Wells, Aut 215, Fall 2006, M250

COURSE:
LECTURE SESSION:
QUARTER:
TEST:

CIRCLE THE TIME YOUR QUIZ SECTION BEGINS 7:30

Accounting 215
DATE: November 15, 2006
INST.: Bill Wells
Version: 1 2

8:30

9:30

1. GENERAL INSTRUCTIONS:

- You will need access to a hand-held calculator and pencil(s) only to complete this 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 the test is over, you should <u>immediately stop your work</u>. 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 (e.g. definition of words, an unclear problem) during the test, raise your hand. We will help you as best we can; we will not, however, reteach any point.
- Select the best answer from any choices provided. Do not make any unnecessary or unsupported assumptions.
- All answers recorded by you must be the result of your own efforts.
- Unless indicated otherwise, all situations are subject to U.S. rules and procedures.
- BUDGET YOUR TIME WISELY. WE WISH YOU SUCCESS.

2. SPECIAL INSTRUCTIONS:

- Partial credit may be given on certain questions marked "PC" if all mathematical work is shown immediately below the problem and/or the narrative is close to the best answer.
- Multiple-choice questions are worth 4 points each unless indicated otherwise.

EXTRA CREDIT (12) Confine your answer to 1-2 sentences.

1. (4) In the article "Outside Audit: Big Oil's Accounting Methods fuel Criticism; ..." what was the primary argument to do away with LIFO from the government's perspective?

2. (4) In the article "Tech Companies Charge Now, May Profit Later ..." explain what they were talking about and how that leads to a profit later?

3. (4) In the Article "Death by Accounting? What was the accounting policy/procedure the author linked to potentially causing death?

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RECEIVABLES (24)

AV		100	-A 3	
	levenue	100	-A	Cas'h

- 3. Which statement about the "gross" method of recording cash receipts from charge customers is correct?
 - a. "Cash Discount Not Taken" is debited when payment is received after the discount period
 - b. "Cash Discount Not Taken" is credited when payment is received after the discount period
 - © "Cash Discounts Taken" is debited when payment is received within the discount period
 - d. Entry to a "discount-taken" or "...not-taken" account is inappropriate
- 4. After trying for many months to get Mr. Jones to pay the outstanding balance on his charge account, a local store decided to write off the total balance owing. Not long thereafter, Mr. Jones made a partial payment and gave indications he would pay off the balance. Which accounts should have been debited when his first payment was received?



(a) Accounts Receivable and Cash

- b. Allowance for Doubtful Accounts and Accounts Receivable -
- c. Bad Debts Expense and Cash
- (d) Cash and Allowance for Doubtful Accounts
- ★5. Use the following information to answer questions a and b below: Treat each question independently of the other.

	<u> 2006</u> -	<u> 2005</u>
Accounts Receivable	32,000	27,000
Allowance for Doubtful Accounts	2,400	2,000

(5PC) Assuming 2% of credit sales was used to estimate bad debts expense and that \$1500 in receivables had been written off in 2006, what were credit sales in year 2006?

A) \	A/R	BDE = 96 x (redit sales
1500	1900	31000	$\frac{1,400 = .02 \times (?)}{.02}$



b. (3) Assuming \$1700 in credit sales were written off in 2006 and an aging schedule had been used to estimate the amount of receivables expected to become uncollectible, what amount was recorded as Bad Debts Expense?

ADA 12000 1700 12100

2400

- 6. (2) During the lecture, "contingent situations" were introduced. To record a contingent situation such as provision for bad debts, what two criteria must be met?
 - 1. Beable to estimate amount
 - 2. pophable ascomption that bad debts will not be paid

* 7. Regarding an "aging schedule" of receivables, which statement is correct?

a. The total of all receivables expected to go bad as computed on that schedule is the amount that will be debited to Bad Debts Expense

(b) Completion of an aging schedule is a mandatory step when using the direct method of writing off receivables

c. If completed correctly, an aging schedule will produce the same estimate of uncollectibles as the percent of sales method

d) The amount estimated by that method should be the ending balance in the Allowance for Bad Debts account.

