

Name: Solution Key Ver A

ACCT 2101 – Dr. J. M. Turner, CPA
Exam #3 Spring 2013

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 THE 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 9 pages (front and back) in this exam. Points available are as follows:

Multiple choice – 15 @ 3 points each	45
Terminology matching – 15 @ 2 points each	30
Problem (2)	<u>15</u>
Total available points	<u>90</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 sign below, your exam will not be placed in the bins for this class. Otherwise, graded exams will be returned to the bins for this class.

Do not return my graded exam to the bin: _____

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

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

- G 1 The expense resulting from the estimated amount of receivables that are not collected.
- Q 2 Tangible property held for sale in the normal course of business or used in producing goods or services for sale.
- N 3 Short-term investments with original maturities of three months or less that are readily convertible to cash and whose value is unlikely to change.
- Hor I* H 4 Includes coins, currency, amounts in checking and savings accounts, and demand certificates of deposits.
- M 5 Having one employee responsible for safeguarding an asset and a second employee responsible for maintaining the accounting records for that asset.
- R 6 A method of costing inventory that assumes that the most recently purchased units are sold first.
- B 7 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.
- C 8 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.
- S 9 A contra-asset account for the excess of FIFO over LIFO inventory.
- K 10 A cash discount offered to encourage prompt payment of an account receivable.
- D 11 Amounts owed to the business enterprise by trade customers from the sale of goods or services.
- L 12 A reduction of sales revenue for the return of or allowances for unsatisfactory goods.
- E 13 A method that estimates uncollectible accounts based on the age of each account receivable.
- A 14 A method of determining bad debt expense on the historical percentage of credit sales that result in bad debts.
- O 15 A method of costing inventory that assumes the costs of the first goods purchased are those charged to cost of goods sold when the company actually sells goods.

Problem 1 – 10 points

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

BANK STATEMENT			
Date	Checks	Deposits	Balance
1-Sep			\$16,590
2-Sep	\$230		16,360
3-Sep		\$10,200	26,560
4-Sep	340		26,220
5-Sep	720		25,500
9-Sep	530		24,970
10-Sep	320		24,650
15-Sep		6,000	30,650
21-Sep	475		30,175
24-Sep	18,500		11,675
25-Sep		7,500	19,175
29-Sep	580		18,595
29-Sep		600*	19,195
30-Sep	90**		19,105
* Interest income collected			
** Bank service charges			

Cash activity per books			
Sep. 1 Balance	\$15,300		
Deposits:		Checks written:	
Sep. 2	10,200	Sep. 2	\$320
12	6,000	4	530
24	7,500	15	280
31	3,500	17	510
		18	580
		20	475
		23	18,500
Sep. 30 Bal.	<u>\$21,305</u>		

Outstanding checks at the end of the prior month, August, were for \$230, \$340, and \$720. No deposits were in transit at the end of the prior month.

Required:

1. Prepare a bank reconciliation for September using the template below. (Hint: Compute the deposits in transit at the end of September 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 September 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 September.)

Per Checkbook		Per Bank	
9-30 balance per check book	21,305 + 1	9-30 balance per bank	19,105 + 1
+ Deposits not recorded	600 + 1	+ Deposits in transit	3,500 + 1
+ Other		+ Other	
– Bank charges	90 + 1	– Outstanding checks	790 + 1
– Other		– Other	
Ending balance	21,815	Ending balance	21,815

Multiple-Choice (3 points each) Answer each multiple choice question on the Scantron form.

C 1. Which of the following is correct when bad debt expense is recorded at year-end?

A. Current assets are not affected. 7

B. Gross profit will decrease. 7 Selling XP

C. Income from operations will decrease. T

D. Current liabilities will increase. 7

DR B/D Exp.

CR. Allowance for DA

D 2. Which of the following journal entries correctly records bad debt expense?

A. DR Bad debt expense
CR Accounts receivable

B. DR Allowance for doubtful accounts
CR Accounts receivable

C. DR Allowance for doubtful accounts
CR Bad debt expense

D. DR Bad debt expense
CR Allowance for doubtful accounts

C 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 was CHS Company's bad debt expense?

