

Final Exam (Sample)

Part I: Multiple Choices (2 points for each question, 40 points in total)

1. Trade accounts receivable are valued and reported on the statement of financial position
 - a. in the investment section.
 - b. at gross amounts less sales returns and allowances.
 - c. at cash realizable value.
 - d. only if they are not past due.

2. When a company determines a particular account to be uncollectible, it charges the loss to Bad Debt Expense under
 - a. the allowance method.
 - b. the direct writeoff method.
 - c. both the allowance method and the direct write-off method.
 - d. None of these answer choices are correct.

3. The allowance method of accounting for uncollectible accounts is required if
 - a. the company makes only cash sales.
 - b. bad debts are significant in amount.
 - c. the company is a retailer.
 - d. the company charges interest on accounts receivable.

4. The percentage of receivables basis for estimating uncollectible accounts emphasizes
 - a. cash realizable value.
 - b. the relationship between accounts receivable and bad debt expense.
 - c. income statement relationships.
 - d. the relationship between sales and accounts receivable.

5. On October 1, 2020, Brosnan Company sells (factors) \$800,000 of receivables to Nation Factors, Inc. Nation assesses a service charge of 3% of the amount of receivables sold. The journal entry to record the sale by Brosnan will include:
 - a. a debit of \$800,000 to Accounts Receivable.
 - b. a credit of \$824,000 to Cash.
 - c. a debit of \$824,000 to Cash.
 - d. a debit of \$24,000 to Service Charge Expense.

6. On March 1, 2020, Joe Miles purchased a suit at Calvin's Fine Apparel Store. The suit cost \$400 and Joe used his Calvin credit card. Calvin charges 2% per month interest if payment on credit charges is not made within 30 days. On April 30, 2020, Joe had not yet made his payment. What entry should Calvin make on April 30th?
- | | | |
|-------------------------------|-----|-----|
| a. Uncollectible Account..... | 400 | |
| Accounts Receivable | | 400 |
| b. Bad Debt Expense | 392 | |
| Interest Expense | 8 | |
| Accounts Receivable | | 400 |
| c. Accounts Receivable | 408 | |
| Interest Revenue | | 8 |
| Sales Revenue | | 400 |
| d. Accounts Receivable | 8 | |
| Interest Revenue | | 8 |
7. ABC Company accepted a national credit card for a €12,500 purchase. The cost of the goods sold is €10,000. The credit card company charges a 3% fee. What is the impact of this transaction on net operating income?
- Increase by €2,425
 - Increase by €2,500
 - Increase by €2,125
 - Increase by €12,125
8. The sale of receivables by a business
- indicates that the business is in financial difficulty.
 - is generally the major revenue item on its income statement.
 - is an indication that the business is owned by a factor.
 - can be a quick way to generate cash for operating needs.
9. A 30-day note dated May 14 has a maturity date of
- June 12.
 - June 13.
 - June 14.
 - June 11.

10. Newland Retailers accepted \$80,000 of Citibank Visa credit card charges for merchandise sold on July 1. Citibank charges 4% for its credit card use. The entry to record this transaction by Newland Retailers will include a credit to Sales Revenue of \$80,000 and a debit(s) to
- a. Cash \$76,800 and Service Charge Expense \$3,200.
 - b. Accounts Receivable \$86,400 and Service Charge Expense \$3,200.
 - c. Cash \$76,800 and Interest Expense \$3,200.
 - d. Accounts Receivable \$80,000.
11. An example of poor internal control is
- a. the accountant should not have physical custody of the asset nor access to it.
 - b. the custodian of an asset should not maintain or have access to the accounting records.
 - c. one person should be responsible for handling related transactions.
 - d. a salesperson makes the sale, and a different person ships the goods.
12. Cash equivalents include each of the following except
- a. bank certificates of deposit that is due in one month.
 - b. money market funds.
 - c. cash restricted for the payment of employees salary for next month
 - d. U.S Treasury bills.
13. A bank reconciliation should be prepared
- a. whenever the bank refuses to lend the company money.
 - b. when an employee is suspected of fraud.
 - c. to explain any difference between the depositor's balance per books and the balance per bank.
 - d. by the person who is authorized to sign checks.
14. All reconciling items in determining the adjusted cash balance per books require the depositor to make adjusting or correcting journal entries to the Cash account.
- a. True
 - b. False

