

ACT2111 Mid-term Review

ACT2111 Teaching Team

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Mid-term examination details - Onsite

- **Date**

- Sunday, 24 Mar 2024

- **Time**

- 10:00 am to 12:00 noon (2 hours in total)

- **Venue**

- TC407 / TC414
- Seating plan for each student will be uploaded to BB

- **Coverage**

- chapter 1 to 6 and 8 (Ratio analysis is excluded)

Exam format

- Question Types (Details could view the announcement)
 - Multiple choices questions (20 marks): 10 questions.
 - Fill-in-the-blanks (30 marks) : 10 questions.
 - Long questions (50 marks): 3 - 4 questions
- You could bring:
 - **Student Card**
 - Pen, pencil, calculator (the calculator should not have any internet connection or communication function), desk lamp (if needed)



Exam format – Multiple Choices Questions

- Multiple choices questions

1. The preparation of closing entries

- A. is optional in the accounting cycle.
- B. is a must before the preparation of the financial statements.
- C. transferring the balances in all accounts to Retained Earnings.
- D. results in zero balances in all temporary at the end of the period so that they are ready for the following period's transactions.
- E. None of the above.

2. If net sales are €400,000, cost of goods sold is \$310,000, and operating expenses are €60,000, the gross profit is

- A. €30,000.
- B. €90,000.
- C. €340,000.
- D. €400,000.
- E. None of the above.

Exam format – Fill-in the Blanks

- Fill-in-the-blanks

A year-end review of Accounts Receivable and estimated uncollectible percentages revealed the following:

1-30 days	\$40,000	1.5%
31-60 days	\$10,000	8.0%
61-90 days	\$6,000	22.0%

The credit balance in Allowance for Doubtful Accounts was \$520.

The appropriate amount of Bad Debt Expense recorded is ____ (a) _____. After adjusting process, the allowance for doubtful account has an ending balance of ____ (b) _____.

Exam format – Long questions

- Long questions

You are provided with the following information for Splish Ltd. for the month ended October 31, 2020. Splish uses a periodic inventory system.

Date	Description	Units	Unit Cost or Selling Price
October 1	Beginning inventory	71	€ 42
October 9	Purchase	142	44
October 11	Sale	126	51
October 17	Purchase	79	45
October 22	Sale	75	55
October 25	Purchase	110	45
October 29	Sale	142	55

Calculate (i) ending inventory, (ii) cost of goods sold, (iii) gross profit, and (iv) gross profit rate under each of the following methods.

(a) FIFO.

(b) Average-cost.

Exam format – Long questions

- Tips for answering questions
 - For journal entry, you could follow the format of

Date or Transaction Number: Dr. Account name A XXXX

Cr. Account name B XXXX
 - For making trial balance or specific statements, remember write the statement title, date and the account sequence under proper statement format
 - Different from homework and tutorial questions on WileyPLUS, the accounts' names are not provided in the real exam.

Difficulties in Homework - Chapter 5&6

- Freight cost problems:
 - FOB destination
 - FOB shipping point
- Return and allowance
 - Purchase return and allowance vs. Sales return and allowance
- Periodic system COGS and Ending Inventory calculation
 - Three steps under periodic system
 - **Sales Return** under periodic system

Freight Cost

Homework Review:

Ch5 Homework Q1

- July 1 **Purchased** suitcases on account for £ 1,500 from Trunk Manufacturers, **FOB destination**, terms 2/10, n/30. The appropriate party also made a cash payment of £ 120 for **freight** on this date.
- July 18 **Purchased** suitcases on account for £ 1,900 from Holiday Manufacturers, **FOB shipping point**, terms 1/10, n/30. The appropriate party also made a cash payment of £ 120 for **freight** on this date.

Ch5 Homework Q2

- Apr. 4 **Sold** merchandise on account € 7,500, **FOB destination**, terms 1/10, n/30. The cost of the merchandise sold was € 1,800.
- Apr. 5 Paid € 100 **freight** on April 4 sale.

Freight Cost

	Definition	Who afford the transit fee?
FOB Destination	Ownership passed to buyer on buyer's location	Seller
FOB Shipping Point	Ownership passed to buyer on seller's location	Buyer

e.g. Company A purchase merchandise from Company B on account for xxx, appropriate party pay cash of \$120 for freight on that date, FOB ...

	For Buyer	For Seller
FOB Destination	No Record	Dr. Freight Out \$120
		Cr. Cash 120
FOB Shipping Point	Dr. Inventory \$120	No Record
	Cr. Cash 120	

Freight Cost

- Answers of the questions

Ch5 Homework Q1

- July 1 **Purchased** suitcases on account for £ 1,500 from Trunk Manufacturers, **FOB destination**, terms 2/10, n/30. The appropriate party also made a cash payment of £ 120 for **freight** on this date.

July 1 Dr. Inventory 1,500 Cr. Accounts Payable 1,500

No recording freight cost

- July 18 **Purchased** suitcases on account for £ 1,900 from Holiday Manufacturers, **FOB shipping point**, terms 1/10, n/30. The appropriate party also made a cash payment of £ 120 for **freight** on this date.

