SOLUTION
Version 2

ACCT 2101
Exam 2
Fall Semester, 2011

Name Key
(please print clearly)

Section ____

Pledge:

On my honor, I have neither given nor received any unauthorized help on this quiz.

____
(signed)

Instructions:

1. **You may not ask questions during the exam.** However, all notes you write to the instructor will be read and considered during the grading process.
2. You may use your Authorized Help Sheet (lavender) during the exam. **However, you must attach your Help Sheet to your submitted exam or your grade will be a zero.**
3. **You must show all work to receive partial credit.**
4. Please use your time wisely. Remember: Perfect answers are not required to get most of the points.
5. Only the approved calculators may be used during the quiz.
6. You must write legibly or your answers will not be graded.
7. Do **NOT** pull this exam apart under any circumstances.
8. Make sure you have **8** numbered pages including the cover sheet.
9. Good luck!

Point Allocation:

Problem 1:	2.8
Problem 2:	1.8
Problem 3:	2.0
Problem 4:	1.3
Problem 5:	2.1
TOTAL POINTS =	10 points

PROBLEM 1. INVENTORY COSTING.

The data below are related to a product of the Hanson Company for the year 2011. The company employs a calendar year-end.

	Units	*Unit Cost*	
Merchandise Inventory, January 1	2,300 @	$12.00	$27,600
Purchases:			
March 10	1,700 @	9.00	15,300
May 24	3,000 @	11.00	33,000
July 15	1,800 @	10.50	18,900
September 20	2,100 @	9.00	18,900
December 1	2,700 @	10.00	27,000
	13,600		$140,700
Merchandise Inventory, December 31	4,800 units		

Sales Price = $40

REQUIRED:

Assuming the use of the **periodic inventory procedure**, compute the following items under the **LIFO** inventory method. **You must show all of your work to receive credit.**

(a) Cost of Ending Inventory

(b) Cost of Goods Sold

(c) Gross Margin

(d) Gross Margin Percentage

PROVIDE YOUR SOLUTION ON THE NEXT PAGE.

PROBLEM 1 SOLUTION HERE.

(a) Cost of Ending Inventory (LIFO)   4,800 units in Ending Inventory

Beginning Inv	2,300	@	$12.00 =	$27,600
March 10	1,700	@	$9.00 =	15,300
May 24	800	@	$11.00 =	8,800
Ending Inventory	4,800			$51,700

$\}$ 0.8

(b) Cost of Goods Sold

Cost of Goods Available	$140,700
- Ending Inventory	<51,700>
= Cost of Goods Sold	$89,000

$\}$ 0.8

(c) Gross Margin

Sales [(13,600 − 4,800) x $40]	$352,000
− Cost of Goods Sold	<89,000>
Gross Margin	$263,000

$\}$ 0.4

(d) Gross Margin Percentage

Gross Margin / Sales

= $263,000 / $352,000 = 74.7%

$\}$ 0.4

PROBLEM 2. ACCOUNTS RECEIVABLE & BAD DEBT EXPENSE.

The accounts of Realistic Company as of December 31, 2010, show:

Accounts Receivable	$ 890,000	
Allowance for Uncollectible Accts	9,950	(DR)
Sales	1,920,000	
Sales Returns & Allowances	107,000	

REQUIRED: Prepare journal entries for each of the following events.

1. On December 31, Realistic recorded the adjusting entry for bad debt expense. The company used the percentage of accounts receivable method and assumed a 3% rate of uncollectibility. Record the necessary journal entry.
2. On February 1, 2011, Realistic wrote off the $1,200 account of one of their customers, Amazing Company. Record the necessary journal entry.
3. On March 15, 2011, Realistic received a check in the amount of $800 from the Amazing Company in settlement of their account. The check cleared our bank account. Record the necessary journal entries.

1. Bad Debt Expense 36,650
   Allowance for Uncollectible Accts 36,650 $\}$ 0.5
   [($890,000 x 3%) = Target = $26,700 + $9,950 = $36,650]

2. Allowance for Uncollectible Accts 1,200
   Accounts Receivable - Amazing Co. 1,200 $\}$ 0.5

3. Accounts Receivable - Amazing Co. 800
   Allowance for Uncollectible Accts 800 $\}$ 0.4

   Cash 800
   Accounts Receivable - Amazing Co. 800 $\}$ 0.4

PROBLEM 3. NOTES RECEIVABLE AND INTEREST ACCRUAL.

Northridge Supply Company has the following transactions related to notes receivable during the last two months of the year:

November 1	Loaned $40,000 cash to Stone Company on a 1-year, 8% note.
December 11	Sold goods to Kimball Company, receiving a $3,600, 70-day, 6% note.
December 16	Received a $9,000, 6-month, 11% note on account from Bell Company.
December 31	Accrued interest revenue on all notes receivable.

REQUIRED: Prepare the journal entries for Northridge Supply Company.