15. Cash equivalents are currently reported as short-term investments on the statement of financial position.
 - a. True
 - b. False.
16. The extent of internal control features adopted by a company must be evaluated in terms of cost-benefit.
 - a. True
 - b. False
17. An aging of accounts receivable schedule is based on the premise that the longer the period an account remains unpaid, the greater the probability that it will eventually be collected.
 - a. True
 - b. False
18. Notes receivable are reported on the statement of financial position following accounts receivable because notes receivable give the payee a weaker legal claim to assets than accounts receivable.
 - a. True
 - b. False
19. Assuming a 360-day year, the interest on a \$10,000, 6%, 60-day note receivable is
 - a. \$600.
 - b. \$100.
 - c. \$200.
 - d. \$300.
20. Allowing only the treasurer to sign checks is an example of
 - a. documentation procedures.
 - b. segregation of duties.
 - c. human resource controls.
 - d. establishment of responsibility.

Part II: Problems (64 points in total)

1. On February 28, the end of accounting period, Landis Company had accounts receivable in the amount of \$437,000 and Allowance for Doubtful Accounts had a **debit** balance of \$2,140 before adjustment. Net credit sales for February amounted to \$2,500,000. The credit manager estimated that uncollectible accounts expense would amount to 1% of accounts receivable. On March 10, an accounts receivable from Kathy Brown for \$7,100 was determined to be uncollectible and written off. However, on March 31, Brown received an inheritance and immediately paid her past due account in full. (10 points)

Instructions

- (a) Prepare the journal entries made by Landis Company on the following dates:
 - 1. February 28
 - 2. March 10
 - 3. March 31
- (b) Assume no other transactions occurred that affected the allowance account during March. Determine the balance of Allowance for Doubtful Accounts at March 31 before adjustment.

2. Remington Company had the following select transactions.

- Apr. 1, 2019 Accepted Carter Company's 1-year, 8% note in settlement of a £30,000 account receivable.
- July 1, 2019 Loaned £18,000 cash to David Pratt on a 9-month, 10% note.
- Dec. 31, 2019 Accrued interest on all notes receivable.
- Apr. 1, 2020 Received principal plus interest on the Carter note.
- Apr. 1, 2020 David Pratt dishonored its note: Remington expects it will eventually collect.

Instructions

Prepare journal entries to record the transactions. Remington prepares adjusting entries once a year on December 31. (12 points)

3.

The following are summary financial data of the three most recent years for two companies:

	2020	2019
Net Sales (in millions)		
Ayala, Inc.	\$ 6,400	\$ 6,250
Mendez, Inc.	30,650	29,200
Net Accounts Receivable (in millions)		
Ayala, Inc.	1,200	1,450
Mendez, Inc.	4,320	4,640

- a. Using the data above, compute the accounts receivable turnover and average collection period for each company for 2019. (Round to two decimal places) (4 points)
- b. Which company appears to have a better credit collection policy? Explain why. (2 points)

4.

The cash balance per books for Feagen Company on October 31, 2020 is \$8,736.01. The following checks and receipts were recorded for the month of October, 2020:

Checks				Receipts	
No.	Amount	No.	Amount	Amount	Date
17	\$372.96	22	\$ 578.84	\$843.86	10/ 5
18	\$780.62	23	\$1,687.50	\$941.54	10/21
19	\$157.00	24	\$ 921.30	\$808.58	10/27
20	\$587.50	25	\$ 246.03	\$967.00	10/30
21	\$234.15				

In addition, the bank statement for the month of October is presented below:

