing $1,600 for $2,500 cash. The merchandise was later returned by the customer. If the perpetual inventory method is used, what effect will the sales return have on the accounting equation?
   A) Total assets and total equity increase by $900.
   B) Total assets increase by $1,600 and total equity is decreased by $2,500.
   C) Total assets and total equity decrease by $2,500.
   D) Total assets and total equity decrease by $900.

4. Streif Company uses the perpetual inventory method. The company purchased an item of inventory for $80 and sold the item to a customer for $120. What effect will the sale have on the company's inventory account?
   A) The account will decrease by $120
   B) The account will decrease by $80
   C) The account will increase by $40
   D) No effect
5. Unger Company uses the perpetual inventory method. Unger sold goods that cost $3,500 for $7,200. If the sale was made to a customer on account, the sale will:
   A) increase total assets by $3,700.
   B) increase total liabilities by $7,200.
   C) increase total liabilities by $3,500.
   D) increase total assets by $7,200.

6. The Wessely Company purchased $10,000 of merchandise from the Mozelewski Wholesale Company. Wessely also paid $500 for freight costs to have the goods shipped to its location. Which of the following statements regarding the necessary entries for the transactions is true? Wessely uses the perpetual inventory system.
   A) Total debits to the inventory account would be $10,000.
   B) Total debits to the inventory account would be $10,500.
   C) The transportation expense account would be debited for $500.
   D) Answers "b" and "c" are both true.

Use the following to answer questions 7-9:

Schumacher Company engaged in the following transactions during 2005:

1) Started the business by issuing $7,500 of common stock for cash.
2) The company paid cash to purchase $4,500 of inventory.
3) The company sold inventory that cost $3,000 for $7,250 cash.
4) Operating expenses incurred and paid during the year, $250.

Schumacher Company engaged in the following transactions during 2006:
1) The company paid cash to purchase $5,800 of inventory.
2) The company sold inventory that cost $7,000 for $15,150 cash.
3) Operating expenses incurred and paid during the year, $500.

Note: Schumacher uses the perpetual inventory system.

7. The gross margin for the year 2006 is:
   A) $7,650.
   B) $4,250.
   C) $8,150.
   D) $9,350.
8. The balance in the inventory account shown at December 31, 2006 is:
   A) $300.
   B) $1,500.
   C) $4,500.
   D) $11,150.

9. The amount of retained earnings at December 31, 2006 is:
   A) $ 4,250.
   B) $11,150.
   C) $11,650.
   D) $ 6,500

10. George Co. had beginning inventory of $400 and ending inventory of $200. George Co.
     had cost of goods sold amounting to $1,600. Based on this information, George Co.
     must have purchased inventory amounting to:
     A) $ 1,400.
     B) $ 1,600.
     C) $ 1,800.
     D) $ 2,200.