A215

2009 Practice Exam II

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*Note: This was Exam II last year. We used a different text last year so I had to modify some problems and delete others. In addition, some topics were not a part of last year's exam (e.g., bank reconciliations) but will be a part of this year's exam.

- You have one hour and twenty minutes to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate sheet).
- Please check to see that you have 9 pages (they are numbered).

1. Several contra accounts can make up the difference between net sales and gross sales. Name two:

______________________[sales returns, sales allowances, cash discounts]

____

2. On January 5, Dolphin Corporation sells $40,000 worth of headbands to Patriot Corporation on credit with terms 10/15, n/90. On January 16, Patriot pays cash to reduce its accounts receivable to $20,000. Record the journal entry that Dolphin would enter on January 16 to record this transaction.

ANSWER

Cash	18,000	
Cash discount	2,000	
Accounts receivable		20,000

3. On January 1, 2005, Bill Corporation purchased a truck for $50,000. Bill estimates the truck's useful life to be 5 years, at which time the truck is expected to have a salvage value of $5,000. On January 1, 2008, Bill sells the truck for $25,000. Bill uses the straight-line method of depreciation for all of its assets. Provide the journal entry to record the sale of the truck on January 1, 2008.

ANSWER

Depreciation = ($50,000 - $5,000) / 5 yrs = $9,000/yr

Book value on 1/1/08 = $23,000 (50,000 – (9,000*3))

Cash	25,000	
Accumulated depreciation	27,000	
Truck		50,000
Gain on sale of truck		2,000

4. Titan Corporation uses the allowance method (percent of accounts receivable) to account for uncollectible accounts. On January 10, Titan learns that a customer, Mr. Young, has gone bankrupt and will not pay the entire amount that he owes to Titan. Mr. Young owes Titan $15,000. Record the journal entry that Titan would enter on January 10?

ANSWER

Allowance for bad debt	15,000	
Accounts receivable		15,000

5. In response to corporate accounting scandals Congress passed legislation in 2002 that set forth a variety of new guidelines related to auditor-client relations and internal controls. What is the name (or acronym) of the legislation that Congress passed?

________________________________ [Sarbanes-Oxley Act or SOX]

6. Giant Corporation uses the periodic method to account for inventory. At the end of 2006, Giant Corporation made an error and overstated ending inventory by $50,000. At the end of 2007, Giant Corporation correctly stated ending inventory at $60,000. What is the effect on retained earnings of making this error at the end of 2006 and 2007?

2006: ________________________ [Retained earnings is overstated by $50,000]

2007: ________________________ [Retained earnings is correctly stated]

7. On January 1, Bengal Company purchases a new car from Steeler Company. Bengal paid Steeler $20,000 cash and traded in an old car with a book value of $4,000 and total accumulated depreciation of $16,000. Bengal did not need to recognize a gain or loss on the transaction. What is the journal entry that Bengal would record to reflect this transaction?

ANSWER

Car (new)	24,000	
Accumulated depreciation	16,000	
Car (old)		20,000
Cash		20,000

8. What do the following acronyms stand for:

LIFO [Last-in, first-out]

FIFO [First-in, first-out]

FOB shipping point [Freight (or free) on board shipping point]

9. What do we call the difference between a company's inventory valued using FIFO and a company's inventory valued using LIFO?

______________________________ [LIFO reserve]

10. At the end of fiscal 2007, Texan Corporation has computer inventory on its balance sheet at $54,000. The market price of the inventory is $32,000. Does Texan need to write down its inventory? If so, provide the journal entry to do so.

ANSWER
Yes.

Cost of goods sold (or loss on inventory write-down)	22,000	
Inventory		22,000

11. During fiscal 2007, Bronco Company purchased merchandise totaling $450,000. Bronco returned $12,000 of the goods because they were damaged. Bronco took advantage of purchase discounts totaling $10,000 during the year and paid for freight to ship the merchandise to its warehouse totaling $800. Bronco did not take advantage of any trade discounts. Bronco's beginning inventory was $5,000. Cost of good sold for the year totaled $428,800. What is Bronco's ending inventory at the end of 2007?

ANSWER
5,000 + 450,000 + 800 – 428,800 – 12,000 – 10,000 = 5,000
Ending inventory = 5,000

12. Chief Corporation uses the activity-based method of depletion. At the beginning of 2007, Chief purchases timber-harvesting rights for $400,000. Chief estimates that it will be able to harvest 10,000 big trees. When Chief is done harvesting the 10,000 big trees, it estimates that it can sell the right to salvage the remaining little trees to another company for $100,000. In 2007, Chief harvests 2,000 trees. Provide the depletion journal entry that Chief should record at the end of 2007.

ANSWER
($400,000 – 100,000) / 10,000 trees = $30/tree
2,000 trees x $30 = 60,000

Depletion expense	60,000	
Accumulated depletion (or Tree-harvesting rights)		60,000

13. Cowboy Corporation uses the straight-line method of depreciation for all assets. On January 1, 2006, Cowboy purchases a trailer for \$38,000. The trailer has an expected life of 4 years and a salvage value of \$2,000. At the beginning of 2008, Cowboy decides that the trailer will last 3 more years. Provide the journal entry to record depreciation expense at the end of 2008.

