ACCT 2101 Financial Accounting

# Sample Exam 3

Part I: Multiple Choice Answers

1. \_\_\_\_\_ 6. \_\_\_\_\_
2. \_\_\_\_\_ 7. \_\_\_\_\_
3. \_\_\_\_\_ 8. \_\_\_\_\_
4. \_\_\_\_\_ 9. \_\_\_\_\_
5. \_\_\_\_\_ 10. \_\_\_\_\_

I. Multiple choices:

Choose the **one** best answer for each of the following questions. **Please write your answers in the space provided on the cover page.**

1) A merchandiser will earn exactly $0 income from operations when

1. net sales equals cost of goods sold.
2. cost of goods sold equals gross profit.
3. operating expenses equal net sales.
4. gross profit equals operating expenses.

2) A perpetual inventory system would most likely be used by a(n)

a. jewelry store.

b. hardware store.

c. drugstore.

d. convenience store.

3) Indicate which one of the following would **not** appear on both a single-step income statement and a multiple-step income statement.

a. Gross profit

b. Operating expenses

c. Sales revenues

d. Cost of goods sold

4) When a perpetual inventory system is used, which of the following is a purpose of taking a physical inventory?

1. To check the accuracy of the perpetual inventory records
2. To determine cost of goods sold for the accounting period
3. To compute the inventory turnover ratio
4. All are a purpose of taking a physical inventory when a perpetual inventory system is used.

5) Two companies report the same cost of goods available for sale but each employs a different inventory costing method. If the price of goods has increased during the period, then the company using

a. LIFO will have the highest ending inventory.

b. FIFO will have the highest cost of good sold.

c. FIFO will have the highest ending inventory.

d. LIFO will have the lowest cost of goods sold.

6) An employee authorized to sign checks should **not** record

a. owners’ cash contributions.

b. mail receipts.

c. cash disbursement transactions.

d. sales transactions.

7) What causes the balance on the bank statement to differ from the cash balance in the general ledger?

1. Time lags
2. Errors by the bank
3. Errors by the company
4. All of the above

8) Which of the following is an example of a bank reconciliation item that requires an adjusting entry?

1. NSF check
2. Deposit in transit
3. Bank error
4. None of these items requires an adjusting entry.

9) The operating expenses section of an income statement for a merchandising company would not include

1. freight cost
2. utilities expense
3. cost of goods sold
4. insurance expense

10) Larson Company on July 15 sells merchandise on account to Stuart Co. for $1,000, terms 2/10, n/30. On July 20 Stuart Co. returns merchandise worth $400 to Larson Company. On July 24 payment is received from Stuart Co. for the balance due. What is the amount of cash received?

a. $600

b. $588

c. $580

d. $1,000

II. Merchandising operations

Assume that perpetual inventory system is used.

June 4 Brown Company purchased $5,000 worth of merchandise, terms n/30 from Johns Company. The cost of the merchandise was $3,500.

1. Brown returned $500 worth of goods to Johns for full credit. The goods had a cost of $350 to Johns.
2. Brown paid the account in full.

# Requirement

Prepare the journal entries to record these transactions in (a) Brown’s records and (b) Johns’ records. Assume use of the perpetual inventory system for both companies

III. Inventory costing

Bright Company uses the periodic inventory system to account for inventories. Information related to Young Company's inventory at October 31 is given below:

October 1 Beginning inventory 400 units @ $10.00 = $ 4,000

8 Purchase 800 units @ $10.40 = 8,320

16 Purchase 600 units @ $10.80 = 6,480

24 Purchase 200 units @ $11.60 = 2,320

Total units and cost 2,000 units $21,120

**Requirements**

1. Show computations to value the ending inventory using the FIFO cost assumption if 600 units remain on hand at October 31.

2. Show computations to value the ending inventory using the weighted-average cost method if 600 units remain on hand at October 31.

3. Show computations to value the ending inventory using the LIFO cost assumption if 600 units remain on hand at October 31.

IV. Cash

The bank statement for Barber Company indicates a balance of $830 on July 31. The cash balance per books had a balance of $390 on this date. The following information pertains to the bank transactions for the company.

1. Deposit of $340, representing cash receipts of July 31, did not appear on the bank statement.
2. Outstanding checks totaled $390.
3. Bank service charges for June amounted to $30.
4. The bank collected a note receivable for the company for $700 plus $48 interest revenue.
5. A NSF check for $328 from a customer was returned with the statement.

**Requirements**

* 1. Prepare a bank reconciliation for July 31.
  2. Prepare any journal entries necessary as a result of the bank reconciliation.

Key to Sample Exam 3

I. Multiple choices:

1 D 2 A 3 A 4 A 5 C 6 C 7 D 8 A 9 C 10 B

II. Merchandising operations

(a) Brown’s books

June 4 Merchandise Inventory ………………………………… 5,000

Accounts Payable………………………………. 5,000

12 Accounts Payable………………………………………… 500

Merchandise Inventory…………………………. 500

12 Accounts Payable………………………………………… 4,500

Cash………………………………………………. 4,500

(b) Johns’ books

June 4 Accounts Receivable…………………………………….. 5,000

Sales………………………………………………. 5,000

4 Cost of Goods Sold………………………………………. 3,500

Merchandise Inventory………………………….. 3,500

12 Sales Returns and Allowance…………………………… 500

Accounts Receivable……………………………. 500

12 Merchandise Inventory…………………………………… 350

Cost of Goods Sold……………………………… 350

12 Cash……………………………………………………….. 4,500

Accounts Receivable……………………………. 4,500

III. Inventory costing

1. 600 units in ending inventory.

Under FIFO, the units remaining in inventory are the ones purchased most recently.

10/24 200 units @ $11.60 = $2,320

10/16 400 units @ $10.80 = 4,320

600 units $6,640

2. 600 units in ending inventory.

Under average cost method, the weighted-average cost per unit must be computed.

$21,120  2,000 units = $10.56

600 units  $10.56 = $6,336

3. 600 units in ending inventory.

Under LIFO, the units remaining are the ones purchased earliest.

10/1 400 units @ $10.00 = $4,000

10/8 200 units @ $10.40 = 2,080

$6,080

IV. Cash

(a) BARBER COMPANY

Bank Reconciliation

July 31

Cash balance per bank $ 830

Add: (1) Deposit in transit 340

1,170

Less: (2) Outstanding checks 390

Adjusted cash balance per books $ 780

Cash balance per books $ 390

Add: (4) $700 Note collected by bank plus interest of $48 748

1,138

Less: (3) Bank service charge $ 30

(5) NSF Check 328 358

Adjusted cash balance per books $ 780

(b)

July 31 Cash 748

Notes Receivable 700

Interest Revenue 48

31 Accounts Receivable 328

Cash 328

31 Miscellaneous Expense 30

Cash 30