Accounting
Mid-Term Exam II (Sample Exam)

Part I: Multiple Choices (2 points for each question, 36 points in total)

1. Manufacturers usually classify inventory into all the following general categories **except**
   a. work in process
   b. merchandise inventory
   c. finished goods
   d. raw materials

2. The following information was available from the inventory records of Queen Company for July:

	Units	Unit Cost	Total Cost
Balance at July 1	30,000	£ 2.25	£67,500
Purchases:			
July 6	20,000	2.55	51,000
July 26	27,000	2.60	70,200
Sales:			
July 7	(25,000)		
July 31	(40,000)		
Balance at July 31	12,000		

   Assuming that the company uses perpetual inventory system. What should be the inventory reported on Queen's July 31 statement of financial position using the average-cost inventory method (round per unit amounts to two decimal places)?
   a. £27,000.
   b. £42,880.
   c. £29,880.
   d. £31,500.

3. A company just starting business made the following four inventory purchases in June:

June 1	150 units	¥ 2,600
June 10	200 units	3,900
June 15	200 units	4,200
June 28	150 units	3,300
		¥14,000

A physical count of merchandise inventory on June 30 reveals that there are 100 units on hand. The inventory method which results in the highest gross profit for June is

a. the FIFO method.
b. the specific identification method.
c. the average-cost method.
d. not determinable.

4. The cost of goods available for sale is allocated between

a. beginning inventory and ending inventory.
b. beginning inventory and cost of goods on hand.
c. ending inventory and cost of goods sold.
d. beginning inventory and cost of goods sold.

5. If companies have identical inventory costs but use different inventory flow assumptions when the price of goods have **not** been constant, then the

a. cost of goods sold of the companies will be identical.
b. cost of goods available for sale of the companies will be identical.
c. ending inventory of the companies will be identical.
d. net income of the companies will be identical.

6. The accountant at Paige Company is figuring out the difference in income taxes the company will pay depending on the choice of either FIFO or average-cost as an inventory costing method. The tax rate is 30% and the FIFO method will result in income before taxes of $36,400. The average-cost method will result in income before taxes of $32,900. What is the difference in tax that would be paid between the two methods?

a. $3,500.
b. $1,500.
c. $1,050.
d. Cannot be determined from the information provided.

7. Which inventory costing method most closely approximates current cost for each of the following?

	Ending Inventory	Cost of Goods Sold
a.	FIFO	FIFO
b.	FIFO	LIFO
c.	LIFO	FIFO
d.	LIFO	LIFO

8. Carlsberg Corporation has 3,000 units of product#1 and 6,000 units of product#2 in its inventory at December 31, 2020. Specific data with respect to each product follows:

	Product#1	Product#2
Historical cost	CHF40	CHF70
Net realizable value	45	54

What amount will be reported on the company statement of financial position at December 31, 2020 for ending inventory using lower-of-cost-or-net realizable value?

a. CHF330,000.
b. CHF432,000.
c. CHF444,000.
d. CHF459,000.

9. The lower-of-cost-or-net realizable value basis of valuing inventories is an example of

a. comparability.
b. the cost principle.
c. conservatism.
d. consistency.

10. The following information was available for Hoover Company at December 31, 2020: beginning inventory $110,000; ending inventory $70,000; cost of goods sold $1,100,000; and sales $1,600,000. Hoover's days in inventory in 2020 was

a 20.5 days.

b. 29.9 days.

c. 23.2 days.

d. 36.5 days.

11. The respective normal account balances of Purchases, Purchase Discounts, and Freight-In are

a. credit, credit, debit.

b. debit, credit, credit.

c. debit, credit, debit.

d. debit, debit, debit.

12. Powers Company has the following account balances:

Purchases	$99,000
Sales Returns and Allowances	12,800
Purchase Discounts	8,000
Freight-In	6,000
Delivery Expense	8,000

The cost of goods purchased for the period is

a. $107,000.

b. $97,000.

c. $105,000.

d. $92,200.

