Solutions check

Name: Ver A Key

ACCT 2101
Exam #2 Fall 2015
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 3-point penalty if you fail to sign the honor pledge.

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

____
Signature

(+)

2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. Notify me if you discover a typographical error.
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/silenced and placed on the top of your desk (face down) in plain view at all times during the exam. Any use of your cell phone during the exam is considered cheating and a violation of the Honor Code.
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. Failure to complete the Scantron will result in a 4-point penalty.
5. Point allocation:

Terminology matching – 14 @ 2 points each	28
Multiple choice – 17 @ 3 points each	51
Problems - 3	34
Total	113

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

6. Graded exams will be returned to the bins unless you sign below and ask me not to file your graded exam in the bins. Exams not filed in the bins will be available in my office during office hours.

   DO NOT FILE MY GRADED EXAM IN THE BIN: ______________________________
   Signature

Version A

Matching (2 points each) – Match the terms or phrases with the definition or description that best fits the term. Terms may be used only once.

A	Aging of accounts receivable method
B	Allowance for doubtful accounts
C	Average days to sell inventory
D	Bad debt expense
E	Cash
F	Cash equivalents
G	Credit card discount
H	Inventory

I	Inventory turnover ratio
J	LIFO reserve
K	Lower of cost or market
L	Percentage of credit sales method
M	Periodic inventory system
N	Perpetual inventory system
O	Sales discount

B 1 A contra-asset account containing the estimated uncollectible accounts receivable

J 2 A contra-asset for the excess of FIFO cost over LIFO cost

N 3 A detailed inventory record is maintained, recording each purchase and sale during the accounting period.

O 4 A discount offered to encourage prompt payment of credit sales to customers

D 5 The expense associated with estimated future uncollectible accounts receivable.

L 6 Estimates bad debt expense based on the historical percentage of credit sales that resulted in bad debts

M 7 Ending inventory and cost of goods sold are determined at the end of the accounting period based on a physical count.

A 8 Estimates uncollectible accounts receivable based on the age (length of time unpaid) of each receivable.

I 9 Reflects how many times average inventory was produced and sold during the period

F 10 Short-term investments with original maturities of three months or less that are readily convertible to cash

H 11 Tangible property held for sale in the normal course of business

K 12 A valuation method departing from the cost principle; a loss is recognized when net realizable value drops below cost

G 13 The fee charged by the credit card company for its services.

Problem 1 (10 points)

Elizabeth Inc. reported the following amounts in its financial statements for the year ended December 31, 2013 through 2015:

	2015	2014	2013
Net credit sales	$717,422	$1,110,178	$591,786
Gross profit	560,421	960,434	498,605
Net income (net loss)	(92,788)	70,776	47,811
Cash flow from operating activities	106,850	509,707	204,496
Accounts receivable	68648 78,648	105,562	61,454 56,454
Allowance for doubtful accounts – credit balance	10,000	90,562 15,000	5,000

Enter your answers in the space provided. Show your work below. You must show your work to get full points even if you have a correct answer.

1. Calculate the accounts receivable turnover for 2015 and 2014.

   2015 turnover 9.01 times

   2014 turnover 15.10 times

TO = Credit Sale / Avg net AR

2015	2014
717422	1,110,178
68648	90,562
90,562	56454
159,210	147,016
÷ 2	÷ 2
79,605	73,508
TO = 9.01	15.10

2. Calculate the average collection period for 2015 and 2014.

   2015 average collection period 365/9.01 = 40.5 days

   2014 average collection period 365/15.1 = 24.2 days

Based on your computations, indicate whether Elizabeth's efforts to shorten the operating cycle (cash-to-cash) in 2015 were successful or unsuccessful. Explain your conclusion.

No - It is taking longer to collect A/R - both turnover and average collection period indicate it is taking longer to collect A/R.

