

Name: _____ KEY _____

ACCT 2101 – Dr. J. M. Turner, CPA
Exam #3 Fall 2012

INSTRUCTIONS – Please read before you take the exam. Failure to follow instructions will result in the loss of points.

1. This is a closed book and closed notes exam. 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.
2. DO NOT TAKE EXAM APART FOR ANY REASON.
3. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. If you think there is a typing error, please let me know.
4. 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.
5. 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. Insert your Scantron form inside of this exam when you turn it in.

6. There are 10 pages in this exam plus two attachments. Points available are as follows:

Terminology matching – 13 @ 2 points each	26
Problems (2)	19
Multiple choice – 13 @ 3 points each	<u>39</u>
Total available points	<u>84</u>

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. If you do not sign below, your exam will be placed in the bins for this class if you signed a FERPA waiver.

Do not return my graded exam to the bin: _____

(X)

Matching (2 points each) – Match the term to the phrase that best defines or describes it. Terms may be used only once.

A	Accounts receivable
B	Aging of accounts receivable method
C	Allowance for doubtful accounts
D	Bad debt expense
E	Cash
F	Cash and equivalents
G	Cash equivalents
H	FIFO (first-in, first-out)
I	Goods available for sale
J	Internal controls

K	Inventory
L	LIFO (last-in, first-out)
M	LIFO reserve
N	Lower of cost or market
O	Percentage of credit sales method
P	Periodic inventory procedure
Q	Perpetual inventory procedure
R	Sales discount
S	Sales returns and allowances
T	Segregation of duties

- N 1 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.
- S 2 A reduction of sales revenue for the return of or allowances for unsatisfactory goods.
- B 3 A method that estimates uncollectible accounts based on the age of each account receivable.
- C 4 A contra-asset account containing the estimated uncollectible accounts receivable.
- Q 5 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.
- E 6 Includes coins, currency, amounts in checking and savings accounts, and demand certificates of deposits.
- T 7 Having one employee responsible for safeguarding an asset and a second employee responsible for maintaining the accounting records for that asset.
- A 8 Amounts owed to the business enterprise by trade customers from the sale of goods or services.
- R 9 A cash discount offered to encourage prompt payment of an account receivable.
- O 10 A method of determining bad debt expense on the historical percentage of credit sales that result in bad debts.
- J 11 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.
- L 12 A method of costing inventory that assumes that the most recently purchased units are sold first.
- M 13 A contra-asset account for the excess of FIFO over LIFO inventory.

Multiple Choice – 3 points each. Answer each multiple choice question on the SCANTRON Form.

D 1. Flyer Company has provided the following information:

- Cash sales, \$150,000
- Credit sales, \$450,000
- Selling and administrative expenses, \$110,000
- Sales returns and allowances, \$30,000
- Gross profit, \$490,000
- Accounts receivable, \$110,000 $\times 5\% = \$5500$ req. allowance
- Sales discounts, \$14,000
- Allowance for doubtful accounts credit balance, \$1,200

How much is bad debt expense assuming that 5% of accounts receivable is estimated to be uncollectible?

- A. \$5,500
- B. \$6,700
- C. \$4,240
- ☒ D. \$4,300

Req. Allowance	\$5500
Allow B4 adj.	1200
Adj.	4300

DR Bad Debt Exp	4300
CR Allowance for DA	4300

A 2. Flyer Company has provided the following information:

- Cash sales, \$150,000
- Credit sales, \$450,000
- Selling and administrative expenses, \$110,000
- Sales returns and allowances, \$30,000
- Gross profit, \$490,000
- Accounts receivable, \$110,000 $\times 5\% = \$5500$
- Sales discounts, \$14,000
- Allowance for doubtful accounts credit balance, \$1,200

Flyer estimates bad debt expense assuming that 5% of accounts receivable is estimated to be uncollectible. What is the balance in the allowance for doubtful accounts after bad debt expense is recorded?

- ☒ A. \$5,500
- B. \$6,700
- C. \$4,240
- D. \$4,300

D 3. Which of the following journal entries correctly records bad debt expense?