13. Financial information is presented below:

Operating Expenses	€ 270,000
Sales Returns and Allowances	78,000
Sales Discounts	36,000
Sales Revenue	960,000
Cost of Goods Sold	462,000

The gross profit rate would be

a. .454.
b. .546.
c. .500.
d. .538.

14. In preparing closing entries for a merchandising company, the Income Summary account will be credited for the balance of

a. sales revenue.
b. inventory.
c. sales discounts.
d. freight-out.

15. If a company is given credit terms of 2/10, n/30, it should

a. hold off paying the bill until the end of the credit period, while investing the money at 10% annual interest during this time.
b. pay within the discount period and recognize a savings.
c. pay within the credit period but don't take the trouble to invest the cash while waiting to pay the bill.
d. recognize that the supplier is desperate for cash and withhold payment until the end of the credit period while negotiating a lower sales price.

16. As an incentive for customers to pay their accounts promptly, a business may offer its customers

a. a sales discount.
b. free delivery.
c. a sales allowance.
d. a sales return.

17. Damaged and obsolete goods that can be sold:
    a. are never counted as inventory.
    b. are included in inventory at their full cost.
    c. are included in inventory at their net realizable value.
    d. should be disposed of immediately.

18. Physical counts of inventory
    a. are not necessary under the perpetual system.
    b. are necessary to adjust the Inventory account to the actual inventory available under the perpetual system.
    c. must be taken at least once a month.
    d. are not necessary under the periodic system.

Part II: Problems (64 points in total)

1.

Clarke Company uses the periodic inventory method and had the following inventory information available:

		Units	Unit Cost	Total Cost
1/1	Beginning Inventory	100	$4	$ 400
1/20	Purchase	400	$5	2,000
7/25	Purchase	200	$7	1,400
10/20	Purchase	300	$8	2,400
		1,000		$6,200

A physical count of inventory on December 31 revealed that there were 450 units on hand.

Instructions

Answer the following independent questions and show computations supporting your answers.

1. Assume that the company uses the FIFO method. The value of the cost of goods sold at December 31 is $__________. (3 points)

2. Assume that the company uses the Average-Cost method. The value of the ending inventory on December 31 is $__________. (3 points)

2.

Graves Pharmacy reported cost of goods sold as follows:

	2019	2020
Beginning inventory	$ 54,000	$ 64,000
Cost of goods purchased	847,000	891,000
Cost of goods available for sale	901,000	955,000
Ending inventory	64,000	55,000
Cost of goods sold	$837,000	$900,000

Hill, the bookkeeper, made two errors:

(1) 2019 ending inventory was overstated by $4,000.

(2) 2020 ending inventory was understated by $10,000.

Instructions

Assuming the errors had not been corrected, indicate the dollar effect that the errors had on the items appearing on the financial statements listed below. Also indicate if the amounts are overstated (O) or understated (U). (8 points)

	2019		2020	
	Amount	Overstated/ Understated	Amount	Overstated/ Understated
Total assets	$________	_______	$________	_______
Equity	$________	_______	$________	_______
Cost of goods sold	$________	_______	$________	_______
Net income	$________	_______	$________	_______

3.

Ling Company uses the **perpetual** inventory system and had the following purchases and sales during March.

		Purchases		Sales	
		Units	Unit Cost	Units	Selling Price/Unit
3/1	Beginning inventory	100	$40		
3/3	Purchase	70	$50		
3/4	Sales			60	$80
3/10	Purchase	200	$55		
3/16	Sales			80	$90
3/19	Purchase	40	$60		
3/25	Sales			150	$90

Instructions

a. Using the inventory and sales data above, calculate the value assigned to cost of goods sold in March and to the ending inventory at March 31 using FIFO. (6 points)

b. Prepare journal entries to record the March 4th sales assuming the company uses credit sales. (4 points)

4.

