COURSE:	Accounting 215		DATE: November 12, 2003
LECTURE SESSION:	D		INST.: Bill Wells
QUARTER:	Fall 2002		
TEST:	Second Midterm		Version: 1 2

\# change $\frac{41}{150} = 61\%$

56%

What time does your quiz session meet? 9:30 - 10:30

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 **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 (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.
- When this examination is returned to you, you are 1) expected to retain it until the end of the quarter, and 2) return it to your TA upon request.
- 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 or the narrative is close to the best answer.
- Multiple choice questions are worth 4 points a piece.
- Assume all items are material and thus subject to GAAP unless indicated otherwise.

-62

112

GL 2000
AP 1000

Plumpworms 3001
Cash 2008

11,000

FINANCIAL ACCOUNTING II AND ADJUSTMENTS (INTEGRATED QUESTION) (52)

1. You started a new business on April 1, 2003, by first contributing $2000 of your own funds and borrowing $10,000 (long term note). You then bought (for cash) $8000 of plump worms. The profit margin on worms in your area allowed you to sell the worms (for cash) for twice the amount you paid for them. Since fishing had become the "in" sport in 21st century, you were not surprised to find that you had only $1000 of worms left by August 31, the end of your fiscal year. Profits were so good that you paid yourself a $1000 dividend on August 31. You incurred the following two additional expenses:

Rev Exp
Gain Loss

16,000 1000 worms left 8000 7000

- On April 1, 2003, you bought (with cash) and expensed $1000 in cardboard boxes in which to put the worms when sold. No further entries were made during the year; by the end of your fiscal year, $200 of unused boxes remained on hand.

- The $10,000 loan requires you to pay 6% annual interest expense on March 31, 2004. No entries related to interest were made during the year.

a. (9PC) Record in journal entry form the owners' contribution and initial borrowing. You may use either one combined or two separate entries. In this and all questions following, 1) journal entry explanations are not expected although in the real world they would also be recorded, and 2) consider the amounts as material, i.e., record them as they should be recorded.

(2)

?

~~Cash 10,000~~
~~CL 2,000~~
~~Notes Payable 10,000~~

Cash	$12,000	
CL		$2,000
Notes Payable		$10,000

b. (6PC) Record in journal entry form the purchase of worms.

Inventory (Plumpworms)	8,000	
Cash		8,000

(2)

c. (12PC) Record in a single journal entry the sale of all worms.

Cash	$14,000	
Retained Earnings		$7000
Inventory, [illegible]		$7000

−5

19/27

−5

d. (6PC) Record in journal entry form the year-end adjustment needed for supplies (boxes).

?

200 box

Box Expense 1000
Cash $1000

Inventory Boxes 200
Box Expense 200

Inventory Boxes 200
Box Expense 200

e. (6PC) Record in journal entry form the year-end adjustment needed for interest.

-3 There was no interest adjustment made...

Interest 600
Interest Payable 600

f. (5PC) When all temporary accounts were closed at year-end, what net amount should have been credited or debited (circle one) to Income Summary account?

I/S
	7000
	200

Realized Gain
	7000

Box Exp.
	200

~~600~~

-3

7,200 ~~900 credited to I/S~~ 7,200 credit to I/S

~~300 credit to I/S~~

g. (4PC) After all temporary accounts had been closed, what amount of assets should have been reported on the August 31st balance sheet?

Assets

Boxes $ 200
$ 1000
4000

-2

Cash 4000
1000
Box 200
Cash 14000

Assets 19,200

Div
1000	1000

Div 1000
Cash

h. (4PC) After all temporary accounts had been closed, what amount of retained earnings should have been reported on the August 31st balance sheet?

R/E
1000	7,200

-3 R/E = $6,200 on the balance sheet

ASSETS (4)

2. (4PC) If the "total asset turnover" ratio was determined to be 1.7 to 1, what does that mean? (Your answer should explain what 1.7 and 1 means.)

$$\frac{\text{Sales Rev}}{\text{Avg Assets}} = 1.7 \text{ to } 1$$

That means that sales Revenue is 1.7 to 1 over Avg Assets. this shows that we are turning over our assets ~~[illegible]~~ & making revenue for every $1 we sell.

-1

18/29

29

300,000 + ? - 700,000 = 350,000

sold for 800000

Cash 800,000
Inv 700,000

REVERSE INTERPRETATION (5)

3. (5PC) Given the following, how much cash was spent on payments to suppliers of inventory?

	Beginning of year	During the year	End of year
Inventory	300,000		350,000
Cost of Goods sold		700,000	
Accounts Payable	60,000		90,000
Cash payments for inventory		????????	

Inventory A/P

300,000 | 700,000 720,000 | 60,000 750000

750,000

350,000 90,000

720,000

CASH (4)

4. The first line of a balance sheet usually includes "cash" and "cash equivalents." Which of the following should not be considered a "cash equivalent" on your firm's balance sheet?

   a. A three month note issued by General Motors two months before the end of your firm's fiscal year
   b. A two month note issued by ATT 3 months before the end of your firm's fiscal year
   c. A certificate of deposit entered into several years ago that will mature in one month after the date of your financial statements
   d. A one-month certificate of deposit maturing one month after the end of your fiscal year

INVESTMENTS (15)

5. Assume your firm purchased 55% of the outstanding stock of Georgeta's College Apparel, a college sports apparel corporation. How should your firm report Georgeta's financial information?

   a. The investment should be reported as a single number on the balance sheet and then adjusted annually by the amount of net income earned and dividends paid by Georgeta
   b. The investment in Georgeta should be revalued to its market value at the fiscal year-end
   c. Georgeta's statements should be included in the footnotes of your corporation
   d. Georgeta's statements should be consolidated into your statements

-4

20/24

6. (11PC) Your firm, XYZ Inc., invested some of its excess cash as shown below; answer the questions which follow.

