

Name:

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MGT 3000 Spring 2014 Exam 2

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INSTRUCTIONS – Please read before you begin 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 an 8 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 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 – 15 @ 2 points each	30
True or False questions 7 @ 2 points each	14
Multiple choice – 13 @ 3 points each	39
Problems (2)	<u>22</u>
Total	<u>105</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)

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

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

M	LIFO (last-in, first-out)
N	Net book value
O	Percentage of credit sales method
P	Periodic inventory procedure
Q	Perpetual inventory procedure
R	Qualified opinion
S	Sales discount
T	Sales returns and allowances
U	Salvage value
V	Segregation of duties
W	Tangible assets
X	Unqualified opinion

- E 1 The expense resulting from the estimated amount of receivables that are not collected.
- K 2 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.
- X 3 Means that the financial statements are fairly stated in accordance with GAAP applied on a consistent basis
- B 4 Means that the financial statements are not fairly stated and cannot be relied upon by the users of the financial statements
- N 5 The acquisition cost of an asset less accumulated depreciation.
- U 6 The estimated amount to be recovered by the company at the end of the asset's estimated useful life
- H 7 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.
- O 8 A method of determining bad debt expense on the historical percentage of credit sales that result in bad debts.
- J 9 Assets that have special rights, but not physical substance.
- A 10 Amounts owed to the business enterprise by trade customers from the sale of goods or services.
- D 11 A contra-asset account containing the estimated uncollectible accounts receivable.
- V 12 Having one employee responsible for safeguarding an asset and a second employee responsible for maintaining the accounting records for that asset.
- P 13 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.
- F 14 Short-term investments with original maturities of three months or less that are readily convertible to cash and whose value is unlikely to change.
- R 15 Means that, for the most part, the financial statements are in compliance with GAAP, but the auditor has some reservations about the financial statements

True or False (2 points each) – Indicate in the space provided whether each of the following statements regarding internal controls is true or false.

- False 1. It is against the basic rules of internal control to require employees to take regular vacations.
- True 2. Accounting controls are composed of procedures designed to safeguard the assets of a business and to ensure that its accounting records contain reliable information.
- False 3. A fidelity bond is liability insurance that protects a company against certain lawsuits filed by customers.
- False 4. Under proper internal controls, the person who collects customer payments should also maintain the accounting records of cash receipts.
- True 5. When a company has achieved an effective separation of duties, collusion among employees would be required to commit theft or fraud and avoid detection.
- True 6. Separation of duties is an internal control element that would require different individuals to perform the functions of authorization, recording of transactions, and custody of assets.
- False 7. Making one employee responsible for authorization and recording of transactions does not violate the principles of good internal control.

Matching (2 points each) Answer each multiple choice question on the Scantron form provided using a pencil to enter your answers. Do not fold, spindle, or mutilate the Scantron form.

- D 1. The classified income statement provides detailed information about a firm's profitability. What does Gross Profit measure?
- A. Income before tax expense.
 - B. Income generated by operating activities.
 - C. Income from peripheral activities.
 - D. The excess of net sales revenue over the cost of goods sold.
- C 2. 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.	Decrease	No effect	No effect
B.	No effect	Decrease	No effect
<u>C.</u>	No effect	No effect	No effect
D.	No effect	No effect	Decrease

- B 3. Zenith Company uses the percentage of receivable method of determining its allowance for doubtful accounts. Upon completing an aging analysis of accounts receivable at year-end, the accountant estimated that \$4,600 of the \$98,000 accounts receivable balance would be uncollectible. The allowance for doubtful accounts had a \$400 balance at year-end prior to adjustment. How much is bad debt expense as a result of the necessary adjustment to the allowance account?

A. \$400
 B. \$4,200
 C. \$5,000
 D. \$4,600

Req. balance \$ 4,600
 bal. B4 adj. 400
 Required adjustment 4,200 = Bad debt XP

- C 4. 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 per books, assuming multiple inventory turnovers and all other things being equal?

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

- A 5. 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 \$805,154. 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
Outstanding checks	35,360
Deposits in transit	55,330
NSF Checks from various customers	7,933
Error, check recorded on books for \$55,740 that was actually for the amount of \$66,035	10,295
Bank service charges	1,570

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

Bal per bank	\$805,154
+ DIT	55,330
- Outstand. CK	(35,360)
Correct balance	<u>\$ 825,124</u>

- B 6. 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 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.
 - C. If a company uses LIFO in one period, it must use LIFO in the next period.
 - D. If a company uses LIFO, it must conform to the industry standards for other companies using LIFO.
- B 7. Which of the following would not be a component of the year-end inventory balance?
- A. Freight-in and handling costs
 - ☒ B. Interest expense on borrowed money used to purchase inventory
 - C. Inventory inspection costs
 - D. Inventory preparation costs
- C 8. Which of the following best describes the objective of depreciation?
- A. To estimate the remaining useful life of the asset.
 - B. To report the asset on the balance sheet at the estimated amount for which the asset could be sold on the balance sheet date.
 - ☒ C. To allocate the cost of a tangible asset to the periods in which its use contributes to earning revenue.
 - D. To estimate the current replacement cost of the asset.
- A 9. Which of the following properly describes the accounting for goodwill?
- ☒ A. Goodwill is written-down when it has been determined to be impaired
 - B. Goodwill is created when it is internally generated.
 - C. Goodwill is amortized over its useful life.
 - D. Goodwill is the difference between the amounts paid for a company relative to the book value of the company's net assets. *relative to fair value*
- D 10. Which of the following statements is **incorrect** with respect to the sale of a depreciable asset?
- A. A gain occurs when the selling price exceeds book value.
 - B. A sale for a gain results in an increase in total assets.
 - C. A loss occurs when the selling price is less than book value.
 - ☒ D. A sale for a loss results in an increase in total assets.