On December 31 of the current year, Hogwarts Company reported an ending inventory balance of $215,000. The following additional information is also available:

(1) Hogwarts sold goods costing $38,000 to Trump Enterprises on December 28 and shipped the goods on that date with shipping terms of FOB destination. The goods were not included in the ending inventory amount of $215,000 because they were not in Hogwarts's warehouse.

(2) Hogwarts purchased goods costing $44,000 on December 29. The goods were shipped FOB shipping point and were received by Hogwarts on January 2 of the following year. These goods were included in the ending inventory balance of $215,000.

Instruction

Based on the above information, the correct balance for ending inventory on December 31? (3 points)

5. Flott Department Store prepares monthly financial statements but only takes a physical count of merchandise inventory at the end of the year. The following information has been developed for the month of July:

	At Cost	At Retail
Beginning inventory	$ 30,000	$ 50,000
Merchandise purchases	110,000	150,000

The net sales for July amounted to $140,000.

Instructions

Use the retail inventory method to estimate the ending inventory at cost for July. Show all computations to support your answer. (3 points)

6. Journalize the following merchandise transactions for AE Systems assuming it uses a perpetual inventory system. Also prepare journal entries to record each of the merchandising transactions assuming that the periodic inventory system is used by AE Systems. (22 points)

1. On November 1, AE Systems purchases merchandise for $1,400 on credit with terms of 2/5, n/30, FOB shipping point; invoice dated November 1.
2. On November 5, AE Systems pays cash for the November 1 purchase.
3. On November 7, AE Systems discovers and returns $100 of defective merchandise purchased on November 1 for a cash refund.
4. On November 10, AE Systems pays $80 cash for transportation costs with the November 1 purchase.
5. On November 16, a customer returns merchandise. The returned items sell for $200 and cost $100.

7. The adjusted trial balance of KK Company contained the following information:

	Debit	Credit
Sales Revenue		$640,000
Sales Returns and Allowances	$ 20,000	
Sales Discounts	7,000	
Cost of Goods Sold	451,000	
Freight-Out	2,000	
Advertising Expense	15,000	
Interest Expense	18,000	
Salaries and Wages Expense	55,000	
Utilities Expense	28,000	
Rent Expense	5,000	
Depreciation Expense	7,000	
Interest Revenue		30,000

Instructions

Use the above information to prepare an income statement for the year ended December 31, 2020. (12 points)

Answer key:

I. Multiple choice questions:

1	2	3	4	5
B	C	A	C	B
6	7	8	9	10
C	B	C	C	B
11	12	13	14	15
C	B	A	A	B
16	17	18		
A	C	B		

(P1)

1. FIFO: Ending inventory

300 units @ $8	=	$2,400
150 units @ $7	=	1,050
450 units		$3,450

Cost of Goods Sold=6,200-3,450=2,750

2. Average Cost: Ending inventory

$6,200 ÷ 1,000 = $6.20 per unit × 450 units = $2,790

(P2)

	2019 Amount	2019 Overstated/ Understated	2020 Amount	2020 Overstated/ Understated
Total assets	$4,000	O	$10,000	U
Equity	$4,000	O	$10,000	U
Cost of goods sold	$4,000	U	$14,000	O
Net income	$4,000	O	$14,000	U

Correct cost of goods sold:

	2019	2020
Beginning inventory	$ 54,000	$ 60,000
Cost of goods purchased	847,000	891,000
Cost of goods available for sale	901,000	951,000
Ending inventory	60,000	65,000
Cost of goods sold	$841,000	$886,000

(P3)

a.

