ACCT 2101
Second Exam – COMBINED SOLUTION – VERSIONS A & B
Spring Semester, 2016

Name Solution with Grading Guideline Section (12 or 1:30) _____
(please print clearly)

Pledge:

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

____
(signed)

Version A : NO caps
Version B : ALL caps

Instructions:
1. **You may not ask questions during the exam.** However, all notes you write to your instructor will be read and considered during the grading process.
2. You may use your ACCT 2101 Help Card during the exam. No other help is authorized. You must submit your Help Card with your exam.
3. You must use one of the authorized calculators – you may not use your own.
4. You must write legibly or your answers will not be graded.
5. **Do NOT pull this exam apart under any circumstances.**
6. Make sure you have **13** numbered pages including the cover sheet.
7. Good luck!

Point Allocation:

Problem 1	10
Problem 2	11
Problem 3	10
Problem 4	6
Problem 5 (7 items @ 6 points each)	42
Problem 6 (7 items @ 3 points each	21
Extra Credit Question (below)	2
TOTAL AVAILABLE POINTS =	102 points

EXTRA CREDIT QUESTION: What is your favorite movie of all time?

Your choice !

PROBLEM 1.

Burke Company has just received its June 30 bank statement from Urban Bank. The bank statement and the cash account per the books, summarized below, are to be reconciled for the month of June.

Bank Statement		**Cash Account per Books**	
Balance, June 1	$ 5,200	Balance, June 1	$5,500
Deposits	9,200	Cash receipts	9,000
Interest paid by bank	240	Checks written	(7,700)
Checks cleared	(7,475)		
Bank service charge	(20)		
NSF check (Jimmy Dean)	(100)		
Balance, June 30	$11,045	Balance, June 30	$10,800

Other Data:

	May	June
Deposit in transit at month end	$600	$400
Outstanding checks at month end	300	525

Required:

A. Prepare the June 30 bank reconciliation. **Please use the next page for your solution.**

B. Prepare the journal entries that should be made in the accounts of Burke Company as a result of the bank reconciliation.

(B) Journal entries (or one entry if you want to combine everything):

Separate Entries:

		Debit	Credit
(1)	Cash	240	
	Interest Revenue		240
(2)	Bank Service Charge Expense	20	
	Cash		20
(3)	Accounts Receivable – Jimmy Dean	100	
	Cash		100

3

Combined Entry:

	Debit	Credit
Cash	120	
Bank Service Charge Expense	20	
Accounts Receivable – Jimmy Dean	100	
Interest Revenue		240

PROBLEM 1 SOLUTION HERE.

(A) Bank Reconciliation as of June 30:

BANK SIDE:

Balance per Statement	$ 11,045	
Add: Deposits in Transit	400	3
Subtract: Outstanding Checks	(525)	
Adjusted Bank Balance	$ 10,920	

BOOK SIDE:

Balance per Books		$ 10,800	
Add: Interest Revenue		240	4
Subtract:	Bank Service Charge	(20)	
	NSF Check	(100)	
Adjusted Book Balance		$ 10,920	

PROBLEM 2.

Hanson Turner started his own consulting firm, HT Company, on January 1, 2016. The Adjusted Trial Balance at January 31, 2016, is as follows:

	Debit	*Credit*
Cash	$ 6,850	
Accounts Receivable	9,000	
Prepaid Insurance	2,200	
Supplies	1,100	
Office Equipment	16,500	
Accumulated Depreciation—Office Equipment		1,250
Accounts Payable		4,500
Utilities Payable		160
Salaries Payable		2,500
Unearned Service Revenue		2,000
Note Payable (due 10/1/2019)		3,750
Common Stock		18,000
Dividends	1,000	
Service Revenue		13,000
Interest Revenue		1,500
Salaries Expense	6,500	
Rent Expense	2,000	
Depreciation Expense	250	
Insurance Expense	200	
Utilities Expense	160	
Supplies Expense	900	
Totals	$46,660	$46,660

PROBLEM 2 REQUIRED:

Prepare a **CLASSIFIED** Balance Sheet for the HT Company for the month ended January 31, 2016. Your solution should appear on the next page.

