Fall 2007
Financial Accounting 201
EXAM #2

NAME ______MASTER________
SECTION TIME **(Circle one)** 8:00 9:00

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

1.	D	11.	B
2.	A	12.	A
3.	B	13.	D
4.	D	14.	A
5.	D	15.	C
6.	A	16.	D
7.	C	17.	C
8.	C	18.	C
9.	A	19.	D
10.	C	20.	D

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	20	
Problem II	30	
Short Answer	10	
Total	100	

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

1. Which of these could <u>not</u> be a closing entry?

A.	Salary expense	XX	
	Income summary		XX
B.	Dividends	XX	
	Retained earnings		XX
C.	Income summary	XX	
	Income Tax expense		XX
D.	**Both a and b.**		

2. Which of the following is false regarding a perpetual inventory system?
   A. Physical counts are needed to determine the inventory balance.
   B. The balance in the inventory account is updated with each inventory purchase action.
   C. Cost of goods sold is increased as sales are recorded.
   D. The account Purchases is not used as inventory is acquired.

3. Sales revenues are usually considered earned when
   A. Cash is received from a sale on account
   B. Legal ownership of goods has been transferred from the seller to the buyer
   C. A sales order has been received
   D. The goods leave the seller's business

4. A company shows the following balances:

Sales	$1,000,000
Sales Returns and Allowances	175,000
Sales Discounts	25,000
Cost of Goods Sold	600,000

   What is the gross profit rate?
   A. 60%
   B. 75%
   C. 40%
   D. 25%

5. After preparing an adjusted trial balance, what is the next step in the accounting cycle?
   A. Post adjusting entries
   B. Analyze transactions
   C. Prepare the closing entries
   D. Prepare the financial statements

6. A furniture factory's employees work overtime to finish an order that is sold on January 31. The office sends a statement to the customer in early February and payment is received by mid-February. The overtime wages should be expensed in
   A. January.
   B. February.
   C. the period when the workers receive their checks.
   D. either January or February depending on when the pay period ends.

7. Under the accrual basis of accounting
   A. cash must be received before revenue is recognized.
   B. net income is calculated by matching cash outflows against cash inflows.
   C. 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.
   D. the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.

8. Inventory becomes part of cost of goods sold when a company
   A. pays for the inventory.
   B. purchases the inventory.
   C. sells the inventory.
   D. receives payment from the customer.

9. Sales revenue
   A. may be recorded before cash is collected.
   B. will always equal cash collections in a month.
   C. only results from credit sales.
   D. is only recorded after cash is collected.

10. On a trial balance, which of the following would indicate that an error has been made?
   A. Accumulated Depreciation has a credit balance.
   B. Salary Expense has a debit balance.
   C. Service Revenue has a debit balance.
   D. All of the above indicate errors.

11. All of the following statements are true except one. Which statement is false?
   A. Accrual accounting procedures better information than cash-basis accounting.
   B. Adjusting entries are required for a business that uses the cash basis.
   C. The matching principle directs accountants to identify and measure all expenses incurred and deduct them from revenues earned during the same period.
   D. A fiscal year can end on some date other than December 31.

12. All of the following statements are false except one. Which statement is true?
   A. The inventory method that best matches current expense with current revenue is LIFO.
   B. Application of the lower-of-cost-or-market rule often results in higher inventory.
   C. An error overstating ending inventory in 20X1 will also understate 20X2 ending inventory.
   D. When prices are rising, the inventory method that results in the highest inventory value is LIFO.

13. Which term indicated that the seller will be responsible for transportation charges for goods purchased?
   A. Freight-in
   B. FOB shipping point
   C. Transportation-in
   D. FOB destination

14. Gross profit does appear on a

    A. Multi-step income statement

    B. Single-step income statement

    C. Cash flows statement

    D. Balance sheet

15. What is a difference between the profit margin ratio and the gross profit rate?

    A. None, these are interchangeable terms.

    B. The gross profit rate is computed by dividing net sales by gross profit and the profit margin ratio is computed by dividing net sales by net income.

    C. The gross profit rate will normally be higher than the profit margin ratio.

    D. A profit margin ratio of 7% means that 7 cents of each net sales dollar ends up in net income and a gross profit rate of 7% means that the cost of the goods were 7% of the selling price.

16. Barnes Company is taking a physical inventory on March 31, the last day of its fiscal year. Which of the following must be included in this inventory count?

    A. Goods in transit to Barnes, FOB destination

    B. Goods that Barnes is holding on consignment for Parker Company

    C. Goods in transit that Barnes has sold to Smith Company, FOB shipping point

    D. Goods that Barnes is holding in inventory on March 31 for which the related Accounts Payable is 15 days past due

17. Isaac Company developed the following information about its inventories in applying the lower of cost or market (LCM) basis in valuing inventories:

Product	Cost	Market
A	$55,000	$60,000
B	40,000	38,000
C	80,000	81,000

    If Isaac applies the LCM basis, the value of the inventory reported on the balance sheet would be

    A. $175,000.

    B. $171,000.

    C. **$173,000.**

    D. $181,000.

18. Using a perpetual inventory system requires that each sale be recorded in the accounting records immediately. In addition to the record of the sale, a company must also make which of the following entries simultaneously?

