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

DATE: November 12, 2003
INST.: Bill Wells

Version: 1 2

(Your name)

10
7
4
3
3
2
9
38 112/150

What time does your quiz session meet? 1:30

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?

   equity

   a. 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
   b. The investment in Georgeta should be revalued to its market value at the fiscal year-end
   c. Georgeta's statements should be included in the footnotes of your corporation
   d. 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 A/S
7/24/2002	Bought 30,000 shares of DEF stock for $600,000 total T
11/30/2002	Sold 5,000 shares of ABC stock for $30 per share A/S
12/31/2002	Fiscal year ends. On that date, ABC shares were selling for $40 per share and A/S 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.)

A = L + OE

150,000

ABC 10,000 @ $500,000/10,000 $50/share

5000 x 30 = $150,000

End Year – $40/share

DEF 30,000 @ 600,000/30,000 $20/share

End year 25/share

−7

   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? Any losses

−3

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

−10

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. @ your discretion

RECEIVABLES (30)

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

$$.02\left(\frac{360}{30-5}\right) = \boxed{28.8\%}$$

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?

With a remote chance of loosing you don't have to do anything to your books.

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?

2002: A R — 5,600,000; ABD; BDE — 490,000

2003: A R — 6,100,000; ABD; BDE — 570,000

$365 / 16.239$

$\frac{95,000,000}{5850,000}$ = 16.239

16.239 -1

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?

95,000,000 - 80,000 = 94920000

~~94920000~~ -2

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

80,000 -4

-7

9 8

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

      Acct Rec
      Revenue

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

      Allowance for Bad Debts
      Accts. Recievable

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

      Bad Debt Expense
      Allowance for 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	\$10
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?

-4

100,000 × 12

~~1200000~~

-4

56

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~~	
5/16/03	Sales	~~40~~		

a. (4) Ending inventory using LIFO perpetual 130

70 x 3 = 210
40 x 4 = 160 = 370

300
200
500 - 370 =

b. (4) Cost of goods sold using LIFO periodic 380

40 x 4
10 x 4
60 x 3

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? 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? Your profit will eventually get smaller, due to the fact that eventually you will have to start selling the increased price that you bought over the number of years -3

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

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 successful.

-3

6 -7

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?

   50,000
   -2000
   48,000 / 8 = 6000

   32,000

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

   2000 = 50000 x .25 = 12,500
   2001 = 37,500 x .25 = 9375

   $ 9375.00

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.)

straight line

1999

30,000 + 5000 = 35,000
-2000 / 7 = → 4714.29

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
Accm Dep.
COGS

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

-3

-3

FINANCIAL ACCOUNTING II (22)

22. (18PC) To date you have learned that there are five temporary accounts, all of which should be closed at year-end. Suppose there were activities and thus year-end balances in each of those five ~~accounts. In the space~~ below, close those five accounts as your were shown in the lecture. For the purposes of this problem, assume this firm had net income for the year (as opposed to a net loss). Your answer should be in the form of a journal entries without numbers.

Div.
Rev.
Ret. Earn.
Loss/Exp.
Income Sum

Income Summary
Rev

Expense
Income Summary

G-2

Retained Earnings
Dividends

Income Summary
Retained Earnings

Close income summary to retained Earnings

-2

23. (4PC) Suppose instead the above firm experienced a loss in the reporting year. Show the last journal entry that would post that loss to the appropriate balance sheet account.

Retained Earnings
Income Summary

ADJUSTMENTS (20)

24. (6PC) As a matter of policy, your firm capitalizes all rent prepayments it receives, making any adjusting entries at the end of the fiscal year, which occurs on December 31. On November 1, 2002, $4,500 - three months rent - was paid in advance **to your firm**. What adjusting journal entry should have been made on December 31, 2002 by your firm?

Unearned Rev. 3000
Rev 3000

25. (6PC) Using the same facts as in question 3 above, what journal entry should have been made on January 31, 2003, assuming such entries are normally recorded on that date?

Rev. 1500
Unearned Revenue 1500

-2

26. (6PC) Assume instead that firm policy is to record all advance rent receipts in an income statement account upon their receipt. Using the same date and numerical facts from question 3 above, what adjusting entry should have been made on December 31, 2002?

-6

27. (2) True or False (circle one) In reference to the facts from question 3-5 above, the amount of rent revenue reported in 2003 should be the same, regardless of whether the initial receipt was capitalized or "expensed."

REVERSE INTERPRETATION (5)

28. (5PC) Given the following, what amount of inventory was on hand at the end of the year?

	Beginning of year	During the year	End of year
Inventory	300,000		??????
Cost of Goods sold		700,000	
Accounts Payable	60,000		90,000
Cash payments for inventory		720,000	

320,000

-3

(2)

Inv: 300, 720 | 700; 320

COGS: 700

Acc Pay: 60, 30; 90

Cash: 720

ASSETS (4)

720,000

29. Assuming current assets included inventory and other prepaid items, if current assets equaled \$10,000 and current liabilities equaled \$5,000, which of the statements below, if any, is incorrect?

a. Working capital is \$5,000
b. The current ratio is 2:1
c. The quick ratio must be less than 2:1
d. None of the above are incorrect, i.e., they are all correct

-9