Problem 2 (6 points)

McMillan Company uses the periodic inventory system. It has compiled the following information in order to prepare the financial statements at December 31, 2014:

Gross sales during 2014	$2,000,000	> 1,950,000
Sales returns and allowances	50,000	
Beginning inventory, January 1, 2014	100,000	
Ending inventory, December 31, 2014	120,000	
Purchases during 2014	750,000	

Required:

Calculate each of the following (show your answers in the space provided, but you must show your work to receive full credit, even if you have a correct answer):

A. Cost of goods available for sale: $ 850,000

B. Cost of goods sold: $ 730,000

C. Gross profit: $ 1,220,000

Beg Inv.	$ 100,000
+ Purchases	750 000
Cost of goods avail for sale	850,000
− End Inventory	120,000
Cost of goods sold	$ 730,000
Sales	2,000,000
− R+A	50,000
Net Sales	1,950,000
COGS	730,000
Gross profit	1,220,000

Problem 3 (18 points)

Hanson Company uses the periodic inventory system. At the end of the annual accounting period, December 31, 2014, the accounting records for the best selling item in inventory showed the following:

Transactions	Units	Unit Cost	Total Cost
Inventory, Jan 1, 2014	500	$100	$50,000
Purchases:			
Feb 1	600	105	63,000
Aug 15	400	110	44,000
Sales:	1500		
March 15 (sold at $120 each)	400		
June 30 (sold at $120 each)	300		
Sept 30 (sold at $125 each)	400		
End Inventory	400		

157,000

1100 #

Calculate the following values using the inventory costing procedure shown in each column. Enter your answers in the table boxes, but you must show your work to receive full credit, even if you have a correct answer:

	FIFO	LIFO	Weighted Average
Cost of goods available for sale	$ 157,000	$ 157,000	$ 157,000
Cost of ending inventory	400 @ $110 44 000	400 @ $100 40,000	41,868
Cost of goods sold	113,000	117,000	115,132

$$\frac{\$157{,}000}{1500} = \$104.67 \text{ /unit}$$

× 400

41,868

Cost of Goods Sold:

500 $50,000
600 63,000
COGS $113,000

400 ~~$44~~ 000
600 $63,000
100
× $100 = 10,000
COGS $ 117,000

$ 104.67
× 1100
COGS $115,137

Multiple-Choice (3 points each) – Enter your answer to all multiple-choice questions on the Scantron form provided. Failure to enter your answers on a Scanton form incurs a 4-point penalty.

B 1. Callahan Golf Equipment is a wholesaler making all sales on account, and offers customers terms of 5/11, n/20. Sales discounts for the year totaled $66,500. Sales discounts were earned on 50 percent of total sales revenue. How much was total sales revenue for the year?

A. $1,330,000
B. $2,660,000
C. $665,000
D. $6,650,000

66,500 / .05 = 1,330,000 Sales on which discounts earned
1,330,000 50% of sales on which disc not earned
2,660,000

Ans - $2,660,000

B 2. Sales returns and allowances are accounted for:

A. As a selling expense.
B. In a separate contra-revenue account.
C. As a direct reduction to the Sales account. – debited to sales revenue.
D. As an addition to the Cost of Goods Sold.

+

Ans – B in a separate contra revenue account

A 3. Turner Company had a Gross Profit Percentage of 30% for the year. If Sales Revenue was $8,646,000 and Sales Returns and Allowances totaled $999,700, what was the Cost of Goods Sold for the year?

A. $5,352,410
B. $6,052,200
C. $7,646,300
D. Cannot be determined with the information given.

net Sales – COGS = GP
GP/net Sales : 30%
1 – COG% = GP%
1 – COG% = 30%
COG% = 70%

Ans – 5,352,410. ($8,646,000 – 999,700) X 70% = 5,352,410

net Sales = 8,646,000 – 999,700 = 7,646,300 X 70% = 5,352,410

A 4. Kona Produce uses the aging method to estimate uncollectible accounts. The age, amount, and respective percentage of receivables is presented below. If the Allowance for Doubtful Accounts has a credit balance of $22,500 before adjustment, what journal entry needs to be made?