- A. Bad debt expense
 Accounts receivable
- B. Allowance for doubtful accounts
 Accounts receivable
- C. Allowance for doubtful accounts
 Bad debt expense
- ☒ D. Bad debt expense
 Allowance for doubtful accounts

B 4. Which of the following journal entries correctly records the write-off of an uncollectible account receivable assuming that the allowance method is used?

- A. Bad debt expense
 Accounts receivable
- ☒ B. Allowance for doubtful accounts
 Accounts receivable
- C. Allowance for doubtful accounts
 Bad debt expense
- D. Bad debt expense
 Allowance for doubtful accounts

A 5. When a depositor receives a bank statement indicating that there was a "NSF check", the depositor should do which of the following?

- ☒ A. Reduce the cash account per the books for the amount of the "NSF check".
- B. Reduce the cash account per the bank statement for the amount of the "NSF check".
- C. Credit allowance for doubtful accounts for the amount of the check.
- D. Increase the sales returns and allowances account.

- B 6. Lauer Corporation uses the periodic inventory system and has provided the following information about one of their laptop computers:

Date	Transaction	Number of units	Cost per unit
Jan 1	Beginning inventory	100	\$800
May 5	Purchase	200	\$900
Aug 10	Purchase	300	\$1,000
Oct 15	Purchase	200	\$1,050

Avail for Sale 800 ~~\$3,750~~

During the year, 750 laptop computers were sold. -750 / 50 end Inv.

What was ending inventory using the FIFO cost flow assumption?

- A. \$60,000
 B. \$52,500
 C. \$52,000
 D. \$40,000

$$50 \text{ unit @ } \$1050 = \underline{\underline{\$52,500}}$$

- A 7. Lauer Corporation uses the periodic inventory system and has provided the following information about one of their laptop computers:

Date	Transaction	Number of units	Cost per unit
Jan 1	Beginning inventory	100	\$800
May 5	Purchase	200	\$900
Aug 10	Purchase	300	\$1,000
Oct 15	Purchase	200	\$1,050

750

$$\begin{aligned}
 &= 80,000 \\
 &+ 180,000 \\
 &= 300,000 \\
 &= 157,500 \\
 &\underline{\underline{717,500}}
 \end{aligned}$$

During the year, 750 laptop computers were sold.

What was cost of goods sold using the FIFO cost flow assumption?

- A. \$717,500
 B. \$730,000
 C. \$703,125
 D. \$725,500

B

8. Lauer Corporation uses the periodic inventory system and has provided the following information about one of their laptop computers:

Date	Transaction	Number of units	Cost per unit
Jan 1	Beginning inventory	50 100	X \$800
May 5	Purchase	200	X \$900
Aug 10	Purchase	300	X \$1,000
Oct 15	Purchase	200	X \$1,050

$$\begin{array}{r} 40,000 \\ 180,000 \\ 300,000 \\ 210,000 \\ \hline 730,000 \end{array}$$

During the year, 750 laptop computers were sold.

What was cost of goods sold using the LIFO cost flow assumption?

- A. \$717,500
- ☒ B. \$730,000
- C. \$703,125
- D. \$725,500

A

9. Lauer Corporation uses the periodic inventory system and has provided the following information about one of their laptop computers:

Date	Transaction	Number of units	Cost per unit
Jan 1	Beginning inventory	50 100	X \$800
May 5	Purchase	200	\$900
Aug 10	Purchase	300	\$1,000
Oct 15	Purchase	200	\$1,050

$$= 40,000$$

$$800 - 750 = 50 \text{ E!}$$

During the year, 750 laptop computers were sold.

What was ending inventory using the LIFO cost flow assumption?