1/15/2002	Bought 10,000 shares of ABC stock for $500,000 total
7/24/2002	Bought 30,000 shares of DEF stock for $600,000 total
11/30/2002	Sold 5,000 shares of ABC stock for $30 per share
12/31/2002	Fiscal year ends. On that date, ABC shares were selling for $40 per share and DEF shares were selling for $25/share

150 000

a. (7PC) Assuming the ABC shares of stock were classified as "Trading" and DEF stock was classified as "Available for Sale.", by what total amount would XYZ's net income changed in 2002 from ALL stock transactions?

40,000

5000 240000

$\boxed{40,000}$

−5

b. (4) If no shares of DEF shares were sold in 2003 and each share was worth $25 on the last day of 2003, by what amount would XYZ's net income change in 2003 from DEF stock only?

150,000

20.

750,000 150,000 change −4

RECEIVABLES (22)

7. Use the following information to answer the questions which follow:

485000

BDE Allow A/R 6000 5,115,000

	2002	2003
Ending Balance in the Accounts Receivable account	$5,600,000	6,100,000
Bad debts expense reported in the year	490,000	570,000
Ending balance in the Allowance for Bad Debt account	75,000	80,000
Credit Sales	98,000,000	95,000,000

6100,000

a. (3PC) What is the accounts receivable turnover ratio in 2003?

$$\frac{95,000,000}{5,850,000} = 16.2393$$

b. (2) If the percent of receivables method was used to value receivables to their net realizable value, what amount would that method have estimated in 2003?

6,020,000

net realize = 6,020,000

−0

c. (4) What amount of accounts were written off in 2003?

15,000

−15

29

44

67

8. (3) What is the annual interest rate inherent in payment terms of "3/15/n45?" 36%

$\frac{360}{15-45}$ = . ~~.0300~~ ~~.0100~~ 12 x .03 = .36 or 36%

9. (2) Suppose your firm was being sued at the time your fiscal year ended. The outcome of the suit is unknown at that time although you believe it is possible you may loose. What, if anything should your firm do about reporting the potential loss?

~~It should put it on the B/S~~

It should treat it as a payable -2

10. (8PC) In journal entry form (without numbers), record the following events:

a. Writing off an account (assume the allowance method) is used

Allow | BDE | A/R
X | | X

Allowance X
A/R X

b. The year-end adjusting entry, assuming an allowance method is used.

Allow | A/R | BDE

BDE X
Allowance X

INVENTORY (24)

11. (3) In a period of falling inventory wholesale prices, which inventory method will minimize the cash outflow for taxes?

a. LIFO
b. FIFO
c. Weighted Average

12. (4) Assume a particular line of inventory has the following unit costs associated with it.

Historical cost	\$10
Replacement cost	\$8
Net realizable value	\$12
Normal Profit margin	\$3

If there are 100,000 units of this inventory on hand at year-end, what total value should be included in ending inventory?

100,000 + 10 -4 $\boxed{\$ 100,010}$

Historical cost \$10

-6 14/20

7-8

13. Use the information below to answer the questions which follow.

		Units	Cost per unit	Total Cost
1/1/03	Beginning Inventory	100	$3	$300
3/14/03	Sales	70		
4/21/03	Purchases	50	$4	200
5/16/03	Sales	40		

a. (4) Cost of goods sold using LIFO perpetual

210 ~~80~~ x 3

160 ~~50 x 4~~

40x4 10x4

500

-12

b. (4) Ending inventory using LIFO periodic

40x4 + 10x4

60x3

180 40

160

380

c. (4) Ending inventory using FIFO

70 x 3

50 x 3

10X4

40

210

90

340

14. (3PC) Assume a LIFO perpetual system is in use and inventory prices have over a number of years, been increasing and that some of that inventory is available for sale. What inventory-related actions could you, as management, take to increase profits in the immediate, short-term future? (Answers such as buy cheaper goods or switch suppliers is not what I am looking for.)

change to FIFO -2

15. (2) True or False (circle one) If LIFO is used for tax reporting purposes, FIFO must therefore be used for financial reporting purposes.

LONG-TERM ASSETS (24)

16. (2) True or False (circle one) Over the life of a depreciable asset, the straight line method will depreciate more of the capitalized cost than the double declining balance method.

17. (2) True or False (circle one) Since a business is assumed to continue in business indefinitely, costs incurred to initially organize that business are capitalized.

-14

89

18. In the beginning of 2000, a new machine was purchased for $50,000 cash. At the time of purchase, it was believed the machine would last 8 full years and be salvageable for $2000. Based on this information, answer the questions which follow:

a. (4PC) Assuming straight-line depreciation method is used, what was the asset's book value at the end of 2001?

$$\frac{50000 - 2000}{8}$$

38,000

b. (5PC) Assuming double declining balance method is used, what was depreciation in 2001?

9,375

12,500

37,500

Depreciation method Straight line from here forward

19. (5PC) Suppose a different asset (original price of $40,000) had been depreciated over four full years to a book value of $30,000 by the end of 2002. In the beginning of 2003, $5000 was invested in the machine, causing its life to be extended (salvage value remained unchanged at $2000). The modified machine is now expected to last to the end of 2009. What amount of depreciation expense should be recorded in 2003? (NOTE: The correct answer is not a round number.)

4,000

$$\frac{30,000 - 2000}{7}$$ -2

20. (1 POINT FOR EACH CORRECT ENTRY) Record in journal entry form the sale (for cash) of a depreciated asset for less than its book value (ignore amounts).

Cash X
Realised Loss X debit -2
Asset X

21. (2) True or False (circle one) In general, research and development costs are expensed when incurred.

-4

15
19