

COURSE: Accounting 215
 LECTURE SESSION: F
 QUARTER: Fall 2002
 TEST: Second Midterm

DATE: November 12, 2003
 INST.: Bill Wells

Version: 1 (2)

(Your name)

What time does your quiz session meet? 1:30

0200000
 } 6
 (144/150) good!

1. GENERAL INSTRUCTIONS:

- You will need access to a hand-held calculator and pencil(s) only to complete this examination; all other materials should be out of sight. Scratch work should be done on the examination.
- You have 80 minutes to complete the test. When the test is over, you should **immediately stop your work**. Work after the exam has ended is not fair to other students who complete the test on time and, therefore, is subject to point reduction at the instructor's discretion.
- If you need clarification (e.g. definition of words, an unclear problem) during the test, raise your hand. We will help you as best we can; we will not, however, reteach any point.
- Select the best answer from any choices provided. Do not make any unnecessary or unsupported assumptions.
- All answers recorded by you must be the result of your own efforts.
- Unless indicated otherwise, all situations are subject to U.S. rules and procedures.
- When this examination is returned to you, you are 1) expected to retain it until the end of the quarter, and 2) return it to your TA upon request.
- BUDGET YOUR TIME WISELY. WE WISH YOU SUCCESS.

2. SPECIAL INSTRUCTIONS

- Partial credit may be given on certain questions marked "PC" if all mathematical work is shown immediately below the problem or the narrative is close to the best answer.
- Multiple choice questions are worth 4 points a piece.
- Assume all items are material and thus subject to GAAP unless indicated otherwise.

INVESTMENTS (19)

1. Assume your firm purchased 15% of the outstanding stock of Georgeta's College Apparel, a college sports apparel corporation. How should your firm report Georgeta's financial information?

☒ The investment should be reported as a single number on the balance sheet and then adjusted annually by the amount of net income earned and dividends paid by Georgeta

☐ The investment in Georgeta should be revalued to its market value at the fiscal year-end

☐ Georgeta's statements should be included in the footnotes of your corporation

☒ Georgeta's statements should be consolidated into your statements

2. (10PC) Your firm, XYZ Inc., invested some of its excess cash as shown below.

1/15/2002 Bought 10,000 shares of ABC stock for \$500,000 total
 7/24/2002 Bought 30,000 shares of DEF stock for \$600,000 total
 11/30/2002 Sold 5,000 shares of ABC stock for \$30 per share
 12/31/2002 Fiscal year ends. On that date, ABC shares were selling for \$40 per share and DEF shares were selling for \$25/share

- a. Assuming ABC is classified as "Available for Sale" and DEF as "Trading," by what amount should owner's equity have changed from all investment events as of the end of 2002? Be sure to show your work if you expect to receive partial credit.)

$$500,000 / 10,000 = \$50 \text{ per share ABC}$$

$$\text{SOLD FOR } \$30 \rightarrow \text{LOSS OF } \$20/\text{share} \Rightarrow \text{LOSS OF } 100,000 \text{ ON RE.}$$

$$600,000 / 30,000 = \$20 \text{ per share DEF}$$

$$1/2 \text{ MONTH } 25 \Rightarrow 5 \times 30,000 = 150,000 \text{ GAIN TO RE}$$

$$5000 \text{ REMAINING SHARES} \times -10 = (50000) \text{ URPID}$$

OWNER EQUITY CHANGED BY 0

- b. (3) Of the total amount reported in your answer to question 10 a above, what amount, if any, should not appear on the income statement?

50,000 WHICH IS AN UNREALIZED PRICE INCREASE DECREASE
 WILL ONLY BE ON BALANCE SHEET.

3. (2) True of False (circle one). Unrealized price increases/decreases related to available-for-sale securities are reported as part of comprehensive income.

CASH (2)

4. (True or False - circle one) If your products firm had \$10,000 invested in a two-year certificate of deposit, that certificate can be included either as a cash equivalent on the first line of the balance sheet or elsewhere as an asset.

CANNOT BE ON FIRST LINE BECAUSE
IT IS RESTRICTED → IE → NOT MOST LIQUID

RECEIVABLES (30)

5. (3) What is the annual interest rate inherent in payment terms of "2/5/n30?"

$$2 + (365 / (30 - 5)) \rightarrow 2 + 14.60 \Rightarrow 29.2\% \text{ INTEREST}$$

6. (2) Suppose your firm was being sued at the time your fiscal year ended. The outcome of the suit is unknown at that time although you believe the chances of losing are remote. What, if anything should your firm do about reporting the potential loss?