Balance		Deposits and Credits		Checks and Debits		Balance	
Last Statement		No.	Total Amount	No.	Total Amount	This Statement	
\$5,404.84		5	\$10,178.36	10	\$3,632.19	\$11,951.01	
Checks and other debits				Deposits		Date	Balance
No.	Amount	No.	Amount	No.	Amount		
14	148.29	17	372.96	22	578.84	5,484.38	10/ 1 \$9,875.31
18	708.62	24	921.30			843.86	10/ 8 \$9,219.03
19	157.00	25	246.03			941.54	10/23 \$9,541.58
21	234.15		35.00 SC			808.58	10/29 \$10,101.01
	230.00 NSF					2,100.00 CM	10/31 \$11,951.01
Symbols: NSF (Not sufficient funds) SC (Service charge) CM (Credit Memo)							

Check No. 18 was correctly written for \$708.62 for a payment on account. The NSF check was from S. Long, a customer, in settlement of an accounts receivable. An entry had not been made for the NSF check. The credit memo is for the collection of a note receivable including interest of \$60 which has not been accrued. The bank service charge is \$35.00.

Instructions

- Where were the deposits in transit at October 31. (2 points)
- What were total amount of the outstanding checks at October 31. (2 points)
- Prepare a bank reconciliation at October 31. (8 points)
- Prepare the adjusting journal entries required by the bank reconciliation. (8 points)

5. The petty cash fund of €200 for Vernon Company appeared as follows on December 31, 2020: (6 points)

Cash	€94.60
Petty cash vouchers	
Supplies	€19.40
Postage	40.00
Balloons for a special occasion	18.00
Meals	25.00

Instructions

1. Briefly describe when the petty cash fund should be replenished. Because there is cash on hand, is there a need to replenish the fund at year end on December 31? Explain.
2. Prepare in general journal form the entry to replenish the fund.
3. On December 31, the office manager gives instructions to increase the petty cash fund by €100. Make the appropriate journal entry.

6.

Joe Foss has worked for Dr. Sam Milton for several years. Joe demonstrates a loyalty that is rare among employees. He hasn't taken a vacation in the last three years. One of Joe's primary duties at the medical office is to open the mail and list the checks received. He also takes cash from patients at the cashier window as patients leave. At times it is so hectic that Joe doesn't bother with giving each patient a receipt for the cash paid on their accounts. He assures them he will see to it that they receive the proper credit. When the traffic is slow in the office, Joe offers to help Ann, the accountant, post the payments to the patients' accounts receivable. She is always happy to receive his help because he is a very conscientious worker.

Instructions

Identify any principles of internal control that may be violated in this medical office situation. Please explain why. Hint: You should be able to identify 5 violations of internal control principles. (10 points)

Answer key:

I. Multiple choice questions:

1	2	3	4	5
C	B	B	A	D
6	7	8	9	10
D	C	D	B	A
11	12	13	14	15
C	C	C	A	B
16	17	18	19	20
A	B	B	B	D

II. Problems:

(P1)

- | | | | | | |
|-----|----|------|----|---------------------------------------------------------------|-------|
| (a) | 1. | Feb. | 28 | Bad Debt Expense [$(\$437,000 \times .01) + \$2,140$] | 6,510 |
| | | | | Allowance for Doubtful Accounts..... | 6,510 |
| | | | | (To record the bad debt expense for
February) | |
| | 2. | Mar. | 10 | Allowance for Doubtful Accounts | 7,100 |
| | | | | Accounts Receivable—K. Brown | 7,100 |
| | | | | (To write off K. Brown account deemed
uncollectible) | |
| | 3. | Mar. | 31 | Accounts Receivable—K. Brown | 7,100 |
| | | | | Allowance for Doubtful Accounts..... | 7,100 |
| | | | | (To reinstate an account previously
written off) | |
| | | Mar. | 31 | Cash | 7,100 |
| | | | | Accounts Receivable—K. Brown | 7,100 |
| | | | | (To record payment on account in full) | |

- (b) $(\$2,140) + \$6,510 - \$7,100 + \$7,100 = \$4,370$.

