COURSE:

LECTURE SESSION:

QUARTER: TEST:

Accounting 215

F

Fall 2002 Second Midterm DATE: November 12, 2003

INST.: Bill Wells

Version: 1

(Your name)

What time does your quiz session meet? \_\_\_\_/:30

02 000 144/150 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 <u>immediately stop your work</u>. 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 de Georgeta's statements should be consolidated into your statements

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

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

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 /10000 =\$ 50 per SHAKE ARC 1 SOLD FOR \$30 → 2005 of \$20/54000 => LOSS OF

13=15

600,000 / 30,000 = \$20. PUT SUARE DEF

5000 REMAINING SHARES \* -10 = (50000) URPID

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) PERE INCREMSE DECREMSE

WILL ONRY DE ON BALANCE SHEET.

(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 of 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 CANNOT BE ON FIRST LINE BETAVEE sheet or elsewhere as an asset. IT IS RESTICICEN -> IE -> NOT MEST LIPVID

### RECEIVABLES (30)

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

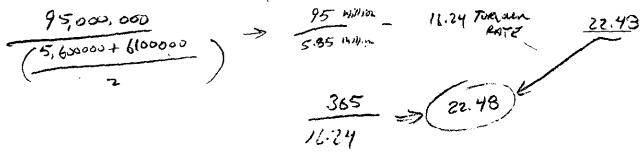
6. (2) Suppose your firm was being sued at the time your fiscal year ended. The outcome of the suit is unknown at that time although you believe the chances of loosing are remote. What, if anything should your firm do about reporting the potential loss?

WOTHING, BECAUSES DOWN AMOUNT IS NOT OBJETTIVELY
CSTINIATERISE & CHANCES OF LOSETHY REE REMOTE

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

	<u>2002</u>	<u>2003</u>
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?



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?

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- 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

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

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

# **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 \$10

Normal Profit margin \$5

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

> 2010 × 100,000

1,000,000

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

		<u>Units</u>	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		305 INV
(4) Ending	inventory using LIFO per	rpetual	+(4044) =	370

130 a.

500-370-(130 INV =500 *38*0 b. (4) Cost of goods sold using LIFO periodic

(5044) + (6043) = (380)

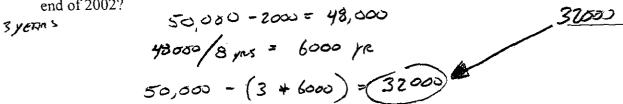
- 13. (4) Your are the consignee of 100 units of inventory. In addition, 500 units are inbound to your firm under terms of FOB destination on December 31st, the end of you fiscal year. At year-end, what amount of goods should be included in the ending inventory count?
- 14. (3PC) Assume a LIFO perpetual 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 INCREMENT, BETAVSE YOU ARE SELLING TOUDER, CHEAPER MUCHTORY profitability? ON THE BOOKS. AND THEREFORE GROSS PROPIT. MARGIN IS LARGER.
- 15. (2) True or False (circle one) If LIFO is used for tax reporting purposes, it does not recessarily 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 TUST DIFFERING AMOUNTS PER YEAR
- 17. True of 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 successful.

IT WILL SE EXPENSED UP UNTIL I

- 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?



b. (5PC) Assuming double declining balance method is used, what was depreciation expense in 2001?  $50,000 + (\frac{1}{8} + 2) = /2500$ 

$$50,000-/1500=37500+(8+2)=9,375$$

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 (salavage 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.)

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

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?