- ☒ A. \$40,000
- B. \$52,500
- C. \$60,000
- D. \$55,000

C

10. Under the first-in, first-out (FIFO) cost flow assumption during a period of inflation, which of the following is false?

rising prices

- A. Income tax expense will be higher than under LIFO. *True*
- B. Gross margin will be higher than under LIFO. *True*
- ☒ C. Ending inventory will be lower than under LIFO. *False*
- D. Cost of goods sold will be lower than under LIFO. *True*

- C 11. Iris Company has provided the following information regarding its inventory at year-end:

Inventory item	Number of units	Unit cost	Replacement cost
A	100	\$20	\$18
B	50	\$50	\$55
C	60	\$30	\$38
D	40	\$40	\$35

LCM

$$\begin{array}{rcl} 18 \times 100 & = & 1800 \\ 50 \times 50 & = & 2500 \\ 30 \times 60 & = & 1800 \\ 35 \times 40 & = & 1400 \\ \hline & & 7500 \end{array}$$

What is the total reported cost of ending inventory using lower of cost or market on an item-by-item basis?

- A. \$8,230
- B. \$7,900
- C. \$7,500
- D. None of the above

BONUS QUESTION – 2 points

Enter the letter of your choice in the space provided – NOT ON THE SCANTRON

C

If you see your professor, Dr. Turner, on campus or in the COB building, the appropriate reaction is to:

- A. Act as though you don't see him or don't know him
- B. Turn around and walk the other way being careful to avoid eye contact
- C. Smile and say "hello"
- D. Offer him an incentive to grade your exam favorably

Note – There is only one correct answer to the bonus question.

Problem 1 – 10 points

The August 2011 bank statement for The Man, Inc. and the August 2011 ledger account for cash follow:

Bank Statement			
Date	Checks	Deposits	Balance
Aug 1			\$17,510
Aug 2	\$ 320 ✓		17,190
Aug 3		\$11,700 ✓	28,890
Aug 4	430 ✓		28,460
Aug 5	270 ✓		28,190
Aug 9	880 ✓		27,310
Aug 10	250 ✓		27,060
Aug 15		4,000 ✓	31,060
Aug 21	350 ✓		30,710
Aug 24	20,400 ✓		10,310
Aug 25		6,500 ✓	16,810
Aug 30	850 ✓		15,960
Aug 30		2,350 *	18,310
Aug 31	120 **		18,190
* Interest income collected			
** Bank service charges			

CASH account per books			
Aug 1 Balance	\$16,490	Checks written:	
Deposits:		Aug 2	\$250 ✓
Aug. 2	11,700 ✓	4	880 ✓
12	4,000 ✓	15	280 o/s
24	6,500 ✓	17	510 o/s
31 DIT	5,200	18	850 ✓
		20	350 ✓
		23	20,400 ✓
Aug 31 Bal.	<u>\$20,370</u>		

✓ cleared

Outstanding checks at the end of July were for \$270, \$430, and \$320. No deposits were in transit at the end of July.

Required:

1. Prepare a bank reconciliation for August using the template below. (Hint: Compute the deposits in transit at the end of August by comparing the deposits on the bank statement to the deposits listed on the cash ledger account. Compute the outstanding checks at the end of August by comparing the checks listed on the bank statement with those on the cash ledger account and the list of outstanding checks at the end of July.)

Per Checkbook		Per Bank	
8-31 balance per check book	20,370	8-31 balance per bank	18,190
+ Deposits not recorded	2,350	+ Deposits in transit	5,200
+ Other		+ Other	
– Bank charges	120	– Outstanding checks	790
– Other		– Other	
Ending balance	22,600	Ending balance	22,600

Problem 1 – continued

2. Prepare any journal entries that the company should make as a result of the bank reconciliation.
You may not need all of the lines below.

Adjusting journal entry needed to adjust the cash account balance per books:

Account	Debit	Credit
Cash	2350	
Interest income		2350
Bank charge XP	120	
Cash		120
OR		
Bank charge XP	120	
Cash	2230	
Interest income		2350

9

Problem 2 - 6 points

Attached are the income statements and balance sheets for Harley-Davidson, Inc. For the most recent fiscal year presented in the statements, determine the ratios shown below. Show your work. Failure to show your work will result in loss of points even if you have a correct solution. Enter your solution in the space provided.