Age of Receivable	Amount	Estimated % Uncollectible	REQUIRED Allowance
0 - 30 days	$305,000	5%	15,250
31 - 60 days	206,500	15%	30,975
Over 60 days	66,000	40%	26,400

72625 Req. Allowance
22500 Allow unadj
50,125 AJE

A. Bad Debt Expense $50,125
    Allowance for Doubtful Accounts $50,125

B. Bad Debt Expense $72,625

Allowance for Doubtful Accounts $72,625

C. Bad Debt Expense $95,125
Allowance for Doubtful Accounts $95,125

D. Allowance for Doubtful Accounts $50,125
Bad Debt Expense $50,125

Ans - A; Required allowance of $72,625 – balance in account of $22,500 = $50,125

B 5. Which of the following is true about gross profit (gross margin)?

A. It is net sales minus operating expenses.
B. It is net sales minus cost of goods sold.
C. It is the same as income from continuing operations.
D. It is net sales minus cost of goods sold and operating expenses.

Ans – B

D 6. 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 X 5% = $5,500 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 $5,500
Bal in Allow 1,200
Adj 4300

Ans - $4,300; $110,000 X 5% = $5,500 = required allowance from doubtful accounts. Beginning balance $1,200 – required balance $5,500 = $4,300 required increase in allowance = bad debt expense.

B 7. Which of the following correctly describes credit terms of 2/10, n/30?

A. A two percent discount for early payment is available if the invoice is paid before the tenth day of the month following the month the sale.
B. A two percent discount for early payment is available within ten days of the date of sale.
C. A ten percent discount for early payment is available if the invoice is paid within two days of the date of the invoice.
D. A two percent discount for early payment is available if the invoice is paid after the tenth day after the sale.

Ans - B

D 8. Rodgers Company accounts for its receivables and prepares its financial statements in accordance with U.S. generally accepted accounting principles. After unsuccessful collection efforts, Rodgers Company decides to write off a past-due account receivable of $1,500 from Buzz Company as uncollectible. The correct adjusting entry to write off the receivable as uncollectible is:

A.	Bad debt expense	$1,500	
	Sales revenue		$1,500
B.	Bad debt expense	$1,500	
	Allowance for doubtful accounts		$1,500
C.	Accounts receivable	$1,500	
	Allowance for doubtful accounts		$1,500
D.	Allowance for doubtful accounts	$1,500	
	Accounts receivable		$1,500

Ans: D – Using the allowance method, the write off of a receivable reduces the balances in the allowance account and accounts receivable.

B 9. Andrews 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.

Beg AR + Credit Sales – Collect – W/O = End AR
150,000 + 900,000 – C – 11500 = 210,000
C = 828500

Ans: B $828,500; Beg balance + credit sales – collections – write offs = End balance
$150,000 + 900,000 – X – 11,500 = $210,000
X = $828,500

D 10. Which of the following statements is correct when inventory prices are increasing?

A. LIFO will result in lower net income and a ~~higher~~ lower inventory valuation than will FIFO.
B. LIFO will result in hig~~h~~er net income and lower inventory valuation than will FIFO.
C. FIFO will result in low~~e~~r net income and a lower inventory valuation than will LIFO.
D. FIFO will result in higher net income and a higher inventory valuation than will LIFO.

Ans – D – If prices are rising, Lifo results in less net income and lower inventory valuation that Fifo since higher priced inventory is charged to cost of goods sold and lower priced goods are included in ending inventory. If prices are rising, Fifo results in higher net income (lower cost of goods sold) and higher inventory value than Lifo since lower priced goods are charged to cost of goods sold and higher priced goods are included in ending inventory.

C 11. On June 15, 2014, Cathy Company purchased 15,000 units of an inventory item. The capitalized inventory cost was $40 per unit when purchased on June 15, and it was priced to sell at $48 per unit. At December 31, 2014, only 5,000 units had sold, and 10,000 units remained in ending inventory. At December 31, 2014, the net realizable value of the inventory was estimated to be $38 per unit. At what amount should the 10,000 units of inventory be reported at on the December 31, 2014 balance sheet? LCM C = 40 M = 38

A. $400,000
B. $480,000 # units 10,000 × $38 = $380,000
C. $380,000
D. $300,000

Ans – C; Net realizable value = 10,000 X $38 = $380,000, which is less than capitalized cost of 10,000 X $40 = $400,000.

