

ACCT 215 Fall 2009 Quiz #3a

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Quiz Section Number: Da

Instructions: There are 20 points possible. Please write your answers in the space provided at the top of the page. **Answers written anywhere else will not be graded.**

ANSWERS: 1a. UL: 8,000 ✓ 3a. 113.2 ✓ 5. B ✓
 1b. Balance sheet ✓ 3b. 146.6 ✓ 6. 440,000 ✓
 2a. RG: 8,000 4. Fifo ✓ 7. C ✓
 2b. Income Statement ✓

Husky, Inc.'s fiscal year ends December 31. The company bought 4,000 shares of IBM's stock for \$20 per share on August 1, 2007. This represents less than a 1% ownership interest in IBM. Fair market value per share of IBM stock at the end of 2007 was \$18 per share and at the end of 2008 was \$24 per share. Husky, Inc. held the shares of IBM until March 1, 2009, when it sold all of its shares in IBM for \$22 per share.

Assuming Husky, Inc. classified its investment in IBM as Available For Sale Securities:

1a) What would be the gain or loss associated with this investment **at the end of 2007**? Write the amount and indicate unrealized gain by UG, realized gain by RG, unrealized loss with UL, and realized loss with RL. (2 pts)

UL = 8,000

80,000
72,000 24,000

1b) Which financial statement is this gain or loss reported on? (2 pts)

Balance Sheet

Assuming Husky, Inc. classified its investment in IBM as Trading Securities:

2a) What would be the gain or loss associated with the sale of this investment on **March 1, 2009**? Write the amount and indicate unrealized gain by UG, realized gain by RG, unrealized loss with UL, and realized loss with RL. (3 pts)

RG = 8,000

2b) Which financial statement is this gain or loss reported on? (2 pts)

Income Statement

3) Husky Inc. uses a **weighted-average** cost flow assumption and a **perpetual** accounting system. The following items represent events affecting Husky Inc.'s inventory during the current year:

- Beginning balance: 30 units @ \$5 each
- Purchase #1: 15 units @ \$7 each
- Sale #1: 20 units
- Purchase #2: 25 units @ \$9 each
- Sale #2: 30 units

141.5 eb

$$25 \times 5.66 = 141.5$$

$$25 \times 9 = 225$$

$$366.5 / 50 = 7.33$$

a) What is the Cost of Goods Sold (COGS) amount associated with the first sale? (2 pts)

$$20 \times 5.66 = \boxed{113.2}$$

b) What is Husky's Ending Inventory balance (in dollars, not units)? (2 pts)

146.6

4) During times of falling ^{rising} inventory costs, will the use of FIFO or LIFO result in lower income taxes? (1 pt)

Fifo

5) On December 31, 2009, prior to making the appropriate adjusting entry regarding bad debts, the balance in Starbucks' Allowance for Doubtful Accounts was \$15,000 (credit balance). If Starbucks uses an aging schedule to estimate that \$60,000 of the \$500,000 in outstanding receivables will probably not be collected next year, what adjusting entry should Starbucks make on December 31, 2009? (2 pts)

~~a)~~ DR Bad Debts Expense \$60,000
CR Allowance for Doubtful Accounts \$60,000

b) DR Bad Debts Expense \$45,000
CR Allowance for Doubtful Accounts \$45,000

~~c)~~ DR Allowance for Doubtful Accounts \$60,000
CR Accounts Receivable \$60,000

d) DR Bad Debts Expense \$45,000
CR Accounts Receivable \$45,000

6) At what net realizable value will the receivables in problem 5 be presented on Starbucks' balance sheet as of December 31, 2009? (2 pts)

440,000

7) Husky Inc. uses the indirect method to account for bad debts. At the end of the year Husky, Inc. determines that \$11,000 of its estimated bad debts is in fact uncollectible (because one customer went out of business). What journal entry should Husky, Inc. make to **write off** this \$11,000 of uncollectible accounts? (2 pts)

~~a)~~ DR Bad Debt Expense \$11,000
CR Allowance for Doubtful Accounts \$11,000

b) DR Bad Debt Expense \$11,000
CR Accounts Receivable \$11,000

c) DR Allowance for Doubtful Accounts \$11,000
CR Accounts Receivable \$11,000

d) DR Allowance for Doubtful Accounts \$11,000
CR Bad Debt Expense \$11,000