NOTHING, BECAUSE DOLLAR AMOUNT IS NOT OBJECTIVELY

ESTIMATABLE & CHANCES OF LOSING ARE REMOTE

7. Use the following information to answer the questions which follow:

	2002	2003
Ending Balance in the Accounts Receivable account	\$5,600,000	6,100,000
Bad debts expense reported in the year	490,000	570,000
Ending balance in the Allowance for Bad Debt account	75,000	80,000
Credit Sales	98,000,000	95,000,000

- a. (4PC) In 2003, what amount of time, on average, did it take to collect receivables?

$$\frac{95,000,000}{\left(\frac{5,600,000 + 6,100,000}{2} \right)} \rightarrow \frac{95 \text{ million}}{5.85 \text{ million}} = 16.24 \text{ DAYS} \rightarrow 22.43$$

$$\frac{365}{16.24} \Rightarrow 22.48$$

- b. (2) If an aging of receivables approach was used to value receivables to their net realizable value, what amount would that method have estimated in 2003?

$$\begin{array}{r} 6,100,000 \\ - 570,000 \\ \hline 5,530,000 \end{array}$$

- c. (4) What amount of accounts were written off in 2003?

$$5,530,000$$

8. (3) Assuming the allowance method of accounting for bad debts is used, do current assets increase, decrease, or remain unchanged when an account is written off? (circle the correct effect)

9. (12PC) In journal entry form (without numbers), record the following events:

a. A credit sale

ACCOUNTS RECEIVABLE
COGS
SALES REVENUE
INVENTORY

b. Writing off an account (assume the allowance method) is used

ALLOWANCE FOR BAD DEBTS
ACCOUNTS RECEIVABLE

c. The year-end adjusting entry, assuming an allowance method is used.

BAD DEBT EXPENSE
ALLOWANCE BAD DEBTS

INVENTORY (24)

10. (3) In a period of falling inventory wholesale prices, which inventory method will maximize net income?

- a. LIFO
- b. FIFO
- c. Weighted Average

11. (4) Assume a particular line of inventory has the following unit costs associated with it.

Historical cost	\$15
Replacement cost	\$12
Net realizable value	<u>\$10</u>
Normal Profit margin	\$5

If there are 100,000 units of this inventory on hand at year-end, what total value should be included in ending inventory?

$10 \times 100,000$

1,000,000

12. Use the information below to answer the questions which follow.

		Units	Cost per unit	Total Cost
1/1/03	Beginning Inventory	100	\$3	\$300
3/14/03	Sales	70		
4/21/03	Purchases	50	\$4	200
5/16/03	Sales	40		

500 = INV

a. (4) Ending inventory using LIFO perpetual

$$(70 + 3) + (40 + 4) = 370$$

$$INV = 500$$

$$500 - 370 = 130$$

130

b. (4) Cost of goods sold using LIFO periodic

$$(50 + 4) + (60 + 3) = 380$$

380

13. (4) You are the consignee of 100 units of inventory. In addition, 500 units are inbound to your firm under terms of FOB destination on December 31st, the end of your fiscal year. At year-end, what amount of goods should be included in the ending inventory count?

0

14. (3PC) Assume a LIFO perpetual system is in use and inventory prices have over a number of years, been increasing. If less inventory is purchased than is sold, what will be the end result on profitability?

INCREASED, BECAUSE YOU ARE SELLING THE OLDER, CHEAPER INVENTORY ON THE BOOKS. AND THEREFORE GROSS PROFIT MARGIN IS LARGER.

15. (2) True or False (circle one) If LIFO is used for tax reporting purposes, it does ~~not necessarily~~ have to be used for financial reporting purposes.

LONG-TERM ASSETS (24)

16. (2) True or False (circle one) Over the life of a depreciable asset, the straight line and double declining balance method methods will depreciate the same amount of an asset's capitalized cost

JUST DIFFERING AMOUNTS PER YEAR

17. True or False (circle one) In general, research and development costs are not recorded in the accounting records until it is determined that the R & D will prove to be successful.

IT WILL BE EXPENSED UP UNTIL ↗

18. In the beginning of 2000, a new machine was purchased for \$50,000 cash. At the time of purchase, it was believed the machine would last 8 full years and be salvageable for \$2000. Based on this information, answer the questions which follow:

- a. (4PC) Assuming straight-line depreciation method is used, what was the asset's book value at the end of 2002?

3 years

$$50,000 - 2000 = 48,000$$

$$48,000 / 8 \text{ yrs} = 6000 \text{ yr}$$

$$50,000 - (3 * 6000) = \textcircled{32,000}$$

32,000

- b. (5PC) Assuming double declining balance method is used, what was depreciation expense in 2001?

$$50,000 * (\frac{1}{8} * 2) = 12,500$$

$$50,000 - 12,500 = 37,500 * (\frac{1}{8} * 2) = \textcircled{9,375}$$

9,375

19. (5PC) Suppose a different asset (original price of \$40,000) had been depreciated over four full years to a book value of \$30,000 by the end of 2002. In the beginning of 2003, \$5000 was invested in the machine, causing its life to be extended (salvage value remained unchanged at \$2000). The modified machine is now expected to last to the end of 2009. What amount of depreciation expense should be recorded in 2003? (NOTE: The correct answer is not a round number.)

2003
2004
2005
2006
2007
2008
2009

} N=7

ASSUMING STRAIGHT LINE DEPRECC

$$30,000 + 5,000 = 35,000$$

$$35,000 - 2,000 = 33,000$$

$$33,000 / 7 = \textcircled{4714.29}$$

4714.29

ASSUMING STRAIGHT LINE

20. Record in journal entry form the sale (for cash) of a depreciated asset for an amount equal to its book value (ignore amounts).

CASH	X
ACCUM DEPRECC	Y
ASSET	Z

21. (3) Your firm developed a process that was patented and it now has commercial value. All developmental costs were paid in cash. What else must have happened to the accounting equation as those payments were made?

- a. Assets increased
☒ b. Owners' equity decreased
 c. Liabilities decreased