Name: Key Version A

ACCT 2101
Exam #2 Fall 2013
Prof. J. M. Turner

INSTRUCTIONS – Please read before you take the exam.

1. This is a closed book and closed notes quiz. You must do your own work without assistance from anyone. Giving or receiving assistance from anyone during the exam will result in a grade of zero and reporting to the Office of Student Integrity. To attest to your compliance with this instruction and the Georgia Tech honor system, please sign the honor pledge below before turning in your exam. There is a 5 point penalty if you fail to sign the honor pledge.
2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given.
3. You may use only a calculator supplied by me. You may not use your cell phone or personal computer during the exam. All cell phones must be turned off and placed on the top of your desk in plain view at all times during the exam. Use of your cell phone during the exam is considered cheating and a violation of the Honor System.
4. Each multiple-choice question has only one best answer. If you choose more than one answer, it will be considered an incorrect answer. **Enter your answer to the multiple choice questions on the Scantron sheet provided.** What you enter on the Scantron sheet is your answer for grading purposes. Please totally erase changes on the Scantron or get a clean Scantron form and re-enter your answers.
5. Point allocation:

Terminology matching – 15 @ 2 points each	30
Problems (2)	20
Multiple choice – 15 @ 3 points each	45
Total	95

Grades will be expressed as a percentage of total available points.

Honor Pledge:
On my honor, I pledge that I have neither given nor received any unauthorized help on this exam.

____
(Signed)

If you do not want your graded exam returned to the grading bins for this class, please sign below.

Do not return my graded exam to the bin:__________________________________

Matching (2 points each) - Match each definition with its related term by entering the appropriate letter in the space provided – use CAPITAL letters. Terms may be used only once.

A	Accounts receivable	K	Inventory
B	Aging of accounts receivable method	L	LIFO (last-in, first-out)
C	Allowance for doubtful accounts	M	LIFO reserve
D	Bad debt expense	N	Lower of cost or market
E	Cash equivalents	O	Percentage of credit sales method
F	Conservatism	P	Periodic inventory procedure
G	Consistency principle	Q	Perpetual inventory procedure
H	FIFO (first-in, first-out)	R	Sales discount
I	Goods available for sale	S	Sales returns and allowances
J	Internal controls	T	Segregation of duties

R 1 A cash discount offered to encourage prompt payment of an account receivable.

M 2 A contra-asset account for the excess of FIFO over LIFO inventory.

Q 3 A method of accounting for merchandise acquired for sale to customers where a detailed inventory record is maintained, recording each purchase and sale during the accounting period.

P 4 A method of accounting for merchandise acquired for sale to customers where ending inventory and cost of goods sold are determined at the end of the accounting period based on a physical count.

L 5 A method of costing inventory that assumes that the most recently purchased units are sold first.

O 6 A method of determining bad debt expense on the historical percentage of credit sales that result in bad debts.

B 7 A method that estimates uncollectible accounts based on the age of each account receivable.

N 8 A valuation method departing from the historical cost principle; it requires that a loss should be recognized when replacement cost of inventory drops below cost.

A 9 Amounts owed to the business enterprise by trade customers from the sale of goods or services.

I 10 Refers to the sum of the beginning inventory and purchases for the period.

G 11 Requires a company to use the same accounting method in each accounting period

F 12 Requires that given two possible values, the least favorable will be used to report assets or earnings

E 13 Short-term investments with original maturities of three months or less that are readily convertible to cash and whose value is unlikely to change.

K 14 Tangible property held for sale in the normal course of business or used in producing goods or services for sale.

J 15 The processes by which a company safeguards its assets and provides reasonable assurance regarding the reliability of the company's financial reporting and compliance with laws and regulations.

Multiple-choice (3 points each) – Answer each question on the Scantron sheet provided.

A 1. A company had the following partial list of account balances at year end:

Sales returns and allowances	$1,000	(1,000)
Accounts receivable	38,000	
Sales discounts	2,100	(2,100)
Sales revenue	95,000	95,000
~~Allowance~~ for doubtful accounts	1,200	
Bad debt expense	2,800	91,900 net sales

Assuming that the company records credit card discounts, sales discounts, and sales returns and allowances as contra-revenue accounts, how much would be reported on the company's income statement as net sales revenue?

A. $91,900
B. $90,700
C. $89,900
D. $88,600
E. None of the above

95,000
-1000
2100

AEID
LEORIC

D 2. Reva Company uses the allowance method to account for bad debts. The entry to write off an uncollectible account (one that will never be collected) should be:

	DEBIT	CREDIT
A.	Bad debt expense	Accounts receivable
B.	Bad debt expense	Allowance for doubtful accounts
C.	Sales revenue	Accounts receivable
D.	Allowance for doubtful accounts	Accounts receivable

C 3. The classified income statement provides detailed information about a firm's profitability. What does Gross Profit measure?

