

Mason, Mary Ann Fall 2004
ACCT 215 Second Midterm

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

Instructor: Mary Ann Mason
Total Points Available: 150

Points Scored: 114

Mason
19

Name _____

Quiz Section (circle one) A B C

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.

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Name [Signature]

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FINANCIAL ACCOUNTING II

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

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

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

Revenue 300,000
Gas Expense 64,000
Repairs Expense 14,000
Interest Expense 4,800
Depreciation Expense 10,000
Other Expense 45,000
Income Summary 162,200 ✓

137,200
92,000

Income Summary 162,200
Retained Earnings 162,200

Retained Earnings 150,000
Dividends 150,000

2. (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 be.

3. (4 pts) Which of the following accounts would normally show a zero balance on a post-closing (final) trial balance?

- ☒ a. Interest expense, purchase discounts taken, sales revenue, supplies expense
- ☐ b. Repairs expense, loss on sale of equipment, accumulated depreciation, interest income
- ☐ c. Depreciation expense, cost of goods sold, allowance for bad debts, wages expense
- ☐ d. Interest expense, unrealized price increase of investment, revenue, income summary

ADJUSTMENTS

4. (2 pts) Adjusting entries never involve the cash account.

- ☒ a. True
- ☐ b. False

5. 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 Rent (+A) 11,000 (Expensed after first month)
 Rent Expense (-SE) 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.

✓
 Rent Expense (-SE) 1000
 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?

- ☒ a. 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.

$$ROA = \frac{NI + \text{Interest}}{\text{Avg. Total Assets}}$$
 wage expense will be lower, therefore NI will be higher.

When the numerator is higher, the result is higher.

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.)

	12/31/02	12/31/03
Accounts Receivable (Debit)	140,000	130,000
Allowance for Bad Debts (Credit)	20,000	25,000
Revenue		750,000
Bad Debt Expense		10,000

\$745,000

AR

Open Bal 140
Sales 750,000
Closing Bal 130

Cash rec.
write offs 5,000

755,000

A/R	Cash	Revenue	Allowance	BDE
140,000			20,000	10,000
		745,000		
10,000	145,000	5,000	5,000	
130,000		750,000	25,000	

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
Investments	10,000
Accounts receivable	6,300
Allow. for bad debts	(2,000)
Inventory	14,800
Total current assets	32,100
Equipment	75,000
Accum. Depreciation	(25,000)
Total assets	\$ 82,100

Accounts payable	\$ 5,300
Wages payable	1,500
Interest payable	400
Total current liabilities	7,200
Long-term note payable	21,700
Total liabilities	28,900
Owner contributions	25,000
Retain earnings	28,200
Total liabilities and owner's equity	\$ 82,100

Quick Ratio = $\frac{\text{Cash} + \text{Securities} + \text{A/R}}{\text{Current Liabilities}} = \frac{3,000 + 10,000 + 6,300}{7,200} = 10.56$

X math

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
c. Cash of \$5,000 and investments of \$40,000
d. None of the above are correct

Money market fund =

Specific investment in liquids,
where you can get back your
original investment 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

$$\frac{365}{30} = 18.25 \times 3\% = 54.75$$

$$60 - 10 = \left(\frac{365}{50}\right) \times 2\% = 14.6$$

$$\text{Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Avg. Total Rec}}$$

$$\text{Days} = \frac{365}{\text{Ratio}}$$

- a. Decrease
☒ b. Increase
 c. 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, 2003.

-3 ✓

Allowance
7600

Bad Debt Expense 7600
 Allowance for Bad Debt 7600

- 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.

$$2500 \times 3\% =$$

$$75$$

Account Receivable = 2425
 Allowance for Bad Debt = 2425

$$2500 - 75 = 2425$$

✓

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

$$30 - 15 = 15$$

$$\frac{365}{15} = 24.33 \times 2\% = 148.67\%$$

11
 10

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

	2002	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?

$$\frac{\text{BDE}}{\text{Sales}} = \frac{30,000}{2,625,000} = 1.14\%$$

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

$$\frac{\text{Sales}}{\text{Avg Rec'd}} = \frac{2,625,000}{575,000} = 4.57$$

$$\frac{365}{4.57} = 79.87 \text{ days}$$

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.
 b. 2002 net income is overstated by \$1,000.
 c. 2003 net income is overstated by \$1,000.
 d. 2003 cost of goods sold is overstated by \$1,000.

$$\begin{array}{c} \text{up} + \text{Exp} - \text{d} = \text{COGS} \\ 2002 \quad \downarrow \quad \uparrow \quad \text{profit} \downarrow \end{array}$$

17. (4 pts) If a firm uses of the perpetual method of inventory accounting, which statement(s) is(are) correct?

