$\frac{32}{74} = 43\%$

mean 58 %

Accounting 215 **Second Midterm** **Name** ______________

Fall 2000 **Quiz Section** ______________

1. A compensating balance is

   ~~a.~~ cash held in escrow.
   b. a check received from a customer which has "bounced."
   c. a minimum cash balance which must be maintained on deposit.
   d. items which are not cash, but equivalent to cash.

   Ø

2. Under the allowance method of accounting for bad debts, the recognition of bad debts expense

   a. decreases current assets and net income.
   b. decreases current assets and increases net income.
   c. increases current assets and net income.
   d. increases current assets and decreases net income.

   2

Stroganoff Company: *Use the information that follows concerning the current assets and current liabilities of Stroganoff Company at December 31, 2001.*

Current Assets:		
Cash		$3,220
Accounts Receivable	$1,500	
Less Allowance	20	1,480
Inventory		500
Prepaid expenses		800
Total		$6,000
		======
Current Liabilities:		
Accounts payable		$1,000
Wages payable		600
Taxes payable		700
Rent payable		900
Notes payable		1,200
Total		$4,400
		======

3. Refer to Stroganoff Company. How would the current ratio be affected if Stroganoff pays its accounts payable, increase or decrease? Show your calculation of the current ratio before ~~and after~~ the payment.

   $\frac{\text{current assets}}{\text{current liabilities}}$ $\frac{6,000}{4,400} = 1.36$ Before $\frac{6,000}{4400-600=3800} = 1.58$ after increase

   2

4. Refer to Stroganoff Company. Calculate Stroganoff's working capital and quick ratio at December 31, 2001.

   current ratio current assets - current liabilities = 1600 2 $\frac{3220+1500+1300}{4400}$

   quick ratio - cash + A/R + Marketable securities / current liabilities = ~~1.37~~ Ø

5. Refer to Stroganoff Company. How would the current ratio be affected if Stroganoff collects $300 from customers for amounts owed?

   ↓A/R ↑A

   $\frac{\text{current assets}}{\text{current liabilities}}$ $\frac{\text{assets} \uparrow}{\text{liabilities}}$ the same → ~~increase~~ Ø

   = 6

6. Singe Corp. sells to customers only on credit. For the year ended December 31, 2001, the following information is provided:

Sales revenue	$940,000
Accounts receivable, 1/01/01	435,000
Allowance for doubtful accounts, 12/31/01 (before adjustment for bad debts)	800
Collections during ~~2002~~ 2001	960,000
Sales returns	4,000
Accounts written off as uncollectible during 2001	32,000

a. Determine the balance of the Accounts Receivable account at December 31, 2001.

(435,000) - 3600 = 399,000

Ø

940
+ 435
- 960
415

b. If Singe estimates bad debts at 1% of net credit sales, how much is bad debt expense?

(.399,000 x .01) = 3,990

Ø

7. The following are partial balance sheets for X-Bar Company dated December 31:

	2001	2002
Accounts receivable	$20,000	$60,000
Allowance for doubtful accounts	3,000	7,000
Net realizable value	$17,000	$53,000

7

During 2002, $2,500 of accounts receivable were written off as uncollectible. Calculate the amount of bad debts expense recognized on X-Bar's 2002 income statement.

~~87,000 - 2500 - 50,500~~

9500 $ 7,000 + 2500 = ~~9500 $~~ 4500 $

Ø

8. Monico Company fraudulently overstated its 12/31/01 and 12/31/~~02~~ inventory by $5,000 and $10,000, respectively. As a result of these overstatements,

a. 2001 income is overstated by $5,000 and 2002 income is overstated by $5,000.
b. 2001 income is overstated by $5,000 and 2002 income is overstated by $10,000.
c. 2001 income is understated by $5,000 and 2002 income is correct.
d. 2001 and 2002 incomes are not affected.

Ø

9. Jason's Pet Store purchased 10 kittens, paying $15 each. Jason's paid the $60 shipping costs and $100 for shots that are required by state law before kittens can be sold. The cost of Jason's inventory of kittens is

a. $150.
b. $210.
c. $310.
d. $460.