LONG-LIVED ASSETS (26)

8. (7PC) Your firm bought a depreciable asset for \$50,000 and put it into use the first day of 2004. 2005 Depreciation was based on estimates of a \$5,000 salvage value and a nine-year life. At the beginning of 2006, you spent \$15,000 to improve the quality of the asset's output over its remaining life and \$4,000 on general maintenance and repair. Using straight-line depreciation, how much depreciation would be expensed in 2006? (answer is not a round number)

$$\frac{50,000}{45,000} = \frac{50,000}{59,000} = \frac{3}{7744.286} = \frac{59,000}{7000} = \frac{7744.286}{1000} = \frac{59,000}{7000} = \frac{7744.286}{10000} = \frac{15000}{10000}$$

9. Using the same facts found in question 8, assume <u>double declining balance</u> method of depreciating the asset had been used.

a. (5PC) What would the asset's book value be at the end of 2005 after 2005 depreciation had been recorded?

$$\frac{30,246.914}{4} \times 2 \times (50,000) = 11111.11111$$

$$\frac{1}{9} \times 2 \times (50-1111.11111) = 8,641.975309$$

b. (3) Over the life of the asset, what amount of accumulated depreciation will be recorded?



10. (2) After purchasing a \$50,000 machine, you incur \$1000 each for 1) transportation to its intended location, 2) installation, and 3) initial training. How much of those cash outflows should be capitalized?

assuming total arount capitalized

53,000

- 11. (2) True or (False) circle one) In general, research and development costs are capitalized when incurred.
- 12. (7 PC) In journal entry form, record the sale of a depreciable asset for cash at a price greater than its book value at the time of sale. Make up whatever numbers you want to complete the journal entry.

Cash 10,000 Uhrealized gain 7,000 equipment 8,000 (1) tender

INVENTORY (26)

13. How many units should be included in ending inventory if, at year end, there were 1) 120 units of inventory on hand, 10 of which were on consignment from another firm, 2) 20 units were inbound to your firm under terms of FOB destination (they had not yet arrived), and 3) 40 units were outbound from your firm under terms of FOB shipping point (they also had not arrived)?

a.
$$90$$
b. 110
c. 120
d. 150

$$-120 - 10 = 110$$

$$-20 = 0$$

$$-40 = 0$$

- 14. (2) (True or false (circle one) If the perpetual inventory method is followed, any spoilage, theft, etc. will be included in the ending inventory balances unless an end-of-year physical count is taken.
- * 15. Which statement regarding the averaging method of valuing inventory and cost of goods sold is assuming weighted average correct?



- A new average is computed every time a sale is made under the perpetual method A new average is computed every time a purchase is made under the perpetual method
- c. A new average is computed every time a purchase is made under the periodic method
- d. The periodic and perpetual methods produce the same valuations of ending inventory and cost of goods sold since they average the same figures

16.	(2 points each) Which inventory flow assumption (LIFO or FIFO) would improve the amount/ratio
	below under the given circumstances? (For the purposes of this question, "improve" means get
	larger than it would have been if the other method had been used.) If both flow assumptions would
	have the same impact on the amount/ratio, enter "same." Enter your answer in the blank provided.

FiFo	AMOUNT/RATIO Net income	<u>CIRCUMSTANCES</u> Inventory prices had been steadily rising	A
LiPo	Current ratio	Inventory prices had been steadily decrease	ing
		0	A.

face value-

- 7. If inventory's replacement cost is more than its net realizable value, and its historical cost is greater than its replacement cost, at what value should inventory be reported in the financial statements?
 - a. Historical cost
 - (6) Net realizable value
 - c. Net realizable value minus a normal profit margin
 - d. Replacement cost
- *18. If the inventory turnover ratio in 2005 was 5 and in year 2006 it was 15, which conclusion is appropriate?
 - a) If management's year 2006 goal was to sell inventory faster, they appear to have accomplished their goal
 - b. If management's goal was to sell inventory faster, they appear to have <u>not</u> accomplished their goal
 - c. If the accounts receivable turnover ratio remained unchanged over the same period, then the operating cycle has become longer
 - d. Accounts receivable are being collected over a shorter period of time in 2006 than they were in 2005