Date	Account	Debit	Credit	
Nov. 1	Notes Receivable	40,000		0.4
	Cash		40,000	
Dec. 11	Notes Receivable	3,600		0.4
	Sales Revenue		3,600	
Dec. 16	Notes Receivable	9,000		0.4
	Accounts Receivable		9,000	
Dec. 31	Interest Receivable*	578.55		0.8
	Interest Revenue		578.55	

* Stone Co.:	$\$40,000 \times 8\% \times \frac{60}{365}$	=	$526.03
Kimball Co.:	$\$3,600 \times 6\% \times \frac{20}{365}$	=	11.84
Bell Co.:	$\$9,000 \times 11\% \times \frac{15}{365}$	=	40.68
Total			$578.55

PROBLEM 4. GROSS MARGIN ESTIMATION OF INVENTORY.

Ryan Company takes a physical inventory at the end of each calendar-year accounting period. Its financial statements for the past few years indicate a fairly stable average gross margin on net sales of 35%. On June 12, a fire destroyed the entire store building and all of the inventory it contained. The records were in a fireproof vault so they were recovered intact. Through June 11, these records show:

Merchandise inventory, January 1	$ 430,000
Merchandise purchases	3,000,000
Purchase returns	56,000
Transportation-in	192,000
Sales	3,820,000

The company was fully covered by insurance and asks you to determine the amount of its claim for loss of merchandise inventory.

REQUIRED:
Estimate the balance in merchandise inventory on June 11 using the gross margin estimation method. **You must show all of your work to receive credit.**

Merchandise Inventory, Jan. 1		$ 430,000	
Purchases	$3,000,000		
Less: Purchase Returns	<56,000>		1.3
Add: Trans-In	192,000		Partial Credit Available
Net cost of purchases		3,136,000	
Cost of Goods Available		$ 3,566,000	
Estimated Cost of Goods Sold:			
Sales	$ 3,820,000		
Less: Gross Margin ($3,820,000 x 35%)	<1,337,000>	< 2,483,000 >	
Estimated Ending Inventory, June 11		$ 1,083,000	

7 @ 0.3 each

PROBLEM 5. MULTIPLE-CHOICE QUESTIONS ON ADJUSTING ENTRIES.

1. What is the effect on the financial statements when a company fails to adjust the prepaid insurance account at year-end for insurance coverage which has expired?
A. Net income is overstated and stockholders' equity is understated.
B. Expenses are understated and stockholders' equity is understated.
C. Expenses are understated and net income is understated.
D. Net income is overstated and assets are overstated.

Insurance Expense xx
Prepaid Ins xx

ANSWER D

2. What is the effect on the financial statements when a company fails to adjust the unearned revenue account for revenues earned at year-end?
A. Revenues are understated and liabilities are understated.
B. Revenues are understated and stockholders' equity is overstated.
C. Net income is understated and liabilities are overstated.
D. Net income is understated and assets are understated.

Unearned Revenue xx
Revenue xx

ANSWER C

3. What is the effect on the financial statements when a company fails to accrue interest expense at year-end?
A. Net income is overstated and assets are overstated.
B. Expenses are understated and liabilities are understated.
C. Expenses are understated and stockholders' equity is understated.
D. Net income is overstated and liabilities are overstated.

Interest Exp xx
Interest Payable xx

ANSWER B

4. What is the effect on the financial statements when a company fails to accrue revenue earned at year-end?
A. Net income is understated and liabilities are overstated.
B. Net income is understated and assets are understated.
C. Revenue is understated and stockholders' equity is overstated.
D. Revenue is understated and assets aren't affected.

Accts Receivable xx
Revenue xx

ANSWER B

5. On January 1, 2011, the general ledger of Global Corporation included supplies inventory of $1,000. During 2011, supplies purchases amounted to $5,000. A physical count of inventory on hand at December 31, 2011 determined that the supplies inventory was $1,200. How much is the 2011 supplies expense?

A. $1,000
B. $4,800
C. $5,200
D. $6,000

ANSWER B

Supplies Inventory

BB	1,000	
Purch	5,000	
	6,000	4,800 ← used = Expense
EB	1,200	

6. What is the effect on the financial statements when a company fails to accrue salaries expense at year-end?

A. Net income is overstated and liabilities are not affected.
B. Net income is overstated and liabilities are understated.
C. Expenses are understated and stockholders' equity is understated.
D. Expenses and liabilities are both overstated.

Salaries Expense xx
Salaries Payable xx

ANSWER B

7. What is the effect on the financial statements when a company fails to record depreciation expense at year-end?

A. Expenses are understated and liabilities are overstated.
B. Net income is overstated and assets are overstated.
C. Net income is overstated and stockholders' equity is understated.
D. Expenses are understated and stockholders' equity is understated.

Depreciation Exp xx
Accum Depreciation xx

ANSWER B