HINT: You are only required to prepare the Balance Sheet. However, a quick calculation of net income and retained earnings is necessary to complete the Balance Sheet.

HT Company
CLASSIFIED Balance Sheet
January 31, 2016

ASSETS

Current Assets:			
Cash	$ 6,850		
Accounts Receivable	9,000		
Prepaid Insurance	2,200		
Supplies	1,100		
Total Current Assets		$ 19,150	5
Property, Plant & Equipment:			
Office Equipment	$ 16,500		
Less: Accumulated Depreciation	(1,250)		
Office Equipment, net		15,250	
TOTAL ASSETS		$ 34,400	

LIABILTIES & STOCKHOLDERS' EQUITY

Current Liabilities:			
Accounts Payable	$ 4,500		
Utilities Payable	160		
Salaries Payable	2,500		
Unearned Service Revenue	2,000		
Total Current Liabilities		$ 9,160	6
Long-Term Liability:			
Notes Payable		3,750	
Stockholders' Equity:			
Common Stock	$ 18,000		
Retained Earnings	3,490		
Total Stockholders' Equity		21,490	
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY		$ 34,400	

Note: The companies were incorrectly labeled "Lender" and "Borrower" on your exam. Your answer was graded based on your interpretation.

PROBLEM 3. VERSION A

Crawford Company sold goods to Dunston Company receiving a $500,000, 47-day, 7% note. Record the journal entries for both parties for:

(1) The issuance of the note.

(2) The maturity date assuming payment is made and no interest had been accrued previously. **You must show your computation of interest (rounding to the nearest dollar) to receive ANY credit.**

CRAWFORD COMPANY:

		Debit	Credit	
(1)	Notes Receivable – Dunston Company	500,000		2
	Sales Revenue		500,000	
(2)	Cash	504,507		2
	Notes Receivable – Dunston Company		500,000	
	Interest Revenue *		4,507	

* $500,000 x 7% x 47/365 = $4,507 (rounded) 2

DUNSTON COMPANY:

		Debit	Credit	
(1)	Inventory (or Purchases)	500,000		2
	Notes Payable		500,000	
(2)	Notes Payable	500,000		2
	Interest Expense *	4,507		
	Cash		504,507	

Version A

See Note on previous page.

PROBLEM 3. VERSION B

Crawford Company sold goods to Dunston Company receiving a $500,000, 59-day, 8% note. Record the journal entries for both parties for:

(1) The issuance of the note.

(2) The maturity date assuming payment is made and no interest had been accrued previously. **You must show your computation of interest (rounding to the nearest dollar) to receive ANY credit.**

CRAWFORD COMPANY:

(1)	Notes Receivable – Dunston Company	500,000		2
	Sales Revenue		500,000	
(2)	Cash	506,466		2
	Notes Receivable – Dunston Company		500,000	
	Interest Revenue *		6,466	

* $500,000 x 8% x 59/365 = $6,466 (rounded) 2

DUNSTON COMPANY (LENDER):

(1)	Inventory (or Purchases)	500,000		2
	Notes Payable		500,000	
(2)	Notes Payable	500,000		2
	Interest Expense *	6,466		
	Cash		506,466	

Version B

PROBLEM 4.

Boulder, Inc. is computing its inventory at December 31, 2014. The following information relates to the five major inventory items regularly stocked for resale.

Item	Quantity on Hand		Ending Inventory, December 31, 2014 Unit Cost when Acquired (FIFO)		Replacement Cost (Market) at December 31, 2014		LCM	LCM Value
A	100	x	$ 40	4,000	$ 35	x	$ 35	$ 3,500
B	150	x	$ 50	7,500	$ 52	x	50	7,500
C	25	x	$100	2,500	$ 80	x	80	2,000
D	300	x	$ 60	18,000	$ 62	x	60	18,000
E	700	x	$ 15	10,500	$ 12	x	12	8,400
				$ 42,500				$ 39,400
				ON BOOKS				SHOULD BE ON BOOKS

Required:

Using the lower of cost or market rule:

(1) Compute the total valuation for each inventory item at December 31, 2014, and the total inventory

valuation. **You must show your work to receive any credit.**

(2) Prepare the journal entry to record any write-down of inventory required.