A 12. Tinker's 2014 cost of goods sold was $750,000 and 2013 cost of goods sold was $770,000. The inventory at the end of 2014 was $188,000 and $208,000 at the end of 2013. What was Tinker's inventory turnover during 2014?

A. 3.79
B. 3.99
C. 3.84
D. 3.89

Ans: A 3.79 Inventory turn = COGS ÷ Average inventory
Inventory turn = $750,000 ÷ [(188,000 + 208,000) ÷ 2] = 3.7878

B 13. Which of the following would not be capitalized as part of the cost of the year-end inventory balance?

A. Freight-in costs
B. Freight-out costs
C. ~~B.~~ Inventory inspection costs
D. ~~C.~~ Inventory preparation costs

ANS: B Inventory cost includes all costs incurred in acquiring and getting inventory ready for sale or use. Freight out is a shipping expense to either return inventory or to deliver inventory sold. Freight-out is not a capitalized inventory cost.

C 14. On March 15, 2014, Ryan Company purchased $10,000 of merchandise on credit subject to terms of 2/10, n/30. Ryan Company records its purchases using the gross amount. The periodic inventory system is used. Which of the following journal entries is correct when Ryan Company pays for these goods on March 24, 2014, assuming that it takes advantage of the purchase discount offered?

A. Accounts payable $9,800

10,000
× 2%
discount 2,000
10,000
net paid 9,800

Cash $9,800

B. Accounts payable $10,000
Cash $10,000

C. Accounts payable $10,000
Cash $9,800
Inventory.. 200

D. Accounts payable $9,800
Inventory 200
Cash $10,000

ANS: C - If purchases are recorded gross, it means that the full invoice amount is capitalized. If purchase discounts are taken, inventory cost should be reduced by the amount of the discount allowed. The discount in this case is 2% if paid within 10 days of purchase. Ryan paid 9 days after purchase.

C 15. Sally Company did not record a December 2013 purchase of inventory on credit until January 2014. Assuming that the December 31, 2013 ending inventory was correctly determined based on the physical count (periodic method is used), what is the effect of this error on the financial statements for the year ended December 31, 2013?

A. Net income is correct.
B. Stockholders' equity is understated.
C. Net income is overstated.
D. Current assets are understated.

ANS: C – If ending inventory is correctly stated, it means that the failure to record purchases resulted in an understatement of cost of goods sold. If COGS expense is understated, income is overstated.

B 16. Ronnie Company has provided the following information about one of its inventory items.

Date	Transaction	Number of units	Cost per unit	Total Cost
Jan 1	Beginning inventory	400	$3,200	$1,280,000
June 6	Purchase	800	$3,600	$2,880,000
Sept 10	Purchase	1,200	$4,000	$4,800,000
Nov 15	Purchase	800	$4,200	$3,360,000

COGS
1,280
2,880
4,800
600 X 4200 = 2,520
11,480

During the year, Ronnie sold 3,000 units.
What was cost of good sold using the FIFO cost flow assumption under a period inventory system?

A. $840,000
B. $11,480,000
C. $11,550,000
D. $11,680,000

Ans: B - $11,480,000. COGS = $1,280,000 + 2,880,000 + 4,800,000 + (600 X 4,200)

B

17. Which of the following statements is false?
    - A. Companies do not have to use the same inventory method for all items of inventory. ✓
    - B. Companies do not have to consistently use the same inventory costing methods. X
    - C. Use of the LIFO inventory method during a period of increasing unit costs may create a conflict of interest between the owners and managers. ✓ Earnings effect vs tax cost
    - D. A company choosing to maximize stockholders' equity during a period of increasing unit costs should use the FIFO inventory method. ✓ maximizes income by reducing COGS vs LIFO/W.A

ANS: B – Companies are required to consistently use the same inventory costing methods. The remaining statements are all true.