MGT 3000: Exam II

Spring 2015

VERSION: 1

**Name**

## DO NOT OPEN

**until given instructions to do so**

### *Instructions*

1. Use a #2 pencil only; mark your responses on your Scantron answer sheet as well as your exam book; mark clearly and erase completely as needed.
2. On your Scantron answer sheet, write **your name** **and** **Test Form letter (version 1 or 2) noted above.**
3. All multiple-choice answers must be marked on your Scantron answer sheet to be graded.
4. Confirm that you have ten (10) numbered pages.
5. Multiple-choice questions are two and a half (2.5) points each; all other questions have their point value noted with the problem.
6. Bring your entire exam book, and Scantron answer sheet to the front of the room when you have finished the exam.
7. You are reminded of the University’s honor policy which requires you do your own work and not give or receive assistance on this exam.

**MULTIPLE CHOICE QUESTIONS (25 \* 2.5 = 62.5 POINTS)**

1. A company's inventory records report the following in November of the current year:

|  |  |  |
| --- | --- | --- |
| Beginning | November 1 | 5 units @ $20 |
| Purchase | November 2 | 10 @ $22 |
| Purchase | November 6 | 6 @ $25 |

On November 8, it sold 18 units for $54 each. Using the LIFO perpetual inventory method, what amount of gross profit was earned from the 18 units sold?  

|  |  |
| --- | --- |
| A. | $577 |

|  |  |
| --- | --- |
| B. | $452 |

|  |  |
| --- | --- |
| C. | $522 |

|  |  |
| --- | --- |
| D. | $462 |

|  |  |
| --- | --- |
| **E.** | $562 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | A company uses the perpetual inventory system and recorded the following entry:   |  |  |  | | --- | --- | --- | | Accounts Payable | 2,500 |  | | Merchandise Inventory |  | 50 | | Cash |  | 2,450 |   This entry reflects a:   |  |  | | --- | --- | | A. | Purchase of merchandise on credit. |  |  |  | | --- | --- | | B. | Return of merchandise. |  |  |  | | --- | --- | | C. | Sale of merchandise on credit. |  |  |  | | --- | --- | | **D.** | Payment of the account payable less a 2% cash discount taken. |  |  |  | | --- | --- | | E. | Payment of the account payable less a 1% cash discount taken. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | In applying the lower of cost or market method to inventory valuation, market is defined as:     |  |  | | --- | --- | | A. | Historical cost. |  |  |  | | --- | --- | | **B.** | Current replacement cost. |  |  |  | | --- | --- | | C. | Current sales price. |  |  |  | | --- | --- | | D. | FIFO. |  |  |  | | --- | --- | | E. | LIFO. | |

1. A company purchased $1,800 of merchandise on July 5 with terms 2/10, n/30. On July 7, it returned $200 worth of merchandise. On July 8, it paid the full amount due. The amount of the cash paid on July 8 equals:

|  |  |
| --- | --- |
| A. | $200. |

|  |  |
| --- | --- |
| B. | $1,564. |

|  |  |
| --- | --- |
| **C.** | $1,568. |

|  |  |
| --- | --- |
| D. | $1,600. |

|  |  |
| --- | --- |
| E. | $1,800. |

1. The understatement of the ending inventory balance causes:

|  |  |
| --- | --- |
| **A.** | Cost of goods sold to be overstated and net income to be understated. |

|  |  |
| --- | --- |
| B. | Cost of goods sold to be overstated and net income to be overstated. |

|  |  |
| --- | --- |
| C. | Cost of goods sold to be understated and net income to be understated. |

|  |  |
| --- | --- |
| D. | Cost of goods sold to be understated and net income to be overstated. |

|  |  |
| --- | --- |
| E. | Cost of goods sold to be overstated and net income to be correct. |