150
160
310

2

-2

10. The President and CEO of Zeran Corporation receives a cash bonus equal to 1% of audited net income during the current year. During a period of rising prices and increasing inventory, which inventory cost flow assumption would measure the smallest compensation expense and greatest cash position for Zeran Corporation?

   a. FIFO
   b. LIFO
   c. Averaging
   d. NIFO

Ø

11. The LIFO conformity rule requires a company that uses

   a. the LIFO assumption for computing cost of goods sold on its tax return to also use the LIFO assumption in preparing its financial statements.
   b. any inventory cost assumption to use the LIFO cost assumption for tax purposes.
   c. the LIFO assumption for computing cost of goods sold on its financial statements to also use LIFO on its tax return.
   d. the LIFO assumption to omit paying taxes on inventory profits.

2

Spin Company

Spin Company began business on January 1. During January, Spin made the following purchases:

January 3	100 units @ $20	$2,000	LIFO 100 x 20 80 x 10 2800 Inv
January 21	200 units @ $10	$2,000	
January sales:	180 units @ $30	$5,400	
	480 60	9,400	5400 CGAFS - 2800 Inv 2600 C's + 500
Other information:			
January expenses excluding cost of goods sold		$ 500	
January 31 current assets excluding inventory		6,000	
January 31 current liabilities		2,000	
Number of shares of common stock		100	

---

12. Refer to Spin Company. Calculate Spin's January ending inventory and earnings per share under the FIFO and LIFO cost flow assumptions.

2 For page

FIFO
100 @ $30 = 3000
200 @ $10 = 2000
180 @ $20 3,600
8,600
− 500
− 2000
+ 6000
12,100/100 = ~~121~~ Ø EPS

ending balance Ø Ø

LIFO
180 @ 20 3600
200 @ 10 = 2000
100 @ 20 2000
7600
− 500
− 2000
+ 6000
11,100/100 ~~111~~ EPS Ø

13. Karms, Inc. purchased available-for-sale securities from Adams Company on December 20 for $550. On December 31, the market value of those securities is $700. Which one of the following is appropriate on December 31?

a.	Available-for-Sale Securities	700	
	Unrealized Gain on Available-for-Sale Securities		700
b.	Available-for-Sale Securities	150	
	Unrealized Gain on Available-for-Sale Securities		150
c.	Available-for-Sale Securities	150	
	Unrealized Price Increase on Available-for-Sale Sec.		150
d.	No entry is required.		

2

14. The valuation of Available-for-sale securities to a price lower than cost:

EPS price / # of shares

- a. increases earnings per share.
- b. decreases earnings per share.
- c. does not affect earnings per share.
- d. may increase or decrease the earnings per share, depending on the surrounding situation.

∅

15. Available-for-sale securities
- a. are reported on the balance sheet at original cost.
- b. may have unrealized gains or losses on the income statement associated with price increases or decreases.
- c. may have unrealized price increases or decreases, which increase or decrease stockholders' equity.
- d. must be reported in the stockholders' equity section of the balance sheet at fair value.

2

16. Trading securities of Lands End were purchased by Bates Company on December 20 for $550. On December 31, the market value of those securities is $600. Which one of the following adjusting journal entries is appropriate at December 31?

a.	Trading Securities	600	
	Unrealized Gain on Trading Securities		600
b.	Trading Securities	50	
	Unrealized Gain on Trading Securities		50
c.	Trading Securities	50	
	Unrealized Price Increase on Trading Sec.		50
d.	No entry is required.		

2

17. On December 31, 2002, available-for-sale securities with an original cost of $12,000 have a carrying value on the balance sheet equal to their market value of $14,000. On January 5, 2003, those securities are sold for $16,000. Give the appropriate entry to record the sale of the available-for-sale securities.

Dec. 31, 2002	A.F.S.	2000	
	Unrealized price increase		2000
Jan 5, 2003	CASH	16,000	
	A.F.S		14,000
	Gain		2,000

2

8

18. On December 31, 2002, trading securities with an original cost of $13,000 have a carrying value on the balance sheet equal to their market value of $16,000. On January 5, 2003, those trading securities are sold for $18,000. Prepare the appropriate entry to record the sale of the trading securities.

Dec 31, 2002 T.S. 3,000
unrealized gain 3,000

Jan 5, 2003 CASH 18,000
T.S. 16,000
Gain 2,000

→ 5,000 # gain

2

19. The purpose of recording depreciation expense is to

a. provide cash necessary to replace plant assets when they are used up.
b. record the balance sheet value of plant assets to be approximately the replacement value of the assets.
c. make it difficult to calculate net income.
d. match expenses with revenues using a reasonable systematic method.

