Mason, Many Ann Fall 2004 ACCT 715 Second Middern

Accounting 215, Section B Autumn 2004 Second Midterm November 16, 2004

Instructor: Mary Ann Mason Total Points Available: 150

Points Scored: 114



Name	Quiz Section (circle one) A	B C
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You will need a hand-held calculator and pencil(s) only to complete the 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 it 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 during the test (e.g. definition of words, an unclear problem), raise your hand. We will help you as best we can. We will not, however, re-teach any point.

Select the best answer from any choices provided. Do not make any unnecessary or unsupported assumptions.

All answers recorded must be the results of your own legitimate efforts.

Unless indicated otherwise, all situations are considered material and thus subject to the generally accepted accounting principles in the U.S.

The problems marked with PC indicate there is partial credit available. Please show your work.

BUDGET YOUR TIME WISELY. WE WISH YOU SUCCESS.

Accounting 215, Section B Autumn 2004 Second Midterm November 16, 2004

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Name	The state of the s

Quiz Section (circle one) A



# . FINANCIAL ACCOUNTING II

1. (12 pts-PC) Prior to the year-end closing journal entries, Sammie Trucking had the following account

palances.			
Cash	2,500	Revenue 🖍	300,000
Equipment	300,000	Gas Expense 🖍	64,000
Accum. Depreciation-	,	Repairs Expense	14,000
Equipment	40,000	Interest Expense	4,800
Accounts Payable	14,000	Depreciation Expense	.10,000
Note Payable	80,000	Distribution to Owner (dividend)	150,000
Interest Payable	300	Loss on Sale of Equipment ~	45,000
Contributed Capital	100,000		
Retained Eamings	56,000		

Provide the closing journal entries that are needed prior to producing the financial statements.

Leverue	300,000		137600
Gas Expense	64000		
Repairs Expense	14,000	0200	
Intest Expense	e 4,800		
Depreciation Expe			
Other Expense	45,000		
Income Symma	my 162,200		

Income Summary 162,200, Retained Earnings 162,200,

> Retained Earnings 150,000. Divillants 150,000

(4 pts) If a machinery repair expense of \$1,000 was mistakenly debited to an asset account instead of an expense account, then
 a) the assets will not equal the liabilities plus the owners' equity.
 b) the error will cause the unadjusted trial balance to be out of balance.
 c) it is possible the error may never be found.
 d) after the closing entries are made, retained earnings will be lower than it otherwise should after the closing entries are made, retained earnings will be lower than it otherwise should trial balance?
 d) Interest expense, purchase discounts would normally show a zero balance on a post-closing (final) trial balance?
 d) Interest expense, purchase discounts taken, sales revenue, supplies expense
 d) Repairs expense, loss on sale of equipment, accumulated depreciation, interest income Depreciation expense, cost of goods sold, allowance for bad debts, wages expense
 d) Interest expense, unrealized price increase of investment, revenue, income summary

(2 pts) Adjusting entries never involve the cash account.

a. True b. False

> On December 1, 2003, Aerotech Ltd. paid \$12,000 for one year's rent from December 2003 through November 2004. The entire amount was recorded as rent expense at the time the payment was made.

a: (4 pts-PC) Record the adjusting journal entry at December 31, 2003.

Prepaid lent (+A) 11,000 (Expensed after First month)
Rut Expense(15E) 11,000

 b. (4 pts-PC) Assume the \$12,000 had been capitalized at the time it was paid. Record the adjusting journal entry at December 31, 2003.

Prepaid Rent(-A) 1000

6. (4 pts) Rye Grass Corp. owed its employees one week of salary at December 31, 2003 but forgot to make the adjusting journal entry before producing its financial statements. What effect will this error have on the company's return on assets?

Return on assets is greater than it otherwise should be.
b. Return on assets is less than it otherwise should be.

c. There is no effect on the company's return on assets.

d. Not enough information to evaluate effect on return on assets.

ROA = (ND+ Interest NI will be Arg. Total Assets higher.

When the numerator 15 higher, the result is higher.

(-8)

### **REVERSE INTERPRETATION**

7. (6 pts-PC) Given the following information, how much cash was received from customers during 2003? (Hint: assume all customers initially charged their purchases.)

int. abbumb an babtomers amany so	12/31/02	12/31/03
Accounts Receivable (Debit )	140,000	130,000
Allowance for Bad Debts (catio)	20,000	25,000
Revenue	•	750,000
Rad Deht Expense		10,000

Open. Al Cash rac.

Softing and Costs specification

Costs fall.

B DE

A/R 140,000	(	Cash	Revenue	All Zan
139000	10,000	745,003	745000 5000 750,000	-5,0 -25,

### **ASSETS**

8. (4 pts) Roger Nelson and Associates has come to your bank to borrow some money. Mr. Nelson has provided you the balance sheet below for December 31, 2003. Calculate the quick ratio.