1. Outstanding checks refer to checks that have been:

|  |  |  |
| --- | --- | --- |
| A. |  | Written, recorded, sent to payees, and received and paid by the bank. |

|  |  |
| --- | --- |
| B. | Written and not yet recorded in the company books. |

|  |  |
| --- | --- |
| C. | Held as blank checks. |

|  |  |
| --- | --- |
| **D.** | Written, recorded on the company books, sent to the payee, but not yet paid by the bank. |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | If a check correctly written and paid by the bank for $749 is incorrectly recorded in the company's books for $794, how should this error be treated on the bank reconciliation?    |  |  | | --- | --- | | A. | Subtract $45 from the bank's balance. |  |  |  | | --- | --- | | B. | Add $45 to the bank's balance. |  |  |  | | --- | --- | | C. | Subtract $45 from the book balance. |  |  |  | | --- | --- | | **D.** | Add $45 to the book balance. |  |  |  | | --- | --- | | E. | Subtract $45 from the bank's balance and add $45 to the book's balance. |   $749 - $794 = $45 too much deducted from the company's cash account balance that must be added back to cash. |

1. An analysis that explains differences between the checking account balance according to the depositor's records and the balance reported on the bank statement is a(n):

|  |  |
| --- | --- |
| A. | Internal audit. |

|  |  |
| --- | --- |
| **B.** | Bank reconciliation. |

|  |  |
| --- | --- |
| C. | Bank audit. |

|  |  |
| --- | --- |
| D. | Trial reconciliation. |

|  |  |
| --- | --- |
| E. | Analysis of debits and credits. |

1. The amount due on the maturity date of a $6,000, 60-day 4%, note receivable is:

|  |  |
| --- | --- |
| A. | $6,000. |

|  |  |
| --- | --- |
| B. | $6,240. |

|  |  |
| --- | --- |
| C. | $5,760. |

|  |  |
| --- | --- |
| **D.** | $6,040. |

|  |  |
| --- | --- |
| E. | $5,960. |

1. Which of the following is not true about the Allowance for Doubtful Accounts?

|  |  |
| --- | --- |
| A. | It is a contra asset account. |

|  |  |
| --- | --- |
| B. | It is used instead of reducing accounts receivable directly. |

|  |  |
| --- | --- |
| C. | It is debited when uncollectible accounts are written off. |

|  |  |
| --- | --- |
| **D.** | It is a liability account. |

|  |  |
| --- | --- |
| E. | It is credited when bad debts expense is estimated and recorded. |

1. The days' sales uncollected ratio is used to:

|  |  |
| --- | --- |
| A. | Measure how many days of sales remain until the end of the year. |

|  |  |
| --- | --- |
| B. | Determine the number of days that have passed without collecting on accounts receivable. |

|  |  |
| --- | --- |
| C. | Identify the likelihood of collecting sales on account. |

|  |  |
| --- | --- |
| **D.** | Estimate how much time is likely to pass before the current amount of accounts receivable is received in cash. |

|  |  |
| --- | --- |
| E. | Measure the amount of cash sales during a period. |

|  |  |
| --- | --- |
|  |  |
|  | Jammer Company uses a weighted average perpetual inventory system and reports the following:   |  |  |  | | --- | --- | --- | | August 2 | Purchase | 10 units at $12 per unit. | | August 18 | Purchase | 15 units at $15 per unit. | | August 29 | Sale | 20 units. | | August 31 | Purchase | 14 units at $16 per unit. |   What is the per-unit value of ending inventory on August 31?     |  |  | | --- | --- | | A. | $12.00 |  |  |  | | --- | --- | | B. | $13.80 |  |  |  | | --- | --- | | **C.** | $15.42 |  |  |  | | --- | --- | | D. | $16.00 |  |  |  | | --- | --- | | E. | $17.74 | |