- A 11. A company has some bottling equipment which cost \$8.5 million, has a net book value of \$4.1 million, estimated future cash flows of \$3.7 million, and a fair value of \$3.1 million. How much is the asset impairment loss?

☒ A. \$1.0 million
 B. \$5.4 million
 C. \$4.1 million
 D. \$0.4 million
 E. \$-0-, the asset is not impaired

$$\begin{array}{r}
 4.1 \text{ CV} \\
 3.1 \text{ FV} \\
 \hline
 1.0 \text{ Impairment loss} \\
 \hline
 \hline
 \end{array}$$

- B 12. Schafer Company purchased a computer system on January 1, 2010, at a cash cost of \$25,000. The estimated useful life is 10 years, and the estimated residual value is \$3,000. The company will use the double declining-balance depreciation method. What is the amount of depreciation expense for the second year ended December 31, 2011?

A. \$5,000
☒ B. \$4,000
 C. \$10,920
 D. \$9,000

$$\text{DDB rate} = 1/10 \times 2 = 20\%$$

$$\text{YR 1 depr. XP} = 25,000 \times 20\% = 5,000$$

$$\text{YR 2 depr. XP} = (25,000 - 5,000) \times 20\% = 4,000$$

- B 13. On March 1, Wright Company purchased new equipment costing \$40,000. Cash of \$10,000 was paid at the purchase date; the balance of \$30,000 was paid one year later with interest of \$2,400. Other costs associated with the equipment were: transportation costs, \$1,000; sales tax paid \$3,000; and installation cost, \$2,500. At what amount will the equipment be recorded at on a balance sheet?

A. \$48,900
☒ B. \$46,500
 C. \$43,500
 D. \$40,000

$$\begin{array}{r}
 \text{Cost} \quad 40,000 \\
 \text{transportation} \quad 1,000 \\
 \text{tax} \quad 3,000 \\
 \text{install} \quad 2,500 \\
 \hline
 46,500 \\
 \hline
 \hline
 \end{array}$$

Bonus Question (2 points) Answer here, not on the Scantron form.

Who won the 2014 Daytona 500? Dale Earnhardt, Jr #88

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	4,000	\$3	\$12,000
Purchases:			
21 March 2012	4,000	\$3.25	\$13,000
01 August 2012	6,000	\$3.50	\$21,000
Available	14,000		46,000
Inventory, Dec 2012	5,000		
Sold	9,000		

Required:

Compute (1) the cost of ending inventory and (2) the 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
2012 Cost of goods sold expense	\$28,500	\$30,750	\$29,571
Inventory December 31, 2012	\$17,500	\$15,250	\$16,429

COGS

$$\begin{array}{r}
 4,000 @ \$3 = 12,000 \\
 4,000 @ 3.25 = 13,000 \\
 1,000 @ 3.50 = 3,500 \\
 \hline
 \text{FIFO COGS} \quad 28,500 \\
 \text{Total cost} \quad 46,000 \\
 \hline
 \text{End Inventory} \quad 17,500
 \end{array}$$

COGS

$$\begin{array}{r}
 6,000 @ \$3.50 = \$21,000 \\
 3,000 @ 3.25 = 9,750 \\
 \hline
 \text{LIFO COGS} \quad 30,750 \\
 \text{Total cost} \quad 46,000 \\
 \hline
 \text{End Inventory} \quad 15,250
 \end{array}$$

Total Cost \$ 46,000

Total units ÷ 14,000

Avg cost/unit \$3.2857

unit sold × 9,000

Avg Cost COGS \$ 29,571

Total cost 46,000

End Inventory 16,429

29,610

16,390

Problem 2 (10 points) – You must show your work to receive full credit for a correct answer.

Milton Company purchased a pickup truck to use in its construction business. The truck cost \$32,000. Milton uses the straight-line method of depreciation, and it assumed that the truck would have a useful life of 3 years, and a residual value of \$5,000. At the end of two years, Milton sold the truck and planned to replace it with a larger one. Milton sold the truck at the end of two years for \$12,500. Assume that the truck was held for a full year in the first and second year.

Required (Enter your answers in the space provided. Show your work at the bottom of the page.)

1. Compute depreciation expense for year 1 and 2.

Depreciation expense year 1: \$ 9,000

Depreciation expense year 2: \$ 9,000

2. Determine the gain or loss on sale of the truck at the end of year 2. Clearly indicate both the amount and whether the amount represents gain or (loss).

Gain or (Loss): (\$1,500) loss

S/L depn:	Cost	\$ 32,000	
	Salvage	<u>5,000</u>	
	depr. base	27,000	
	useful life in years	<u>÷ 3</u>	
	Annual S/L dep xp	<u>9,000</u>	
SP		\$ 12,500	
Cost	32,000		
Accum. dep.	<u>18,000</u>		
Net BV	<u>14,000</u>	<u>14,000</u>	
loss on sale		<u>\$ (1,500)</u>	

MC: Question 6: B
+3