ACCTG 215 Fall 08

Section: EB

Quiz 4 Kirsten's Kitchens

There are 20 points possible on this quiz. You may use a calculator and scratch paper if you like. If I am not sure what you're answer is, you will not receive any credit.

1) True or false (circle one). The journal entry to record a cash discount received on purchases usually includes a credit to "cash discounts on purchases" or a similarly named account (3 points).

Accts Pay
Purch. Dis
Cash

Please use the following information to answer questions 2-5. Kirsten's beginning inventory included 120 stoves. The oldest 40 stoves cost \$65 each and the other 80 stoves cost \$85 each. On January 15th, Kirsten bought 80 more stoves for \$100 each. Kirsten sold a total of 160 stoves in January for \$200 each.

2) Which of the following is not a possibility for Kirsten's ending inventory and cost of goods sold? (3 points)

	Beg. Inv.	40	\$65	\$2,600
		80	\$85	\$6,800
Jan 15	Purchase	80	\$100	\$8,000
		200		17,400
	Sold	160	\$200	\$32,000

a) COGS - \$13,050 Ending Inventory - \$4,350

c) COGS - \$12,250 Ending Inventory - \$5,150

b) COGS - \$9,400 Ending Inventory - \$8,000

d) COGS - \$12,400 Ending Inventory - \$4,500

3) What is the value of Kirsten's **ending inventory** on January 31st if she uses a **perpetual FIFO** cost flow assumption? (3 points)

a) \$2,600

b) \$4,000

c) \$3,480

d) It is not possible to answer without knowing when the sales happened

4) What is Kirsten's **cost of goods sold** for the month of January if she uses a **perpetual LIFO** cost flow assumption? (3 points)

a) $14,800

b) $13,400

c) $16,000

d) It is not possible to answer without knowing when the sales happened

5) If Kirsten uses a **periodic weighted average** cost flow assumption, what was her **gross profit** in January? (3 points)

Sales = 32,000

17400/200 = $87

32,000 − 13,920 = 18,080

160 × 87 = 13,920
COGS

Answer: $18,080

6) You just found Boardwalk in the McDonalds monopoly game. McDonalds gives you the following options: 1 – They will pay you $50,000 per year at the end of the year for each of the next 20 year. 2 – They will give you one payment of $500,000 today. McDonalds bonds earn 7% interest (note that if you take option one, you become a creditor to McDonalds which is similar to owning McDonalds bonds). **Which option will you take? Show whatever calculations you think are necessary to support your answer. (5 points – 4 points for calculations, 1 point for the answer)**

$PV_{\text{ordinary annuity}}$	19	20	21	$FV_{\text{ordinary annuity}}$ 19	20	21
7%	10.34	$\boxed{10.59}$	10.84	37.38	41.00	44.87

$PV_{\$1}$	19	20	21	$FV_{\$1}$ 19	20	21
7%	0.28	0.26	0.24	3.62	3.87	4.14

PV = 50,000 × 10.59

PV = 529,500

529,500 > 500,000 therefore, I will take $\boxed{\text{option 1}}$