1. The inventory valuation method that results in the lowest taxable income in a period of inflation is:

|  |  |
| --- | --- |
| **A.** | LIFO method. |

|  |  |
| --- | --- |
| B. | FIFO method. |

|  |  |
| --- | --- |
| C. | Weighted-average cost method. |

|  |  |
| --- | --- |
| D. | Specific identification method. |

|  |  |
| --- | --- |
| E. | Gross profit method. |

1. Use the following information for Ephron Company to compute days' sales in inventory for 2015.

|  |  |  |
| --- | --- | --- |
|  | **2015** | **2014** |
| Net sales | $547,500 | $572,000 |
| Cost of goods sold | 348,500 | 370,840 |
| Ending inventory | 75,700 | 81,400 |

|  |  |
| --- | --- |
| A. | 52.4 |

|  |  |
| --- | --- |
| B. | 82.3 |

|  |  |
| --- | --- |
| C. | 50.5 |

|  |  |
| --- | --- |
| D. | 76.8 |

|  |  |
| --- | --- |
| **E.** | 79.3 |

1. Wickland Company installs a manufacturing machine in its production facility at the beginning of the year at a cost of $87,000. The machine's useful life is estimated to be 5 years, or 400,000 units of product, with a $7,000 salvage value. During its second year, the machine produces 84,500 units of product. Determine the machines' second year depreciation under the units-of-production method.

|  |  |
| --- | --- |
| **A.** | $16,900. |

|  |  |
| --- | --- |
| B. | $16,000. |

|  |  |
| --- | --- |
| C. | $17,400. |

|  |  |
| --- | --- |
| D. | $18,379. |

|  |  |
| --- | --- |
| E. | $20,880. |

1. Amortization is:

|  |  |
| --- | --- |
| **A.** | The systematic allocation of the cost of an intangible asset to expense over its estimated useful life. |

|  |  |
| --- | --- |
| B. | The process of allocating to expense the cost of a plant asset to the accounting periods benefiting from its use. |

|  |  |
| --- | --- |
| C. | The process of allocating the cost of natural resources to periods when they are consumed. |

|  |  |
| --- | --- |
| D. | An accelerated form of expensing an asset's cost. |

|  |  |
| --- | --- |
| E. | Also called depletion. |

1. The specific meaning of goodwill in accounting is:

|  |  |
| --- | --- |
| **A.** | The amount by which a company's value exceeds the value of its individual assets and liabilities. |

|  |  |
| --- | --- |
| B. | Long term assets held as investment. |

|  |  |
| --- | --- |
| C. | The support of the board of directors for the operating decisions of management. |

|  |  |
| --- | --- |
| D. | The cost of developing, maintaining, or enhancing the value of a trademark. |

|  |  |
| --- | --- |
| E. | Rights granted an entity to deliver a product or service under specified conditions. |

1. Ordinary repairs meet all of the following criteria *except*:

|  |  |
| --- | --- |
| A. | Are expenditures to keep an asset in normal operating condition. |

|  |  |
| --- | --- |
| B. | Are necessary if an asset is to perform to expectations over its useful life. |

|  |  |
| --- | --- |
| **C.** | Extend the useful life of an asset beyond its original estimate. |

|  |  |
| --- | --- |
| D. | Include cleaning, lubricating, and normal adjusting. |

|  |  |
| --- | --- |
| E. | Are treated as expenses. |

1. Marlow Company purchased a point of sale system on January 1 for $3,400. This system has a useful life of 10 years and a salvage value of $400. What would be the *accumulated depreciation* at the end of the second year of its useful life using the double-declining-balance method?