19. (4) At what value would cost of goods sold be shown given the following chronological facts and use of LIFO periodic flow assumption?

or of private flow a	<u>Units</u>	Cost/Unit	51
Beginning balance	10	\$5	
Sale	[4]		
Purchase	6	\$6	•
Sale	5		
	a i	666-36	
	1	26 5 / 415	
H (4)			

CASH (4)

20. Suppose your clothing store closes its books on Dec 31, 2005. On Dec 27 2005, it took \$20,000 of its available cash and put it into a 2-year Certificate of Deposit. Which statement is correct?

The investment will have no effect on the firm's quick (acid test) ratio:
The firm's acid test ratio will increase as a result of the investment
The firm's acid test ratio will decrease as a result of the investment

 $S = \frac{100}{20} \rightarrow \frac{(A = 100,000)}{20} = 4$

Both the acid test and current ratios will increase as a result of the investment

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ASSETS (10)

21. Given the following information, answer the questions that follow:

	2005	<u>2006</u>
Current Assets	\$400,000	\$500,000
Current Liabilities	\$300,000	\$700,000
Owners Equity	\$2,100,000	\$2,500,000
Long-term liabilities	\$800,000	\$1,000,000
Net Income 2006		\$700,000 (includes interest expense of \$90,000)

a. (2PC) The amount working capital as of the end of 2005? = CA - CL

100,000

(2PC) The current ratio as of the end of 2006

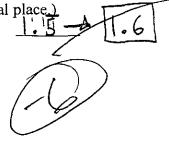
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$$= \frac{CA}{CL}$$

$$= \frac{400000}{300000} = A = \frac{50000}{400000}$$
(6PC) Return on assets for the year 2006. (Round answer to one decimal place.)

ROA = Net moone + interest (1-tax)

Avy total Assets

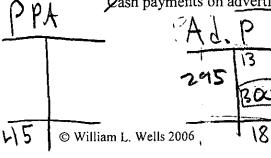


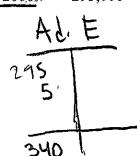
REVERSE INTERPRETATION (6)

*22. (6PC) What amount of prepaid advertising was on hand at the beginning of 2006 given the information below?

Prepaid advertising - end of 2006— Advertising Expense during 2006	45,000 340,000
Advertising Payable beginning of 2006	13,000
Advertising Payable end of 2006 ash payments on advertising payable in 2006.	18,000 295,000









INVESTMENTS (20)

- 23. Your firm purchases some real estate for \$50,000 with the idea it will be held as an investment until it reaches \$90,000 market value at which time it will be sold. At the end of the first year, the appraised value of the land declined to \$45,000. Which statement is correct from your firm's perspective?
 - a. A \$5000 realized loss should be included in the income statement
 - b. A \$5000 unrealized loss for should be included in the income statement

 A \$5000 unrealized loss should be included in the owners' equity section of the balance sheet

d. No loss/decline should be recognized in any financial statement

24. Refer to the facts in the prior question. Suppose, instead of real estate, your firm purchased some privately held stock in a corporation for the same amount. At year-end, the owners gathered and concluded the value of their shares had fallen \$1 per share (to you that meant a \$5000 loss in value on paper). Which statement is correct from your firm's perspective?

A \$5000 realized loss should be included in the income statement b. A \$5000 unrealized loss for should be included in the income statement

- c. A \$5000 unrealized loss should be included in the owners' equity section of the balance sheet
- d. No loss/decline should be recognized in any financial statement
- 25. In an unrelated investment, in 2005, your firm purchased \$100,000 of stock in a publicly traded company with the idea of holding it for a short period and then selling it at a profit. At year-end, the stock had risen to \$120,000 market value. Which statement is correct from your firm's perspective?