A. Income generated by operating activities.
B. Income from peripheral activities.
C. The excess of net sales revenue over the cost of goods sold.
D. Income before tax expense.

Gross profit
net sales rev
-COGS.

D 4. The Wayne Corporation uses the calendar year as its fiscal year. Wayne provided the following information (income statement information is for the entire fiscal year and balance sheet information is at year end):

	2012	2011	2010
Sales, net	$1,100,000	$1,000,000	$800,000
Cost of goods sold	660,000	640,000	475,000
Accounts receivable, net	65,000	45,000	40,000
Inventory at LCM	66,000	65,000	60,000

What was Wayne's accounts receivable turnover for its fiscal year ended December 31, 2012?

A. .05
B. 16.9
C. 10.1
D. 20.0
E. 22.0

$TO = \frac{Sales}{Avg\ AR} = \frac{1{,}100{,}000}{\left(\frac{65000+45000}{2}\right)} = \frac{1{,}100{,}000}{55{,}000} = 20$

$\frac{1{,}100{,}00}{65000+45000 \div 2}$

B 5. Assuming that a company is using the allowance method of accounting for bad debts, the effect of writing off specific uncollectible accounts on components of the balance sheet and Income Statement would be:

	Total Assets	Net Realizable Value of Accounts Receivable	Net Income
A.	No effect	Decrease	No effect
B.	No effect	No effect	No effect
C.	Decrease	No effect	No effect
D.	No effect	No effect	Decrease

debit allowance for doubtful acct

credit account rec

writing off specific uncollectible accounts using allowance method means that it wont affect anythin

B 6. Upon completing an aging analysis of accounts receivable, the accountant for Zenith Company aged the accounts receivable and estimated that $5,000 of the $98,000 accounts receivable balance would be uncollectible. The allowance for doubtful accounts had a $400 debit balance at year-end prior to adjustment. How much is bad debt expense?

A. $5,000
B. $5,400
C. $4,600
D. $400

Allowance

400	5400
	5000 req end. bal.

DR Exp. 5400
CR Allow 5400

400	
	4600
	5000
400	

D 7. In a period of increasing inventory costs, if ending inventory has a positive balance, which cost flow method will result in the highest Net Income, all other things being equal?

A. Average Cost
B. The choice of cost flow method would not affect Net Income.
C. LIFO
D. FIFO

higher cost inventory is assumed to be in ending inventory

D 8. Eagle Consulting had a balance of $840,650 in their cash account on December 31, according to their accounting records. When the December bank statement was received, it reflected a cash balance (per bank) of $784,564. After reviewing the bank statement at the end of December and the company's records, the following information was available to perform the bank reconciliation:

Interest paid by bank	$ 4,272	– Book +
Outstanding checks	35,360	– Bank –
Deposits in transit	55,330	– Bank +
NSF Checks from various customers	28,523	Book –
Error, check recorded on books for $55,740 that was actually for the amount of $66,035	10,295	Book –
Bank service charges	1,570	Book –

66,035
– 55,740
10,295

Based on this information, what is the correct cash balance on December 31?

A. $825,124
B. $807,674
C. $861,580
D. $804,534

	Bank	Book
Bal	784,564	840,650
– o/s cks	(35,360)	
+ dep in transit	55,330	
+ Interest		4,272
– NSF		(28,523)
– ck error		(10,295)
– svc charge		(1,570)
	804,534	804,534

D 9. What does the LIFO conformity rule require?

A. If LIFO is used on the income tax return, FIFO must be used to calculate inventory and cost of goods sold for the financial statements.
B. If a company uses LIFO in one period, it must use LIFO in the next period.
C. If a company uses LIFO, it must conform to the industry standards for other companies using LIFO.
D. If LIFO is used on the income tax return, it must also be used to calculate inventory and cost of goods sold for the financial statements.

B 10. Discount Furniture purchases goods for resale. Information from their accounting records for the month of October is presented below.

Purchases during the month	$ 152,400		152,400
Beginning inventory	$ 115,900		115,900
Ending inventory	$ 59,800	-	59,800
			208,500

What was the company's cost of goods sold for the month?

A. $96,300
B. $208,500
C. $134,150
D. $152,400

COGS
Beg + Purch - End

D 11. Flat screen LCD television panels originally purchased for $1,220 each currently have a replacement cost of $1,045 each. If 540 of these television panels are in inventory, what journal entry must be recorded to comply with the lower of cost or market rule?

oss

A. Cost of Goods $94,500
   Unrealized Loss in Inventory $94,500

B. Allowance for Inventory Reduction $94,500
   Inventory $94,500

C. Inventory $94,500
   Cost of goods sold $94,500

D. Cost of Goods $94,500
   Inventory $94,500

1220
1045
175
x 540
94,500

A 12. Hollis Company uses the periodic inventory method. Hollis hired some UGA students to help count inventory during their semester break. Unfortunately, the students did not know how to use a calculator and added incorrectly and the 2010 ending inventory was overstated by $5,000. What would be the effect of this error in measuring ending inventory?