|  |  |
| --- | --- |
| A. | $2,176. |

|  |  |
| --- | --- |
| B. | $544. |

|  |  |
| --- | --- |
| C. | $1,200. |

|  |  |
| --- | --- |
| D. | $600. |

|  |  |
| --- | --- |
| **E.** | $1,224. |

1. When originally purchased, a vehicle costing $23,000 had an estimated useful life of 8 and an estimated salvage value of $1,500. After 4 years of straight-line depreciation, the asset's total estimated useful life was revised from 8 years to 6 years and there was no change in the estimated salvage value. The depreciation expense in year 5 equals:

|  |  |
| --- | --- |
| **A.** | $5,375.00. |

|  |  |
| --- | --- |
| B. | $2,687.50. |

|  |  |
| --- | --- |
| C. | $5,543.75. |

|  |  |
| --- | --- |
| D. | $10,750.00. |

|  |  |
| --- | --- |
| E. | $2,856.25. |

1. A company had total sales of $600,000, net sales of $550,000, and an average accounts receivable of $95,000. Its accounts receivable turnover equals:

|  |  |
| --- | --- |
| **A.** | 6.1 |

|  |  |
| --- | --- |
| B. | 63.0 |

|  |  |
| --- | --- |
| C. | 54.8 |

|  |  |
| --- | --- |
| D. | 1.1 |

|  |  |
| --- | --- |
| E. | 6.3 |

1. Uniform Supply accepted a $4,800, 90-day, 10% note from Tracy Janitorial on October 17. What entry should Uniform Supply make on January 15 of the next year when the note is paid?

|  |  |
| --- | --- |
| A. | Debit Notes Receivable $4,800; debit Interest Receivable $120; credit Sales $4,920. |

|  |  |
| --- | --- |
| B. | Debit Cash $4,920; credit Notes Receivable $4,920. |

|  |  |
| --- | --- |
| C. | Debit Cash $4,920; credit Interest Revenue $100; credit Interest Receivable $20; credit Notes Receivable $4,800. |

|  |  |
| --- | --- |
| **D.** | Debit Cash $4,920; credit Interest Revenue $20; credit Interest Receivable $100; credit Notes Receivable $4,800. |

|  |  |
| --- | --- |
| E. | Debit Cash $4,920; credit Interest Revenue $120; credit Notes Receivable $4,800. |

1. Beckman Enterprises purchased a depreciable asset on October 1, Year 1 at a cost of $100,000. The asset is expected to have a salvage value of $20,000 at the end of its five-year useful life. If the asset is depreciated on the double-declining-balance method, the asset's *book value* on December 31, Year 2 will be:

|  |  |
| --- | --- |
| A. | $36,000 |

|  |  |
| --- | --- |
| B. | $42,000 |

|  |  |
| --- | --- |
| **C.** | $54,000 |

|  |  |
| --- | --- |
| D. | $16,000 |

|  |  |
| --- | --- |
| E. | $90,000 |

1. A finance company or bank that purchases and takes ownership of another company's accounts receivable is called a:

|  |  |
| --- | --- |
| A. | Payer. |

|  |  |
| --- | --- |
| B. | Pledger. |

|  |  |
| --- | --- |
| **C.** | Factor. |

|  |  |
| --- | --- |
| D. | Payee. |

|  |  |
| --- | --- |
| E. | Pledgee. |

1. A company has $90,000 in outstanding accounts receivable and it uses the allowance method to account for uncollectible accounts. Experience suggests that 4% of outstanding receivables are uncollectible. The current balance (before adjustments) in the allowance for doubtful accounts is an $800 debit. The journal entry to record the adjustment to the allowance account includes a debit to Bad Debts Expense for:

|  |  |
| --- | --- |
| A. | $3,600 |

|  |  |
| --- | --- |
| B. | $3,568 |

|  |  |
| --- | --- |
| C. | $3,632 |

|  |  |
| --- | --- |
| D. | $2,800 |

|  |  |
| --- | --- |
| **E.** | $4,400 |

**PROBLEM 1: 12.5 POINTS**

Gary's Dairy uses the aging approach to estimate bad debt expense. The balance of each account receivable is aged on the basis of three time periods as follows: (1) not yet due, $16,000, (2) up to 120 days past due, $5,500, and (3) more than 120 days past due, $2,500. Experience has shown that for each age group, the average loss rate on the amount of the receivables at year-end due to uncollectability is (1) 2 percent, (2) 14 percent, and (3) 35 percent, respectively. At December 31, 2011 (end of the current year), the Allowance for Doubtful Accounts balance is $900 (credit) before the end-of-period adjusting entry is made.