A. \$11,500

B. \$12,900

C. \$10,400

D. \$14,000

Beg
WRITED OFFS
Bal
BD Exp
End

Allowance	
	14,000
11,500	
	2,500
	10,400
	12,900

A 4. L'Homme, Inc. has provided the following information:

- Cash sales, \$120,000
- Credit sales, \$360,000
- Selling and administrative expenses, \$88,000
- Sales returns and allowances, \$24,000
- Gross profit, \$392,000
- Accounts receivable, \$88,000
- Sales discounts, \$11,200
- Allowance for doubtful accounts credit balance, \$960

How much is bad debt expense assuming that 4% of accounts receivable is estimated to be uncollectible?

- A. \$2,560
 B. \$3,520
 C. \$4,300
 D. \$14,400

$$\begin{aligned} \text{REQ Allowance} &= \$88,000 \times 4\% = 3,520 \\ \text{Bal per books} & \quad \underline{960} \\ \text{Bad debt expense} & \quad \underline{\underline{2560}} \end{aligned}$$

B 5. A company had the following partial list of account balances at year-end:

Sales returns and allowances	\$1,000
Accounts receivable	38,000
Sales discounts	2,100
Sales revenue	95,000
Allowance for doubtful accounts	1,200

How much is net sales revenue (i.e., Sales, net as reported on the income statement)?

- A. \$90,700
B. \$91,900
 C. \$100,780
 D. \$128,660

$$\begin{aligned} & 95,000 \\ - & 1,000 \\ - & 2,100 \\ \hline & \underline{\underline{91,900}} \end{aligned}$$

D 6. Which of the following is the most likely cause of a decrease in a company's gross profit percentage?

- A. The product cost as a percentage of sales decreased. *would increase GP%*
 B. The operating expenses increased. *NO EFFECT*
 C. Fewer products were sold. *- may not affect %*
D. The selling price decreased.

If cost stays same, GP% ↓

$$\begin{array}{r} \text{Sales} \\ - \text{COGS} \\ \hline \text{Gross Profit} \end{array} \quad \begin{array}{r} 1 \\ - \text{Cost \%} \\ \hline \text{GP \%} \end{array}$$

$$\text{GP} / \text{Sales} = \text{GP \%}$$

C 7. When using the allowance method for accounting for bad debts, accounts receivable is reported on the balance sheet at the expected net realizable value. When a particular receivable from a customer ultimately is determined to be uncollectible and is written off, the recording of this event will

- A. Decrease the net realizable value of the accounts receivable. *F*
- B. Have an effect that is not determinable from the information given. *F*
- C. Have no effect on the net realizable value of the accounts receivable. *T*
- D. Increase the net realizable value of the accounts receivable. *F*

DR Allowance
CR A/R
no effect on
total NRV

D 8. Which of the following statements is correct when inventory prices are increasing?

- A. LIFO will result in lower net income and a higher inventory valuation than will FIFO. *False*
- B. LIFO will result in higher net income and lower inventory valuation than will FIFO. *False*
- C. FIFO will result in lower net income and a lower inventory valuation than will LIFO. *False*
- D. FIFO will result in higher net income and a higher inventory valuation than will LIFO. *TRUE*

Use the following information for the next four questions (9 – 12). A corporation has provided the following information about one of their products:

Date	Transaction	Number of units	Unit Cost	Total Cost
Jan 1	Beginning inventory	200	\$140	\$28,000
Jun 5	Purchases	400	\$160	\$64,000
Nov 10	Purchases	<u>100</u>	\$200	<u>\$20,000</u>
	Totals	<u>700</u>		<u>\$112,000</u>
Various	Total sales	<u>400</u>		

$\div 700 = \$160$ Avg Cost

A 9. What is ending inventory using the average cost method?

- A. \$48,000
- B. \$52,000
- C. \$44,000
- D. \$50,000

End Inv Units = 300
 $\times \$160$
48,000

B 10. Using the information above, what is cost of goods sold using the average cost method?