ANSWER
Initial depreciation expense calculation: (\$38,000 - \$2,000) / 4 = \$9,000/yr
At beginning of 2008, accumulated depreciation = \$18,000
New depreciation expense: \$36,000 - \$18,000 = \$18,000 / 3 yrs = \$6,000/yr

Depreciation expense	6,000	
Accumulated depreciation		6,000

14. On June 1 Eagle Company spends \$5,000 cash fixing a piece of equipment. The expenditure did not have any effect on the equipment's expected life production quantity or quality, or cost of operation. The \$5,000 is a material amount. Provide the journal entry that Eagle should enter on June 1.

ANSWER
Expenditure = maintenance

Maintenance expense	5,000	
Cash		5,000

15. At the end of fiscal 2007, Lion Corporation finds that the expected future cash flows of a piece of equipment are \$42,000, which is also the fair market value of the asset. The equipment's book value at the end of fiscal 2007 is \$50,000. Provide the journal entry that Lion should record at the end of fiscal 2007 (if no entry is required put "no entry").

ANSWER
Asset is impaired. Must write the asset down to its fair market value.

Loss on impairment	8,000	
Accumulated depreciation		8,000

16. On June 15, 2007, Viking Corporation spent $400,000 cash developing a patent. Provide the journal entry that Viking should record on June 15.

ANSWER

Research & development (or patent development) expense	400,000	
Cash		400,000

17. Falcon Company reported net sales of $120,000 at the end of fiscal 2007. At the beginning of fiscal 2007, Falcon reported an accounts receivable balance of $20,000. At the end of fiscal 2007, the balance in accounts receivable was $40,000. $800 of accounts receivable were written off during the year. What is Falcon's receivable turnover ratio for fiscal 2007?

ANSWER
Average assets = 30,000 ((20,000 + 40,000) / 2))
Receivable turnover ratio = 120,000 / 30,000 = 4

18. During fiscal 2007, Packer Corporation recorded gross sales of $1,000,000. During the year, customers returned $20,000 of that merchandise because it was damaged. Customers also took advantage of sales discounts totaling $5,000 and trade discounts totaling $6,000. What should Packer report as net sales at the end of fiscal 2007?

ANSWER
1,000,000 – 20,000 – 5,000 = 975,000

19. **DELETED**: *This was a 10-minute problem dealing with a topic we will cover after Exam II.*

20. (HW7-83) Lola, owner of Panther Hardware Company, was concerned about her control of inventory. In December 2007 she installed a computerized perpetual inventory system. In April, her accountant brought her the following information for the first 3 months of 2008:

Sales	$700,000
Cost of goods sold	590,000
Beginning inventory (per physical count)	135,000
Merchandise purchases	630,000

Lola had asked her public accounting firm to conduct a physical count of inventory on April 1. The CPAs reported inventory of $140,000.

Compute ending inventory shown in Panther's books by the new perpetual inventory system.

ANSWER
BB + Purchases – COGS = EB
$135,000 + $630,000 - $590,000 = $175,000
Ending inventory = $175,000

21. At the end of fiscal 2007, Brown Company has the following aging of accounts receivable schedule:

AGE	RECEIVABLES BALANCE	UNCOLLECTIBLE ESTIMATE
< 6 months	$22,000	1%
6 – 12 months	$15,000	5%
12 – 24 months	$10,000	8%
> 24 months	$2,000	25%
	$49,000	

Brown uses the aging of accounts receivable allowance method to account for uncollectible accounts. At the end of 2007 (before any adjustments) Brown's allowance account has a credit balance of $2,100. Provide the adjusting journal entry to record Brown's estimate of bad debt expense for fiscal 2007.

ANSWER
Current balance = 2,100
Desired balance = 2,270 (22,000*.01 + 15,000*.05 + 10,000*.08 + 2,000*.25)
Expense = 170 (2,270 – 2,100)

Bad debt expense	170	
Allowance for bad debt		170

22. **DELETED**: *This was a 5-minute problem dealing with a topic we will cover after Exam II).*

23. On January 1, 2007, Jaguar Corporation had a beginning inventory balance of $5,300 and uses the **LIFO** cost flow assumption. During 2007, Jaguar had the following transactions:

DATE	TRANSACTION	AMOUNT
JANUARY 1	Beginning inventory balance	$ 5,300 (53 units @ $100/unit)
FEBRUARY 1	Purchased inventory	$23,100 (210 units @ $110/unit
MARCH 1	Purchased inventory	$21,000 (200 units @ $105/unit
JUNE 1	Sold inventory	$22,000 (120 units @ $200/unit
SEPTEMBER 1	Sold inventory	$12,000 (60 units @ $200/unit
NOVEMBER 1	Sold inventory	$ 4,000 (20 units @ $200/unit
DECEMBER 1	Purchased inventory	$ 5,750 (50 units @ $115/unit

a. Assume Jaguar uses the perpetual inventory method, what is the dollar amount of cost of goods sold for 2007 and what is the dollar amount of ending inventory at the end of 2007?

ANSWER
COGS = $21,000 (200 units sold: 200*$105)
Ending inventory = $34,150 ($5,300 + $23,100 + $5,750)

b. Assume Jaguar uses the periodic inventory system, what is the dollar amount of cost of goods sold for 2007 and what is the dollar amount of ending inventory at the end of 2007?

ANSWER
COGS = $21,500 (200 units sold: 50*$115 + 150*$105)
Ending inventory = $33,650 ($5,300 + $23,100 + (50*$105))