***Required:***

What amount should be recorded as Bad Debt Expense for the current year? Provide the journal entry.

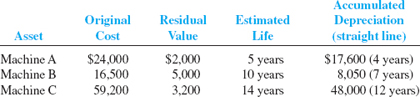
Show how the various accounts related to accounts receivable should be shown on the December 31, 2011, balance sheet.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Aged accounts receivable | |  | Estimated percentage uncollectible |  | Estimated amount uncollectible |
| Not yet due | $16,000 | x | 2% | = | $ 320 |
| Up to 120 days past due | 5,500 | x | 14% | = | 770 |
| Over 120 days past due | 2,500 | x | 35% | = | 875 |
| Estimated balance in Allowance for Doubtful Accounts | | | | | 1,965 |
| Current balance in Allowance for Doubtful Accounts | | | | | 900 |
| Bad Debt Expense for the year | | | | | $1,065 |

The Balance Sheet will show $24,000 as Gross Accounts Receivable (under Current Assets) and a deduction of $1,965 for Allowance for Doubtful Accounts leading to Net Accounts Receivable of $22,035.

**PROBLEM 2: 20 POINTS**

During 2011, Rank Company disposed of three different assets. On January 1, 2011, prior to their disposal, the accounts reflected the following:



The machines were disposed of in the following ways:

|  |  |  |
| --- | --- | --- |
| *a.* |  | Machine A: Sold on January 1, 2011, for $6,750 cash. |
| *b.* |  | Machine B: Sold on December 31, 2011, for $7,000; received cash, $2,000, and a $5,000 interest-bearing (10 percent) note receivable due at the end of 12 months. |
| *c.* |  | Machine C: On January 1, 2011, this machine suffered irreparable damage from an accident and was scrapped. |

**Required**: Give all journal entries related to the disposal of each machine.

a. Machine A – Sold on Jan. 1, 2011:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (1) | Depreciation expense in 2011 - none recorded because disposal date was Jan. 1, 2011. |  |  |  |
| (2) | To record disposal: |  |  |  |
|  | Cash (+A) | 6,750 |  |  |
|  | Accumulated depreciation, Machine A (−XA, +A) | 17,600 |  |  |
|  | Gain on disposal of machine (+Gain, +SE) |  |  | 350 |
|  | Machine A (−A) |  |  | 24,000 |

b. Machine B – Sold on December 31, 2011:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (1) | To record depreciation expense for 2011: |  |  |  |
|  | Depreciation expense (+E, −SE) | 1,150 |  |  |
|  | Accumulated depreciation, Machine B (+XA, −A) |  |  | 1,150 |
|  | ($16,500 – $5,000) x 1/10 years = $1,150. |  |  |  |
| (2) | To record disposal: |  |  |  |
|  | Cash (+A) | 2,000 |  |  |
|  | Note receivable (+A) | 5,000 |  |  |
|  | Accumulated depreciation, Machine B ($8,050 + $1,150)  (−XA, +A) | 9,200 |  |  |
|  | Loss on disposal of machine (+Loss, −SE) | 300 |  |  |
|  | Machine B (−A) |  |  | 16,500 |

c. Machine C – Disposal on January 1, 2011:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (1) | Depreciation expense in 2011 - none recorded because disposal date was Jan. 1, 2011. |  |  |  |
|  |  |  |  |  |
| (2) | To record disposal: |  |  |  |
|  | Accumulated depreciation, Machine C (−XA, +A) | 48,000 |  |  |
|  | Loss on disposal of machine (+Loss, −SE) | 11,200 |  |  |
|  | Machine C (−A) |  |  | 59,200 |