4

(1) See above. Write-down = $42,500 - $39,400 = $3,100

(2) Entry to record the write-down:

2

Cost of Goods Sold	3,100	
Inventory		3,100

PROBLEM 5 BEGINS ON THE NEXT PAGE. Computational Multiple-Choice Questions. Clearly circle your answer. YOU MUST SHOW (AND LABEL) YOUR WORK TO RECEIVE ANY CREDIT.

1. Newark Company has provided the following information:
    - Cash sales, $450,000
    - Credit sales, $1,350,000
    - Selling and administrative expenses, $330,000
    - Sales returns and allowances, $90,000
    - Gross profit, $1,360,000
    - Increase in accounts receivable, $55,000
    - Bad debt expense, $33,000
    - Sales discounts, $43,000
    - Net income, $1,030,000

Gross Sales	$1,800,000
Sales R+A	<90,000>
Sales Disc	<43,000>
Net Sales	$1,667,000
Less:	
Gross Profit	<1,360,000>
Equals: COGS	$307,000

How much is Newark's cost of sales?

A. $307,000.

B. $252,000.

C. $440,000.

D. $340,000.

Version B: D

2. Flyer Company has provided the following information prior to any year-end bad debt adjustment:

- 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
- Sales discounts, $14,000
- Allowance for doubtful accounts credit balance, $1,200

Accts Rec x 5% = Target − Credit Bal in Allowance

= ($119,000 x 5%) − $5,500 − $1,200 = $4,300 Bad Debt Expense

Flyer prepares an aging of accounts receivable and the result shows that 5% of accounts receivable is estimated to be uncollectible. How much is bad debt expense?

A. $5,500

B. $6,700

C. $4,240

D. $4,300

VERSION B: B

3. The CHS Company has provided the following information:

- Accounts receivable written-off as uncollectible during the year amounted to $11,500.
- The accounts receivable balance at the beginning of the year was $150,000.
- The accounts receivable balance at the end of the year was $210,000.
- The allowance for doubtful accounts balance at the beginning of the year was $14,000.
- The allowance for doubtful accounts balance at the end of the year after the recording of bad debt expense was $12,900.
- Credit sales during the year totaled $900,000.

How much cash was received from collections of accounts receivable?

A. $888,500.
B. $828,500.
C. $690,000.
D. $701,500.

Accts Rec			
BB	150,000	11,500	Write off
Credit Sales	900,000		Collections on Acct = $828,500
EB	210,000		

Version B: A

4. The Rye Corporation has provided the following information:

- Total sales were $1,200,000.
- Beginning net accounts receivable was $45,000.
- Ending net accounts receivable was $65,000.
- Sales returns and allowances totaled $100,000.

What was Rye's average collection period (days)?

A. 16.73
B. 19.75
C. 36.50
D. 18.25

$$\frac{\text{Net Sales}}{\text{Average Accts Rec}} = \frac{(1{,}200{,}000 - 100{,}000)}{[(45{,}000 + 65{,}000) \div 2]}$$

$$= \frac{1{,}100{,}000}{55{,}000} = 20 \text{ times} \quad \text{A/R Turnover}$$

Version: B

Days Outstanding = 365 days ÷ 20 = 18.25 days

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

Date	Transaction	Number of Units	Cost per Unit
1/1	Beginning Inventory	100	$800
5/5	Purchase	200	$900
8/10	Purchase	300	$1,000
10/15	Purchase	200	$1,100
	Goods Available	800	

During the year, Lauer sold 750 laptop computers.

What was ending inventory using the FIFO cost flow assumption?

A. $60,000.

B. $55,000.

C. $45,000.

D. $40,000.

Goods Avail − Goods Sold = Ending Inv

= 800 − 750 = 50 units

FIFO: 10/15 50 units @ $1,100 = $55,000

VERSION B: C

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

Date	Transaction	Number of Units	Cost per Unit	Total Cost
1/1	Beginning Inventory	100	$800	$ 80,000
5/5	Purchase	200	$900	180,000
8/10	Purchase	300	$1,000	300,000
10/15	Purchase	200	$1,100	220,000
		800 units		$ 780,000

→ Less 750 = 50 units in End Inv

During the year, Lauer sold 750 laptop computers.