July 18 Dr. Inventory 1900 Cr. Accounts Payable 1,900

Dr. Inventory 120 Cr. Cash 120 (Recording freight cost)

Ch5 Homework Q2

- Apr. 4 **Sold** merchandise on account € 7,500, **FOB destination**, terms 1/10, n/30. The cost of the merchandise sold was € 1,800.
- Apr. 5 Paid € 100 **freight** on April 4 sale.

Apr. 5 Dr. Freight-Out 100 Cr. Cash 100

Sales/Purchase return and allowance

Homework Review

Ch5 Homework Q2

Apr 6 Received credit from Walker Supply for **merchandise returned** € 400.

Apr 13 Received collections in full, **less discounts**, from customers billed on April 4.

Apr 16 Received **refund from supplier** for returned goods on cash purchase of April 14, € 590.

Apr 29 Made **refunds to cash customers** for defective merchandise € 70. The returned merchandise had a fair value of € 20.

Ch6 Homework Q1

Dec 7 Granted the December 5 customer £ 110 credit for 120 units of inventory returned costing £ 86. These units were **returned to inventory**.

Purchase return and allowance vs. Sales return and allowance

- **Purchase return and allowance**

- Decrease the inventory of the purchaser
- Directly do reverse journals for the previous account in purchasing

Dr. Cash / Accounts Payable

Cr. Inventory

- **Sales return and allowance**

- A contra revenue account to sales revenue
- As the products are returned, two processes are involved

1. **Adjust previous revenue and cost of good sold**

Dr. Sales Returns and Allowance

Cr. Accounts Receivable/ Cash

2. **Adjust returned inventory and involved assets like cash or accounts receivable**

Dr. Inventory

Cr. COGS

- **Comparison between them two**

- Both of them affect **Inventory** and **AR/Cash** (Reverse the transaction)
- Only **Sales return and allowance** will affect **COGS** and **Net Revenue**

Periodic system COGS and Ending Inventory calculation

- Homework Review
Ch6 Homework Q1

Beg.	Beginning Inventory = $7,800 * 0.65 = 5070$
Dec. 3	Purchased 10,400 units of inventory on account at a cost of £ 0.72 per unit.
Dec. 5	Sold 11,440 units of inventory on account for £ 0.92 per unit. (It sold 7,800 of the £ 0.65 units and 3,640 of the £ 0.72.)
Dec. 7	Granted the December 5 customer £ 478 credit for 520 units of inventory returned costing £ 366. These units were returned to inventory.
Dec. 17	Purchased 5,720 units of inventory for cash at £ 0.78 each.
Dec. 22	Sold 5,200 units of inventory on account for £ 0.95 per unit. (It sold 5,200 of the £ 0.72 units.)

Compute **ending inventory** and **cost of goods sold** under **FIFO**, periodic system

Compute **ending inventory** and **cost of goods sold** under **average-cost**, periodic system

Periodic system COGS and Ending Inventory calculation

Step 1. Cost of Goods Available for sale in a period.

- Focus only on the **beginning balance** and **purchasing amount** during a period

Cost of Goods Available for Sale

Transaction	Units	Unit Cost	Total Cost
Beginning	7,800	0.65	5,070
Dec.3 Purchase	10,400	0.72	7,488
Dec. 17 Purchase	5,720	0.78	4,462
	23,920		17,020

Step 2. Unit in Ending Inventory

- By preparing ending inventory unit, you could further calculate the ending inventory amount.
- The Unit in ending inventory
 - = **Unit available for sales** – **Unit of Sales**
 - Unit available for sales** is the inventory purchased during the period, which we have computed in the step 1.
 - Unit of Sales** includes all the unit **sold out in the period** **deduct** the **returned inventory**

Unit of Sales	Units
Dec. 5 Sold	11,400
Dec. 7 Sales Return	(520)
Dec. 22 Sold	5,200
Total Unit of Sales	16120
Unit Available for Sales	23,920
- Unit of Sales	16120
= Unit in ending inventory	7800

Periodic system COGS and Ending Inventory calculation

Step 3 Ending Inventory and COGS

- As we have already computed the Unit in ending inventory, the **unit cost** should be determined to compute **Ending Inventory** amount.
- COGS = Cost of Goods Available for Sale – Ending Inventory
- In **FIFO**, the unit cost directly depends on the original unit cost.
- In **Average-cost**, the unit cost = Total Cost / Total Available Unit

Clarification for Sales Return

- In periodic system, we do not calculate COGS during the period. Thus, for the question
“Dec7 Granted the December 5 customer £478 credit for 520 units of inventory **returned costing £366.**”
- The **Returned costing** is only useful under **perpetual system**. So, in **periodic system**, the sales return could only determine the unit of sales but to do nothing with **COGS** and **Ending Inventory**

FIFO

Ending Inventory

	Units	Unit Cost	Total Cost
	2,080	0.72	1,498
	5,720	0.78	4,462
	7,800		5,960

Cost of Goods Available for Sale	17020
LESS: Ending Inventory	(5,960)
COGS	11,060

Average - cost

Weighted-Average Unit cost	=	17020/23920	=	0.712
Ending Inventory	=	0.712 * 7,800	=	5,554

Cost of Goods Available for Sale	17020
LESS: Ending Inventory	(5,554)
COGS	11,466

Difficulties in Homework - Chapter 8

- Ch8 Homework Q4

Good luck in the mid-term !