- A. \$48,000
- B. \$64,000
- C. \$60,000
- D. \$68,000

Units Sold 400
 \times Avg Cost \$160
64,000
COGS

Use the following information for the next four questions (9 – 12). A corporation has provided the following information about one of their products:

Date	Transaction	Number of units	Unit Cost	Total Cost
Jan 1	Beginning inventory	200	\$140	\$28,000
Jun 5	Purchases	400	\$160	\$64,000
Nov 10	Purchases	100	\$200	\$20,000
	Totals	<u>700</u>		<u>\$112,000</u>
Various	Total sales	<u>400</u>		

- B 11. Using the information above, what is the cost of ending inventory using the first in, first out (FIFO) method of inventory costing?

- A. \$48,000
 B. \$52,000
 C. \$44,000
 D. \$60,000

End Inv. Units 300
 $100 @ \$200 = \$20,000$
 $200 @ 160 = 32,000$
300 \$52,000

- C 12. Using the information above, what is the cost of goods sold using the last in, first out (LIFO) method of inventory costing?

- A. \$64,000
 B. \$60,000
 C. \$68,000
 D. \$80,000

Units Sold 400
 $100 @ \$200 = 20,000$
 $300 @ \$160 = 48,000$
68,000

- C 13. On December 31, 2010, Cruise Company has 10,000 units of an inventory item, which cost \$40 per unit when purchased on June 15, 2010. The selling price was \$70 per unit. On December 30, 2010, the replacement cost was \$38 per unit. At what amount should the 10,000 units of inventory be reported at on the December 31, 2010 balance sheet?

- A. \$20,000
 B. \$700,000
 C. \$380,000
 D. \$400,000

$10,000 \times$
 $\times 38$ LCM
380,000

- B 14. A company provided the following data: sales, \$500,000; beginning inventory, \$40,000; ending inventory, \$45,000; and gross profit, \$150,000. What was the amount of inventory purchased during the year?

- A. \$155,000
B. \$355,000
C. \$345,000
D. \$341,000

$$\begin{array}{r} S \\ 500,000 \\ - \text{COGS} \\ \hline = GP \\ 150,000 \end{array}$$

$$\begin{aligned} BI + \text{Purchase} - EI &= \text{COGS} \\ \$40,000 + P - \$45,000 &= 350,000 \\ P &= 355,000 \end{aligned}$$

- C 15. Which of the following costs will not affect cost of goods sold (i.e., which is not a product cost)?
- A. Inventory inspection costs.
B. Inventory preparation costs.
C. Inventory related selling costs.
D. Freight charges incurred to acquire inventory.

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 or entries needed to adjust the cash account balance per books:

Account	Debit	Credit
Cash	510	
Bank charge expense	90	
Interest Revenue or Income		600

Debit to Cash +1
 Debit to Exp +1
 Credit to Income/Rev. +1

Ans not relevant -
 grade on 1st
 page relates
 to amounts

Problem 2 – 5 points

Cyclone Inc. reported the following figures from their financial statements for the years 2009 through 2011:

	2011	2010	2009
Sales, net	\$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
Operating cash flow	106,850	509,707	204,496
Accounts receivable, net	68,648	90,561	56,454

Calculate the accounts receivable turnover for 2011 and the number of days' in receivables for 2011.

Accounts receivable turnover ratio: 9.01

Number of days' sales in accounts receivable: 40.5

$$\begin{aligned} \text{AR turnover} &= \frac{\text{Net Sales}}{\text{Avg A/R}} = \frac{717,422}{\frac{(68,648 + 90,561)}{2}} = \frac{717,422}{79,604.5} = 9.01 \end{aligned}$$

$$\# \text{ days Sales} = \frac{365}{9.01} = 40.5$$

1 pt if they show the correct formula using the TO ratio computed by the student. ; ie, if they miscalculate TO ratio, no loss in second computation if they use their TO ratio as computed in the denominator