(P2)

4/1/19	Notes Receivable.....	30,000	
	Accounts Receivable—Carter		30,000

7/1/19	Notes Receivable.....	18,000	
	Cash.....		18,000
12/31/19	Interest Receivable	1,800	
	Interest Revenue		1,800
	(£30,000 × 8% × 9/12)		
	Interest Receivable	900	
	Interest Revenue		900
	(£18,000 × 10% × 6/12)		
4/1/20	Cash	32,400	
	Notes Receivable		30,000
	Interest Receivable.....		1,800
	Interest Revenue		600
	(£30,000 × 8% × 3/12 = £600)		
	Accounts Receivable	19,350	
	Notes Receivable		18,000
	Interest Receivable.....		900
	Interest Revenue		450
	(£18,000 × 10% × 3/12 = £450)		

(P3)

Accounts receivable turnover

Ayala, Inc.: 2020: \$ 6,400/[(£1,200 + \$1,450)/2] = 4.83 times

Mendez, Inc.: 2020: \$30,650/[(£4,320 + \$4,640)/2] =6.84 times

Average collection period

Ayala, Inc.: 2020: 365/4.83 = 75.57 days

Mendez, Inc.: 2020: 365/6.84 = 53.36 days

Mendez manages accounts receivable better. The turnover is higher and the number of days to collect receivables is shorter.

(P4)

(a) \$967.00

(b) Check #20 and #23: \$587.5+\$1687.5=\$2,275.00

(c)

FEAGEN COMPANY			
Bank Reconciliation			
October 31, 2020			
Cash balance per bank statement.....			\$11,951.01
Add: Deposits in transit.....			<u>967.00</u>
			12,918.01
Less: Outstanding checks			
No. 20	\$ 587.50		
No. 23	<u>1,687.50</u>	<u>2,275.00</u>	
Adjusted cash balance per bank			<u>\$ 10,643.01</u>
Cash balance per books.....			<u>\$ 8,736.01</u>
Add: Error in recording check No. 18	\$ 72.00		
Note collected by bank.....	<u>2,100.00</u>	<u>2,172.00</u>	
			10,908.01
Less: Bank service charge.....	35.00		
NSF check.....	<u>230.00</u>	<u>265.00</u>	
Adjusted cash balance per books.....			<u>\$ 10,643.01</u>

(d)

Oct.	31	Cash	72.00
		Accounts Payable.....	72.00
		(To correct recording error on check No. 18)	
	31	Cash	2,100.00
		Notes Receivable	2,040.00
		Interest Revenue	60.00
		(To record collection of note and interest)	
	31	Miscellaneous Expense.....	35.00
		Cash	35.00
		(To record bank service charge for the month of October)	
	31	Accounts Receivable—S. Long	230.00
		Cash	230.00

(To record NSF check)

(P5)

1. Petty cash should be replenished on a periodic basis or when the cash is low. It must be replenished on the statement of financial position date so that the expenses represented by the petty cash vouchers can be recorded in the proper accounting period.

2. Supplies.....	19.40
Postage Expense	40.00
Miscellaneous Expense.....	18.00
Meals Expense	25.00
Cash Over and Short.....	3.00
Cash	105.40
3. Petty Cash.....	100.00
Cash	100.00

(P6)

Each violation listed below is worth 2 points.

Violations:

1. It is Ann's responsibility to post payments to patient accounts. In allowing Joe to assist her, the establishment of responsibility principle is violated.
2. Although it appears to be a small office, it is not appropriate that Joe both opens the mail, receives and records cash receipts from patients, and also appears to have custody of cash. This situation violates the segregation of duties principle. By posting to patients' accounts, it would be possible to post credits to patient accounts and pocket the cash.
3. The documentation principle is violated when patients are not given cash receipts. Although many professional offices do not have cash registers, computerized or manual receipts are customary and necessary.
4. Independent internal verification is also being violated. There is no independent counting of the cash and comparison to total receipts.
5. Human resource controls are being violated. There is no mention of Joe being bonded. Also, personnel should be required to take vacations.