2

20. Accumulated depreciation is an account which

a. adjusts plant and equipment so that its balance sheet value approximates its replacement cost.
b. is a long-term liability.
c. is equal to total depreciation expense recorded and decreases total plant and equipment.
d. reduces intangible assets.

2

21. Equipment with a cost of $15,000 and accumulated depreciation of $9,000 was retired with a gain of $3,000. The cash received from the disposition of equipment is

a. $5,000.
b. $9,000.
c. $12,000.
d. $1,000.

2

22. Depreciation is an expense which does not use cash during the period in which it is recognized. When did (will) the cash outflow associated with depreciation occur?

a. When the asset is retired
b. When the asset was acquired
c. When the replacement cost of the asset increases
d. There never is a cash outflow associated with depreciation expense.

0

18

23. The balance in accumulated depreciation on January 1 and December 31 is $40,000 and $35,000, respectively, during a year in which an asset with a cost of $18,000 and net book value of $0 was retired. Depreciation expense for the current year is

a. $20,000.
b. $13,000.
c. $10,000.
d. $5,000.

Ø

24. Cap Company purchased a machine on January 1 for $500,000. The machine has an estimated useful life of 5 years with a salvage value of $50,000. Under the straight-line method, accumulated depreciation ~~expense~~ at the end of year 2 is

450,00 / 5 = 90,000 x2 = 180,000

a. $90,000.
b. $180,000.
c. $200,000.
d. $100,000.

2

25. The balance of accumulated depreciation on January 1 and December 31, 2000 is $28,000 and $37,000, respectively. During 2000, depreciation expense is $14,000, and equipment with a cost of $15,000 is sold for $9,000. Calculate the loss or gain from the sale of equipment.

*

cost : 15,000 $ JAN 1 28,000 $
sold : 9,000 $ Dec 31 37,000 $
~~2000~~ $6,000 depreciation expense
~~gain 8,000 $~~
2000 depreciation expense = 14,000

Ø

26. On January 2, 2000, Michelman Company, which uses straight-line depreciation, purchased equipment for $76,000 with a useful life of 10 years and $-0- salvage value. On 12/31/2004, the equipment was sold for $45,000.

a. Give the appropriate entry to record the sale of the equipment.

7600 x5 =
ad 3800
cash 4500
BV =
equip. 76000
gain : 7000

~~Equipment 76,000~~
~~CASH 76,000~~
~~CASH 45,000~~
~~Depreciation expense 31,000~~
~~Loss 14,000~~

Ø

b. Describe exactly how the cash received from the sale is reported on the statement of cash flows.

*

It would go under the investing section of the statement of cash flows.

Ø

2

27. Assume ABC, Inc., reports $53,000 of net income for the year ended 12/31/2000. ABC records $12,000 of depreciation expense for the same year. If the depreciation expense is the only item causing a difference between net income and cash flow from operations, what is the amount of cash flow from operations for the year 2000?

65,000
12,000
~~53,000~~

NI 53,000

Ø

28. XYZ, Inc., renowned maker of widgets, presented the following information for the year ended 12/31/2000:

	12/31/2000	12/31/1999
Ending Inventory, at LIFO	$120,000	$105,000
LIFO Reserve	$ 22,000	$ 19,000
Effective income tax rate	30%	30%
Net Income	$ 45,000	$ 40,000

Answer the following **(you must show your calculations to receive credit)**:

a. What is the 12/31/2000 inventory on a FIFO basis?

~~120,000 + 22,000 = 144,000 $~~ Ø

b. How much has XYZ, Inc., saved over the years by using LIFO instead of FIFO?

~~TR X 22,000 - 19,000)~~
~~.30 X 3,000 = 9000~~ Ø

c. What is the difference in Cost of Goods Sold for the year 2000?

$22000 - 19,000 $ = 3,000 $

2

d. What would net income be for the year 2000 assuming XYZ, Inc., had changed to FIFO inventory costing a few years ago? Be careful, net income is the "bottom line," which is of course on an after tax basis.

(1-.30) = .7 X 3,000 $
= 2,100

2

= 4