A \$20,000 realized gain of should be included in the income statement b. A \$20,000 unrealized gain should be included in the income statement

- c. A \$20,000 unrealized gain should be included in the owners' equity section of the balance sheet
- d. No gain/increase should be recognized in any financial statement
- 26. Using the same facts in question 12 above, suppose the investment was sold in 2006 for \$296,000. Which statement is correct from your firm's perspective?
 - a. A \$16,000 realized gain of should be included in the income statement
 - b. A \$16,000 unrealized gain for should be included in the income statement

A \$4000 realized loss should be included in the income statement

- d. A \$4000 unrealized loss should be should be included in the owners' equity section of the balance sheet
- 27. In yet another unrelated investment, your firm purchased in year 2005 \$300,000 of stock in a publicly traded company with the idea of holding it indefinitely. At year-end, the stock had fallen to a \$280,000 market value. Which statement is correct from your firm's perspective?
 - a. A \$20,000 realized loss should be included in the income statement
 - b. A \$20,000 unrealized loss should be included in the income statement
 - (E) A \$20,000 unrealized loss should be included in the owners' equity section of the balance sheet
 - d. No loss/decrease should be recognized in any financial statement

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ADJUSTMENTS (12)

28. Given the following, record, in journal entry form, the appropriate year-end adjusting entry (your firm is paying/consuming, not receiving the rent).

a. (5PC) Prepaid rent -Beginning of fiscal year \$3,000
Capitalized payments in advance not immediately consumed Amounts consumed by year-end relative to the above \$7,000

(No prior entries were made to reflect using this amount)

Prepaid rent 2000 (

b. (5PC) Using the same set of facts as in a above, what year-end adjusting entry would have been necessary if this firm recorded the \$9000 as an expense when it was paid?

c. (2) Regardless of how the receipt was accounted for, what was the ending balance in the asset account?

FINANCIAL ACCOUNTING II (22)

29. Suppose your firm had correctly closed its temporary accounts into the income summary account and the balance in that account showed a \$45,000 debit balance. Which statement is correct?

a. A mistake has been made; that account can only show a credit balance

b. Dividends must have been \$45,000

The company earned \$45,000 during the reporting period None of the above

30. Which conclusion regarding an adjusted trial balance is incorrect?

a. The closing entries should be included in the debit and credit balances. If the debits equal the credits, errors could still exist

If the debits do not equal the credits, errors have been made

If the debits do not equal the credits, the discrepancy could be due to an addition error rather than an error in recording events

31. Of the following sets of accounts, which set would normally appear on a post-closing trial balance with amounts greater than zero?

Accumulated Depreciation, Depreciation Expense, Inventory Accounts Payable, Paid-in-capital, Accumulated Depreciation

M. Accounts Payable, Paid-in-capital, Accumulated Depreciation Gain on Sale of Land, Sales Revenue, Bad Debts Expense

Cash from Operations, Current assets, Net Income

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32. There are three types of accounts listed below: 1) those that should not be closed, 2) those that should be closed by **crediting** that account, and 3) those that should be closed by **debiting** that account. Circle the letters that corresponds to the accounts that should be closed at year-end **by crediting that account**. (2 points for each correct answer; minus 2 points for each incorrect answer down to zero points.)

A Unearned-Revenue

- (B) Loss on merchandise inventory.
- C -Paid-in-Capital
- D Retained earnings -
- E Bad debts expense
- F Sales-Revenue
- G Copyright
- H Merchandise-Inventory
- I Buildings=*
- J Accumulated-Depreciation Buildings
- K Unrealized-price-increase on available for sale securities
- L Accounts:receivable-
- Depreciation expense buildings
- N Allowance:for:Doubtful Accounts -
- O Patent
- P Investments_
- Q Realized gain on sale of investments
- R Trademark
- S -Accounts.Payable>
- T Cash-
- U Fees-Earned
- 33. Which of the following entries correctly records the sale of inventory at a profit?

	<u>DEBIT</u>		<u>CREDIT</u>	
a.	Inventory	10	Cost of Goods Sold	10
	Cash	15	Gain on Sale	15
(1)	/ Cash	20	Inventory	20
9.7	Cost of Goods Sold	10	Revenue	10
4			_	
— 1/c.)		17	Revenue	22
	Accounts Receivable	22	Inventory	17
d.	Revenue	33	Cost of Goods Sold	26
	<i>,</i>		Profit	7