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

A. $725,000.

B. $740,000.

C. $735,000.

D. $720,000.

Cost of Goods Available $780,000

Ending Inv - LIFO:

1/1 50 units @ $800 = <40,000>

COGS $ 740,000

VERSION B: D

7. Maxim Corp. has provided the following information about one of its products:

Date	Transaction	Number of Units	Cost per Unit	Total Cost
1/1	Beginning Inventory	200	$140	$ 28,000
6/5	Purchase	400	$160	64,000
11/10	Purchase	100	$200	20,000
	Goods Available	700 −		$ 112,000

400 Sold = 300 units remaining

During the year, Maxim sold 400 units.

What is ending inventory using the average cost method?

Average Unit Cost = $112,000 ÷ 700 units = $160 per unit

Ending Inv = 300 units x $160 = $48,000

A. $48,000.

B. $64,000.

C. $50,000.

D. $62,000.

VERSION B: C

PROBLEM 6. Conceptual Questions. For the multiple-choice questions, circle your answer. For the short essay questions, use complete sentences.

1. Which of the following statements is correct?

A. FIFO reports lower net income amounts than LIFO when unit costs are increasing. F

B. LIFO reports a higher net income amount than FIFO when unit costs are increasing. F

C. LIFO reports a higher net income amount than FIFO when unit costs are decreasing. T

D. LIFO reports the same amount of net income as FIFO when unit costs are increasing. F

VERSION B: B

2. Which of the following statements is correct?

A. The choice of an inventory costing method is dependent upon the actual physical flow of the goods in inventory. F

B. LIFO should be used during a period of increasing unit costs when the objective is to maximize the ending inventory value on the balance sheet. F

C. FIFO should be used during a period of decreasing unit costs when the objective is to maximize the gross profit reported on the balance sheet. F

D. The average cost method will result in an ending inventory balance which is somewhere between LIFO and FIFO when inventory unit costs are changing. T

VERSION B: D
(same)

3. Which of the following statements does **not** correctly describe the allowance for doubtful accounts balance?

A. It is reported on the balance sheet as a component of current assets. T

B. It is a contra-asset account. T

C. It is reported on the balance sheet as a stockholders' equity account. F

D. It is created as a result of the adjusting entry to record bad debt expense. T

VERSION B: C
(same)

4. Describe the Specific Identification Method of inventory costing.

The Specific Identification Method requires a unique identifier for each inventory item and the tracking of the actual cost of each inventory item. The inventory balance and cost of goods sold can be determined by totaling the actual cost of ending inventory or the actual cost of goods sold.

5. Oakwood Company had accounts receivable of $750,000 and an allowance for doubtful accounts of $21,500 just prior to writing off as worthless a customer's $5,000 account receivable. The net realizable value of Oakwood's accounts receivable as shown by the accounting records before and after the write-off was as follows:

	Before	After
A.	$750,000	$745,000
B.	$721,500	$733,500
C.	$728,500	$723,500
D.	$728,500	$728,500

NRV is the same before and after a write-off

Before: 750,000 - 21,500 = 728,500

After: (750,000 - 5,000) - (21,500 + 5,000) = 728,500

A. Option A

B. Option B

C. Option C

D. Option D

VERSION B: D (same)

6. If you are a financial analyst and want to compare two companies where one uses FIFO and the other one uses LIFO, how could you do this? Where would you find the information you need?

Companies that report their inventories on a LIFO basis must also provide information regarding what their inventory balances would be under the FIFO basis. Using this information from the notes to the financial statements, the analyst can compare each company on a FIFO basis.

7. Identify **two** reasons that merchandising companies accept credit cards as payment for customer purchases.

There were several reasons identified for companies to accept credit cards:

(1) They receive the cash from the sale immediately.
(2) Some customers will buy more when using a credit card.
(3) The company does not have to worry about uncollectible accounts receivable so there is no bad debt expense incurred.
(4) If a company's competitors accept credit cards, then the company would need to accept credit cards so as not to lose sales to other companies.