Cash	\$ 3,000	Accounts payable	\$ 5,300
Investments	10,000	Wages payable	1,500
Accounts receivable	6.300	Interest payable	400
Allow, for bad debts	(2,000)	Total current liabilities	 7,200
Inventory	14,800	Long-term note payable	21,700
Total current assets	32,100	Total liabilities	28,900
Equipment	75,000	Owner contributions	25,000
Accum. Depreciation	(25,000)	Retain earnings	28,200
Total assets	\$ 82,100	Total liabilities	
70101 00010		and owner's equity	\$ 82,100

Quick Ratio= Cash + Securities + A/R = 3,000 + 10,000 + 6,300 TO.

Courant Liabilities 7200

CASH

9. (4 pts) Sun Valley Bakery has an investment account with a brokerage firm in which \$40,000 is invested in mutual funds and \$5,000 is in a money market fund. How would these amounts appear on the balance sheet?

a investments of \$45,000 b. Cash of \$45,000

Cash of \$5,000 and investments of \$40,000

None of the above are correct

Money market fund =

Specific investment in liquids,

Whoseyou can get back your

original interment when you want.

### RECEIVABLES

- 12. (3 pts) If a company changes its cash discount offer from 3/10/n30 to 2/10n60, then it would expect its Days Receivable to
  - 30 18.25× 300 54.75 Two restatis = Credit Sales

    60-10: (365) Z060 = 14.6 Day 5 365

    Contro

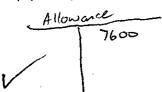
a. Decrease b) lacrease Remain the same

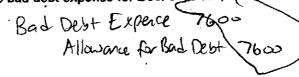
- 13. Android Corporation had the following aged accounts receivable as of Dec. 31, 2003.

0 - 30 days	\$ 500,000
31 - 60 days	100,000
61 - 120 days	45,000
more than 120 days	10,000

The credit balance in the Allowance for Bad Debts is \$7,600 (before the 2003 adjustment for bad debt). The management of the company has determined the following percentages should be used to compute the estimate of the amount that will eventually prove uncollectible: 0 - 30 days, 2%; 31 - 60 days, 3%; 61 - 120 days 6%; and more than 120 days, 25%.

a. (4 pts-PC) Record the journal entry for the bad debt expense for Dec. 31





b. (6 pts-PC) On January 22, 2004, Android Corporation collected \$2,500 on an account that had previously been written off. Record the journal entry(ies) necessary to record this event.

2500×3%= \$75.

Account Receivableto = 2425 Allowance for Bad Destey?: 22425

7500-75

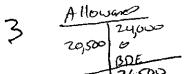
14. (4 pts) What is the annual interest rate inherent in the payment terms 2/15,n30?

15. Jorgenson Corporation's financial statements included the following information.

	<u>2002</u>	2003
Accounts Receivable	525,000	625,000
Allowance for Bad Debts	24,000	26,500
Cash collections		2,000,000
Accounts written off in 2003		20,500
2003 Revenue (all initially charged)	,	2,300,000

a. (4 pts-PC) The company uses the percent of sales method to compute bad debt expense. What percentage was used for 2003?

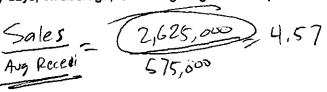
A/R + Cash = Sales 2,625,000



b. (4 pts-PC) How many days, on average, is it taking Jorgenson Corp. to collect its receivables?









INVENTORY

16. (4 pts) Stanley Company uses the periodic FIFO method to account for inventory. The company mistakenly excluded \$1,000 of goods from its December 31, 2002 physical inventory count. Its December 31, 2003 inventory amount was correct. As a result of this error,



a. 2002 ending inventory is overstated by \$1,000.

2002 1 1 protes

- b) 2002 net income is overstated by \$1,000.
- ₹ 2003 net income is overstated by \$1,000.
- d. 2003 cost of goods sold is overstated by \$1,000.
- 17. (4 pts) If a firm uses of the perpetual method of inventory accounting, which statement(s) is(are) correct?

A physical count of inventory at the end of the accounting period is necessary to determine the

cost of goods sold. Spoilage, theft, and obsolete items will be hidden in ending inventory.

Both of the above are correct.

at. None of the above are correct.

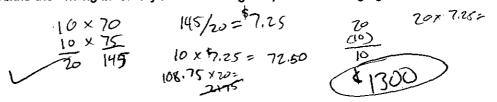
It can be used to determine COGS at the End but by Keeping track of individual events it is not necessary.