FIFO

Date	Purchases		Sales		Balance	
3/1					(100 @ $40)	$4,000
3/3	(70 @ $50)	$3,500			(100 @ $40)	
					(70 @ $50)	$7,500
3/4			(60 @ $40)	$2,400	(40 @ $40)	
					(70 @ $50)	$5,100
3/10	(200 @ $55)	$11,000			(40 @ $40)	
					(70 @ $50)	
					(200 @ $55)	$16,100
3/16			(40 @ $40)		(30 @ $50)	
			(40 @ $50)	$3,600	(200 @ $55)	$12,500
3/19	(40 @ $60)	$2,400			(30 @ $50)	
					(200 @ $55)	
					(40 @ $60)	$14,900
3/25			(30 @ $50)		(80 @ $55)	
			(120 @ $55)	$8,100	(40 @ $60)	$6,800

March cost of goods sold = $14,100 ($2,400 + $3,600 + $8,100)

March 31 inventory = $6,800

b.

Mar. 4	Accounts Receivable ($80*60)	4,800	
	Sales		4,800
4	Cost of Goods Sold	2,400	
	Merchandise Inventory		2,400

(P4)

$215,000+38,000=$253,000

(P5)

	At Cost	At Retail
Beginning inventory	$ 30,000	$ 50,000
Merchandise purchases	110,000	150,000
Goods available for sale	$140,000	200,000
Net sales		140,000
(1) Ending inventory at retail		$ 60,000

(2) Cost to retail ratio = 70% ($140,000 ÷ $200,000).

(3) Ending inventory at cost = ($60,000 × 70%) = $42,000.

(P6)

Perpetual Inventory System

(1)

Nov. 1	Inventory………………..………………………	1,400	
	Accounts Payable………………………….		1,400
	To record merchandise purchases on credit.		

(2)

Nov. 5	Accounts Payable………………………………	1,400	
	Inventory……………………………………..…		28
	Cash………………………………………………		1,372
	To record cash payment in discount period.		
	*$1,400 x 0.02		

(3)

Nov. 7	Cash…………………………………………………	98	
	Inventory…………………………………..…..		98
	To record check received for return of purchases previously paid for with discount already taken.		
	**$100-($100 x 0.02)*		

(4)

Nov. 10	Inventory……………………………..…………	80	
	Cash…………………………………………….		80
	To record payment of freight charges.		

(5)

Nov. 16	Sales Returns and Allowances…………..	200	
	Accounts Receivable………..……………		200
	To record return of merchandise sold on credit.		
Nov. 16	Inventory…………………………………..……..	100	
	Cost of Goods Sold…………………….		100
	To record cost of merchandise returned.		

Periodic Inventory System

(1)

Nov. 1	Purchases………………………………………	1,400	
	Accounts Payable………..…………………		1,400
	To record purchases on credit.		

(2)

Nov. 5	Accounts Payable……………………………..	1,400	
	Purchase Discount…………………………		28
	Cash……………………………………………..		1,372
	To record cash payment in discount period.		
	**$1,400 x 2%*		

(3)

Nov. 7	Cash…………………………………………	98	
	Purchases Returns and Allowances……		98
	To record check received for return of purchases previously paid for with discount already taken.		
	**$100-($100 x 0.02)*		

(4)

Nov. 10	Freight-In………………………………	80	
	Cash……………………………………………		80
	To record payment of freight charges.		

(5)

Nov. 16	Sales Returns and Allowances………..	200	
	Accounts Receivable……………………		200
	To record return of merchandise sold on credit.		

(P7)

KK_COMPANY
Income Statement
For the Year Ended December 31, 2020

Sales			
Sales revenue			$640,000
Less: Sales returns and allowances......................		$ 20,000	
Sales discounts		7,000	27,000
Net sales			613,000
Cost of goods sold..			451,000
Gross profit..			162,000
Operating expenses			
Salaries and wages expense.......................	$55,000		
Utilities expense	28,000		
Advertising expense	15,000		
Depreciation expense..................................	7,000		
Rent expense	5,000		
Freight-out..	2,000		
Total operating expenses			112,000
Income from operations...			50,000
Other income and expense			
Interest revenue			30,000
Interest expense..			18,000
Net income			$ 62,000