    A. Debit merchandise inventory, credit cost of goods sold?

    B. Credit purchases, debit merchandise inventory

    C. Debit cost of goods sold and credit merchandise inventory

    D. No additional entry is needed

19. Adjusting entries are made to ensure that:
    A. expense are recognized in the period in which they are incurred.
    B. revenues are recorded in the period in which they are earned.
    C. balance sheet and income statement accounts have correct balances at the end of an accounting period.
    D. All of the above.
    E. None of the above.

20. The primary difference between a periodic and perpetual inventory system is that a periodic system
    A. keeps a record showing the inventory on hand at all time.
    B. provides better control over inventories.
    C. records the cost of the sale on the date the sale is made.
    D. **determines the inventory on hand only at the end of the accounting period.**

Problem I (20 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory	10 units @	$93	=	930
	8	Purchase	55 units @	$150	=	8,250
	15	Purchase	25 units @	$181	=	4,525
	19	Purchase....................	35 units @	$185	=	6,475
	26	Purchase	55 units @	$196	=	10,780
			180			30,960

One hundred and twenty units were sold for $200 each. The Physical count of inventory at October 31 indicates that 60 units are on hand, and the company owns them.

Required: Complete the comparative income statements below under the various inventory-costing methods.
Hint: Determine sales, then compute ending inventory and cost of goods sold and finally gross profit using each of the following methods (show your calculations in the space provided):

1. Specific identification of unit cost, where the warehouse determines 40 units @ $150 and 20 @ $196
2. Weighted-average cost
3. First in, first out
4. Last in, first out

		Specific ID	Weighted Average Cost	FIFO	LIFO
Sales	120 x 200=	24,000	24,000	24,000	24,000
Beginning Inventory		930	930	930	930
Purchases		30,030	30,030	30,030	30,030
Good available		30,960	30,960	30,960	30,960
Less: Ending Inventory		(9,920)	(10,320)	(11,705)	(8,430)
Cost of Sales		21,040	20,640	19,255	22,530
Gross Profit		2,960	3,360	4,745	1,470

Specific ID	Weighted Average Cost	FIFO	LIFO
40x150=6,000	30,960=172	LI=	FI=
20x196=3,920	180 x 60	55x196=10,780	10x93=930
60 9,920	10,320	5x185=925	50x150=7,500
		11,705	8,430

Problem II (30 points)

The Julien Hotel opened for business on May 1, 2007. Here is its trial balance before adjustment on May 31.

JULIEN HOTEL
Trial Balance
May 31, 2007

	Debit	Credit
Cash	$ 2,500	
Prepaid insurance	1,800	
Supplies	2,600	
Land	15,000	
Lodge	70,000	
Furniture	16,800	
Accounts payable		$ 4,700
Unearned rent revenue		3,300
Mortgage payable		36,000
Common stock		60,000
Rent revenue		9,000
Salaries expense	3,000	
Utilities expense	800	
Advertising expense	500	
	$ 113,000	$ 113,000

Other data:

1. Insurance expires at the rate of $300 per month.
2. An inventory of supplies shows $1,350 of unused supplies on May 31.
3. Annual depreciation is $3,600 on the lodge and $3,000 on furniture.
4. The mortgage interest rate is 9%. (The mortgage was taken out on May 1.)
5. Unearned rent of $1,500 has been earned.
6. Salaries of $750 are accrued and unpaid at May 31.

Using the additional information provided above, prepare the adjusting entries that should be made by the Julien Hotel for the month ending May 31, 2007 (on the following page).

General Journal

Entry	Description	Debit	Credit
1.	Insurance expense	300	
	Prepaid insurance		300
2.	Supply expense	1,250	
	Supplies		1,250
	(2,600 - 1,350=1,250)		
3.	Depreciation expense	550	
	Accumulated depreciation		550
	(6,600 x ½ = 550)		
4.	Interest expense	270	270
	Interest payable		
	(.09 x ½ x 36,000=270)		
5.	Unearned rent revenue	1,500	
	Rent revenue		1,500
6.	Salary expense	750	
	Salary payable		750

Short Answer – Question III (10 points)

Coastal Beverage has three products in inventory as follows:

	Coors	Yuengling	Miller Light
Inventory turnover	14 times	20 times	10 times
Days in inventory	26 days	18 days	36 days
Gross profit percent	18%	31%	24%

Required: Assuming it takes 22 days to receive a shipment of product and that inventory of each product are currently at normal levels, which product needs to be ordered today and why?

Yuengling, inventory is sold in 18 days so need to order now or may run out.