18. Presented below are the inventory transactions for Cold Dryer Partnership for 2003.

January 1	beginning inventory	30 units costing 10 units for	\$60 each
March 15	purchased		\$70 each
October 29	purchased	10 units for	\$75 each
February 27	sold sold	10 units for	\$100 each
June 24		20 units for	\$120 each

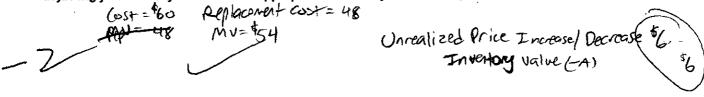
a. (4 pts-PC) Calculate the ending inventory for 2003 using the periodic averaging cost flow assumption.



b. (4 pts) Calculate the cost of goods sold for 2003 under the periodic LIFO cost flow assumption.

c. (4 pts) Calculate the gross profit margin for 2003 under the periodic LIFO cost flow assumption.

19. (4 pts-PC) At year-end, you have one item left in your inventory. You bought the item earlier in the year for \$60. It would now cost you \$48 to buy an identical item. You normally sell the item making a \$7 profit. At this time, the market conditions suggest you can sell the item for \$54. Write the adjusting journal entry to reflect the appropriate value of your inventory.



- 20. (4 pts) Hangdog Equipment Company sells rock climbing equipment. Which of the following items would be excluded from Hangdog's December 31 ending inventory?
  - Goods in transit sold FOB destination that have been shipped, but not yet received by Hangdog's
     customer.
  - Goods that Hangdog holds for sale as the consignee.

    C. Goods that Redpoint Company, another retail store, sales on consignment for Hangdog that
  - remain unsold at December 31.
    d. Goods in transit purchased FOB shipping that were shipped by the supplier on December 28, but not yet received by Hangdog.

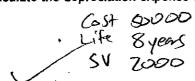


## **LONG-LIVED ASSETS**

- 21. (4 pts) The purpose of recording amortization expense is to
  - a. provide cash necessary to replace plant assets when they are used up.
  - b. record the balance sheet amount of plant assets at replacement value.
  - match expenses with revenues using a reasonable systematic method.
  - d make it difficult to calculate net income.
- 22. (4 pts) Equipment with a cost of \$22,000 and accumulated depreciation of \$15,000 was retired with a gain of \$1,000. The cash received from the disposition of equipment is



23. (4 pts-PC) A machine was purchased on January 1, 2002 for \$50,000. The machine has an estimated useful life of 8 years with a salvage value of \$2,000. If the double-declining-balance method is used, calculate the depreciation expense for the second year?



cost 60000 50,000 
$$x(\frac{1}{8})x^2 = 12,500$$
  
Life 8 years  
SV 7000 50,000  $-12,500 = 37,500 \times (\frac{1}{8})x^2 = 9,375$ 

24. (5 pts-PC) Sweetwaster Co. incurred the following costs related to equipment during November 2002.

Purchased equipment for \$90,000, terms 3/15, net 45. Paid within 15 days. \$7,300 Had the equipment installed and paid the installer \$2,000. Had the equipment installed and paid the installer \$2,000.

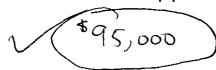
Paid the freight bill for the truck that delivered the equipment for \$1,000.

Advertised a new product that will be produced by the new equipment, \$3,400

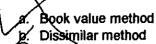
Sales taxes paid on the equipment amounted to \$3,800.

Trained employees how to use the equipment for \$900.

Calculate the cost of the equipment.



25. (4 pts) Which one of the following depreciation methods will typically result in the smallest amount of current taxes paid during the early periods of an asset's life?



- Straight-line
- Double-declining-balance



#### INVESTMENTS

- 10. (4 pts) Ava Cosmetics purchased 30% of Bufont Hairspray's stock during 2003. When will Ava Cosmetics report income from Bufont?
  - a. Dividends are declared.
  - b. Dividends are paid.
  - Adjusting entry is made to record fair value adjustment.

    (d) The investee earns net income for the accounting period.
- 11. On Nov. 2, 2003, Big Dogs, Inc. purchased 200 shares of Cats Alive Company for \$16,000 with plans to hold the investment for several years. On Dec. 31, 2003 the readily available market value of one share of Cats Alive was \$85. 16,000/200 = \$ 60 /share
  - a. (3 pts) Will Big Dogs treat this investment as a TRADING SECURITY AVAILABLE FOR SALE, or HOLD TO MATURITY? (Circle one)
  - b. (4 pts-PC) Record the journal entry Big Dogs will recognize to mark their investment to market value.

    MU/share

485 x 200 = 17,000 MU
-10000
Available for Sale Inestments (+A) 1,000
Un Realized Price Inchâie/Necorase (+SE) 1,000

- c. (3 pts) Will the entry in "b" above INCREASE, DECREASE, or have NO EFFECT on net income? (Circle one)
- d. (4 pts-PC) On February 28, 2004, Cats Alive paid a \$4.00 per share dividend. Record Big Dog's journal entry for this event.

Dividends (SE) 800 Dividends Payable(UKOO

e. (8 pts-PC) On April 1, 2004, Bull Dogs sold their stock in Cats Alive for \$18,000. Record the journal entry for this event.

COSS 1,000

Truestment on 17,000

Gain on Sale 2,000

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