- a. A physical count of inventory at the end of the accounting period is necessary to determine the cost of goods sold.
 b. Spoilage, theft, and obsolete items will be hidden in ending inventory.
 c. Both of the above are correct.
 d. 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	\$80 each
March 15	purchased	10 units for	\$70 each
October 29	purchased	10 units for	\$75 each
February 27	sold	10 units for	\$100 each
June 24	sold	20 units for	\$120 each

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

$$\begin{array}{r}
 10 \times 70 \\
 10 \times 75 \\
 \hline
 20 \quad 145
 \end{array}
 \quad
 \begin{array}{r}
 145/20 = 7.25 \\
 10 \times 7.25 = 72.50 \\
 10 \times 7.25 = 72.50 \\
 \hline
 145
 \end{array}
 \quad
 \begin{array}{r}
 20 \\
 (10) \\
 \hline
 10 \\
 \hline
 \$1300
 \end{array}$$

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

$$\begin{array}{r}
 \text{COGS} = 10 \times \$75 \\
 10 \times \$70 \\
 10 \times \$60 \\
 \hline
 \$2,050
 \end{array}$$

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

$$\begin{array}{r}
 \text{GPM} = \text{Sales} - \text{COGS} \\
 (1000 + 2400) - (2050) = \$1350
 \end{array}$$

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.

$$\begin{array}{r}
 \text{Cost} = \$60 \\
 \text{Replacement Cost} = 48 \\
 \text{MV} = \$54
 \end{array}$$

$$\begin{array}{r}
 \text{Unrealized Price Increase/Decrease} \\
 \text{Inventory Value (LA)}
 \end{array}$$

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.
- Goods that Redpoint Company, another retail store, sales on consignment for Hangdog that remain unsold at December 31.
- 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.
- ☒ c. 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

- a. \$7,000
- ☒ b. \$8,000
- c. \$6,000
- d. \$14,000

Cost 22000
Accum Dep 15000

$$\begin{array}{r} \text{BV} = 7000 \\ + 1000 \\ \hline 8000 \end{array}$$

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 50000
Life 8 years
SV 2000

$$50,000 \times \left(\frac{1}{8}\right) \times 2 = 12,500$$

$$50,000 - 12,500 = 37,500 \times \left(\frac{1}{8}\right) \times 2 = 9,375$$

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. 87,300
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.

$$\begin{array}{r} 87,300 \\ + 2,000 \\ + 1,000 \\ \hline \end{array}$$

$$\begin{array}{r} 3,400 \\ + 3,800 \\ + 900 \\ \hline \end{array}$$

$$95,000$$

Calculate the cost of the equipment.

☒ \$95,000

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?

- a. Book value method
- b. Dissimilar method
- ☒ c. Straight-line
- d. Double-declining-balance

(4)

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.
- c. 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. $\$16,000/200 = \$80/\text{share}$

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.

$$\begin{array}{r} \text{MV/share} \\ \$85 \times 200 = 17,000 \text{ MV} \\ - 16,000 \\ \hline 1,000 \end{array}$$

Available for Sale Investments (A) 1,000

Unrealized Price Increase/Decrease (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.

$$4 \times 200 = 800$$

Dividends (SE) 800

Dividends Payable (L) 800

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.

Sold 18,000

$$\begin{array}{r} \text{Cash (A)} \quad 18,000 \\ \text{COGS} \quad 1,000 \\ \text{Investment (A)} \quad 17,000 \\ \text{Gain on Sale} \quad 2,000 \end{array}$$