

Fall 2003
Financial Accounting 201
EXAM #2

NAME _____
SECTION TIME (Circle one) 10:00 12:00 1:00

Answer all multiple choice questions below; there is only one BEST answer (2 points each)

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____
- 6. _____
- 7. _____
- 8. _____
- 9. _____
- 10. _____
- 11. _____
- 12. _____
- 13. _____
- 14. _____
- 15. _____
- 16. _____
- 17. _____
- 18. _____
- 19. _____
- 20. _____

Note: Put answers to problems on Pages provided. Turn in all pages of exam.

Put answer sheets in front of exam.

SCORE

	Possible	Actual
Multiple Choice	40	
Problem I	25	
Problem II	25	
Short Answer	<u>10</u>	
Total	<u>100</u>	

Multiple Choice (2 points each) There is only **ONE BEST** answer.

1. If goods in transit are shipped FOB destination
 - a. the seller has legal title to the goods until they are delivered.
 - b. the buyer has legal title to the goods until they are delivered.
 - c. the transportation company has legal title to the goods while the goods are in transit.
 - d. no one has legal title to the goods until they are delivered.

2. The shareholders of a retailer interested in evaluating how much of a sales dollar Increases their equity would monitor
 - a. Gross profit percentage
 - b. Profit margin percentage
 - c. Inventory turnover
 - d. Days in inventory

3. Which of the following is the least effective indicator of performance of the selling function in a retailer:
 - a. Gross profit percentage
 - b. Inventory turnover
 - c. Days in inventory
 - d. Profit margin ratio

4. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The cash account has a
 - a. \$500 credit balance.
 - b. \$900 debit balance.
 - c. \$400 debit balance.
 - d. \$400 credit balance.

5. The usual sequence of steps in the recording process is to
 - a. analyze each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.
 - b. analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.
 - c. analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.
 - d. analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.

6. The time period assumption states that
 - a. a transaction can only affect one period of time.
 - b. estimates should not be made if a transaction affects more than one time period.
 - c. adjustments to the enterprise's accounts can only be made in the time period when the business terminates its operations.
 - d. the economic life of a business can be divided into artificial time periods.

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7. Javier's Tune-Up Shop follows the revenue recognition principle. Javier services a car on August 31. The customer picks up the vehicle on September 1 and mails the payment to Jim on September 5. Jim receives the check in the mail on September 6. When should Jim show that the revenue was earned?
- August 31
 - August 1
 - September 5
 - September 6
8. Under the accrual basis of accounting
- cash must be received before revenue is recognized.
 - net income is calculated by matching cash outflows against cash inflows.
 - events that change a company's financial statements are recognized in the period they occur rather than in the period in which cash is paid or received.
 - the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.
9. The Harris Company purchased a microcomputer for \$3,000 on December 1. It is estimated that annual depreciation on the computer will be \$600. If financial statements are to be prepared on December 31, the company should make the following adjusting entry
- Debit Depreciation Expense, \$600; Credit Accumulated Depreciation, \$600.
 - Debit Depreciation Expense, \$50; Credit Accumulated Depreciation, \$50.
 - Debit Depreciation Expense, \$2,400; Credit Accumulated Depreciation, \$2,400.
 - Debit Office Equipment, \$3,000; Credit Accumulated Depreciation, \$3,000.
10. McCloud Realty Company received a check for \$21,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$21,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31
- Debit Unearned Rental Revenue, \$3,500; Credit Rental Revenue, \$3,500.
 - Debit Rental Revenue, \$3,500; Credit Unearned Rental Revenue, \$3,500.
 - Debit Unearned Rental Revenue, \$21,000; Credit Rental Revenue, \$21,000.
 - Debit Cash, \$21,000; Credit Rental Revenue, \$21,000.
11. Depreciation is the process of
- valuing an asset at its fair market value.
 - increasing the value of an asset over its useful life in a rational and systematic manner.
 - allocating the cost of an asset to expense over its useful life in a rational and systematic manner.
 - writing down an asset to its real value each accounting period.
12. Draxon Company borrowed \$10,000 from the bank signing a 6%, 3-month note on September 1. Principal and interest are payable to the bank on December 1. If the company prepares monthly financial statements, the adjusting entry that the company should make for interest on September 30, would be
- Debit Interest Expense, \$600; Credit Interest Payable, \$600.
 - Debit Interest Expense, \$50; Credit Interest Payable, \$50.
 - Debit Note Payable, \$600; Credit Cash, \$600.
 - Debit Cash, \$150; Credit Interest Payable, \$150.