A. 2010 net income would be overstated.
B. 2010 net income would be understated.
C. 2010 ending retained earnings would be understated.
D. 2010 cost of goods sold would be overstated.

The adj. to correct is
DR COGS
CR. Inv.
If adjustment, COGS is too low,
overstating gross profit

Version A

B 13. Which of the following statements is correct regarding either the perpetual or periodic inventory systems?

A. In a perpetual inventory system, the inventory account is not changed for each purchase during the accounting period.

B. In a perpetual inventory system, cost of goods sold is recorded at the time of each sale during the accounting period.

C. In a periodic inventory system, cost of goods sold is developed from a comparison of beginning inventory and ending inventory only.

D. In a periodic inventory system, the inventory account is increased for each purchase during the accounting period.

perpetual inventory → COGS is recorded at the time of each sale during accounting per

D 14. Which of the following would not be a component of the year-end inventory balance?

A. Freight-in and handling costs

B. Inventory inspection costs

C. Inventory preparation ~~costs~~

D. Interest expense on borrowed money used to purchase inventory

B 15. Cassie Corporation has provided the following information for its most recent month of operation: sales \$34,000, beginning inventory \$8,000, purchases \$16,000 and gross profit \$20,000. How much was Cassie's ending inventory?

A. \$14,000

B. \$10,000

C. \$16,000

D. \$4,000

Sales	34,000
GP	20.000
COGS	14.000

Beg Inv.	8,000
+ Purch.	16.000
CGAS	24,000
- COGS	14.000
End Inv.	10 000

34,000

8000
+16000

COGS=14000
8000 +16000
14000= 24000

COGS
Beg+Purch-end

Gross profit
Net sales-COGS

20,000
...000
=COGS

COGS
Beg+Purch-end.
Gross profit
Sales-COGS

GP= S - C
-S -S

Problem 1 (12 points)

Hamilton Company uses a periodic inventory system. At the end of the annual accounting year, December 31, 2012, the account records provided the following information for product 1.

	Units	Unit cost	Total cost
Inventory, Dec 2011	2,000	$2	$4,000
Purchases:			
21 March 2012	6,000	$2.25	$13,500
01 August 2012	4,000	$2.50	$10,000
	12,000		
Inventory, Dec 2012	3,000		
Sales	9,000		

27,500 COST OF GOODS AVAILABLE

Required:
Compute (1) the ending inventory cost and (2) cost of goods sold under FIFO (first in, first out), LIFO (last in, first out), and average cost inventory costing methods. Enter your amounts in the table below. You **must show your work to receive full credit**. You will not receive full credit if you do not show your work, even if your answers are correct.

	FIFO	LIFO	Average cost
Ending inventory, Dec 2012 3,000 units	7500	6250	6870
2012 Cost of goods sold expense 9,000 units	20,000	21,250	20,630

	FIFO	LIFO
# units	3,000	3,000
cost/unit	× 2.50	2,000 × $2 = 4,000 A
End Inv.	7500	1,000 × 2.25 = 2250 B
CGAS	27,500	
Cost of goods sold	20,000	

Total EI 6250 (A+B)

CGAS 27500
−EI 6250
COGS 21,250

Total CGAS $27,500
units ÷ 12,000
Avg unit cost 2.29

EI 3,000 #
× $2.29
EI = $ 6870

CGAS 27500
COGS 20,630

~~4000~~

6n/8

1000
× 2.25

4000
13,500
2500

1000

5x

Version A

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Problem 2 (8 points)

On December 31, 2012, Erin Corporation had the following account balances related to credit sales and receivables prior to recording year-end adjusting entries:

Account	Debit	Credit
Accounts receivable	$ 18,000	
Allowance for doubtful accounts		$ 780
Sales revenue (all credit sales)		$ 320,000

Required

Present the necessary year-end adjusting journal entry or entries related to uncollectible accounts for each of the following independent assumptions:

A. An aging of accounts receivable is completed. It is estimated that $2,730 of the receivables outstanding at year-end will be uncollectible.

B. It is estimated that 1% of credit sales for the year will prove to be uncollectible.

NOTE – you must show your work and the computations you use to determine the journal entry amounts to receive full credit. You will not receive full credit unless you show your work, regardless of whether your entries are correct.

a) 2730
− 780
1,950
Bad debt xp
allowance

A
Required Allowance 2730
Allowance BA adj 780
Increase in Allowance 1950

DR. Bad debt expense $ 1950
CR. Allowance for doubtful accounts $ 1950

b) 320,000
x 1%
3200
Bad debt xp
allowance

B
Credit Sales 320,000
Bad debt % x 1%
Bad debt exp est. 3200

DR Bad debt expense $ 3200
CR. Allowance for doubtful accounts $ 3200