1/2 12/31/2008

~~Round all solutions to 3 decimal points.~~

#

- (1) Compute the (a) Gross Margin (Gross Profit) percentage: 34.57%

$$GP\% = GP / \text{Net Sales} = \frac{1,930,819}{5,594,307} = .345$$

$$\underline{\underline{34.57\%}}$$

- (2) Compute the Accounts receivable turnover ratio: 23.43 times

$$\begin{aligned} \text{A/R Turnover} &= \text{Net Sales} \div \text{Average A/R} \\ &= 5,594,307 \div (296,258 + 181,217) \div 2 \\ &= 5,594,307 \div 238,737.50 \\ &= 23.43 \text{ times} \end{aligned}$$

- (3) Compute the Inventory turnover ratio: 8.96 times

$$\begin{aligned} \text{Inventory turnover} &= \text{COGS} \div \text{Avg Inventory} \\ &= 3,663,488 \div (400,908 + 349,697) \div 2 \\ &= 3,663,488 \div 375,302.50 = \\ &= 8.96 \end{aligned}$$

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HARLEY-DAVIDSON, INC. CONSOLIDATED BALANCE SHEETS December 31, 2008 and 2007 (In thousands, except share amounts)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 593,558	\$ 402,854
Marketable securities	—	2,475
Accounts receivable, net	296,258	181,217
Finance receivables held for sale	2,443,965	781,280
Finance receivables held for investment, net	1,378,461	1,575,283
Inventories	400,908	349,697
Deferred income taxes	123,327	103,278
Prepaid expenses and other current assets	141,404	71,230
Total current assets	5,377,881	3,467,314
Finance receivables held for investment, net	817,102	845,044
Property, plant and equipment, net	1,094,487	1,060,590
Prepaid pension costs	—	89,881
Goodwill	138,579	61,401
Deferred income taxes	288,240	54,376
Other long-term assets	112,336	78,000
	<u>\$ 7,828,625</u>	<u>\$ 5,656,606</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 323,736	\$ 300,188
Accrued liabilities	541,372	484,936
Short-term debt	1,738,649	722,447
Current portion of long-term debt	—	397,508
Total current liabilities	2,603,757	1,905,079
Long-term debt	2,176,238	980,000
Pension liability	484,003	51,551
Postretirement healthcare benefits	274,408	192,531
Other long-term liabilities	174,616	151,954
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Series A Junior participating preferred stock, none issued	—	—
Common stock, 335,653,577 and 335,211,201 shares issued in 2008 and 2007, respectively	3,357	3,352
Additional paid-in-capital	846,796	812,224
Retained earnings	6,458,778	6,117,567
Accumulated other comprehensive loss	(522,526)	(137,258)
	6,786,405	6,795,885
Less:		
Treasury stock (102,889,370 and 96,725,399 shares in 2008 and 2007, respectively), at cost	(4,670,802)	(4,420,394)
Total shareholders' equity	<u>2,115,603</u>	<u>2,375,491</u>
	<u>\$ 7,828,625</u>	<u>\$ 5,656,606</u>

The accompanying notes are an integral part of the consolidated financial statements.

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HARLEY-DAVIDSON, INC. CONSOLIDATED STATEMENTS OF INCOME Years ended December 31, 2008, 2007 and 2006 (In thousands, except per share amounts)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net revenue	\$5,594,307	\$5,726,848	\$5,800,686
Cost of goods sold	3,663,488	3,612,748	3,567,839
Gross profit	1,930,819	2,114,100	2,232,847
Financial services income	376,970	416,196	384,891
Financial services expense	294,205	204,027	174,167
Operating income from financial services	82,765	212,169	210,724
Selling, administrative and engineering expense	984,560	900,708	846,418
Income from operations	1,029,024	1,425,561	1,597,153
Investment income	9,495	22,258	27,087
Interest expense	4,542	—	—
Income before provision for income taxes	1,033,977	1,447,819	1,624,240
Provision for income taxes	379,259	513,976	581,087
Net income	<u>\$ 654,718</u>	<u>\$ 933,843</u>	<u>\$1,043,153</u>
Earnings per common share:			
Basic	\$ 2.80	\$ 3.75	\$ 3.94
Diluted	\$ 2.79	\$ 3.74	\$ 3.93
Cash dividends per common share	\$ 1.29	\$ 1.06	\$ 0.81

The accompanying notes are an integral part of the consolidated financial statements.