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13. Snell Tables paid employee wages on and through Friday, January 26, and the next payroll will be paid in February. There are three more working days in January (29-31). Employees work 5 days a week and the company pays \$800 a day in wages. What will be the adjusting entry to accrue wages expense at the end of January?

- | | | |
|------------------------------------|-------|-------|
| a. Wages Expense | 800 | |
| Wages Payable | | 800 |
| b. Wages Expense | 4,000 | |
| Wages Payable | | 4,000 |
| c. Wages Expense | 2,400 | |
| Wages Payable | | 2,400 |
| d. No adjusting entry is required. | | |

14. Which of the following is a true statement about closing the books of a corporation?

- Expenses are closed to the Expense Summary account.
- Only revenues are closed to the Income Summary account.
- Revenues and expenses are closed to the Income Summary account.
- Revenues, expenses, and the Dividends account are closed to the Income Summary account.

15. Gross profit equals the difference between

- net income and operating expenses.
- net sales revenues and cost of goods sold.
- net sales revenues and operating expenses.
- net sales revenues and cost of goods sold plus operating expenses.

16. Under a perpetual inventory system

- accounting records continuously disclose the amount of inventory.
- increases in inventory resulting from purchases are debited to purchases.
- there is no need for a year-end physical count.
- the account purchase returns and allowances is credited when goods are returned to vendors.

17. Hunter Company purchased merchandise inventory with an invoice price of \$4,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Hunter Company pays within the discount period?

- \$4,000
- \$3,920
- \$3,600
- \$3,680

18. Under the perpetual inventory system, in addition to making the entry to record a sale, a company would

- debit Merchandise Inventory and credit Cost of Goods Sold.
- debit Cost of Goods Sold and credit Purchases.
- debit Cost of Goods sold and credit Merchandise Inventory.
- make no additional entry until the end of the period.

Use the following information to answer questions 19 through 20

Financial information is presented below:

Operating Expenses	\$ 45,000
Sales Returns and Allowances	13,000
Sales Discount	6,000
Sales	150,000
Beginning inventory	77,000
Ending inventory, per count	85,000
Credit card fees	4,000
Purchases	90,000
Purchases Returns & Allowance	6,000
Transportation in	3,000
Delivery expense	4,500

19. The amount of net sales on the income statement would be

- a. \$127,000.
- b. \$131,000.
- c. \$150,000.
- d. \$122,500.
- e. None of the above

20. Cost of sales would be

- a. \$95,000.
- b. \$84,000.
- c. \$76,000.
- d. \$79,000.
- e. None of the above

Problem IA (30 points)

Transactions for the Berlson Company for the month of November are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1. Stockholders invested an additional \$36,000 cash in the business.
2. Purchased land costing \$18,000 for cash.
3. Purchased equipment costing \$9,000 for \$4,500 cash and the remainder on credit.
4. Purchased supplies on account for \$800.
5. Paid \$3,000 for a one-year insurance policy.
6. Received \$2,000 cash for services performed.
7. Received \$4,000 for services previously performed on account.
8. Paid wages to employees for \$2,500.
9. Paid dividends to stockholders of \$400.

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General Journal

Entry	Description	Debit	Credit

Problem II (30 points) General Journal Problem

Prepare year-end adjustments for the following transactions. Omit explanations.

1. Accrued interest on notes receivable is \$85.
2. \$1,000 of unearned revenues have been earned.
3. Three years' rent, totaling \$36,000, was paid in advance at the beginning of the year.
4. Services totaling \$2,100 had been performed but not yet billed at the end of the year.
5. Depreciation on equipment totaled \$4,500 for the year.
6. Supplies purchased totaled \$690. By year end, only \$100 of supplies remained.
7. Salaries owed to employees at the end of the year total \$1,000.

General Journal

Entry	Description	Debit	Credit
A			

Short Answer – Question III (10 points)

Beer is delivered to Coastal Beverage on wooden pallets which cost about \$6.00 each. Other beer distributors record this cost as dunnage inventory. The pallet is a wood frame about 6 inches high and 4 feet square. It is of little use for any other purpose, but it can be sent back to the manufacturer for a refund. The new Vice President of Coastal Beverage wants to install a new computer system to keep track of the pallets at an annual cost of \$200,000.

Indicate whether Coastal should use the periodic or perpetual inventory method to account for pallets and briefly defend your answer.

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