

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

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

**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	<u>10</u>	
Total	<u>100</u>	

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

1. All of the following are merchandising firms *except*
  - A. Target
  - B. Wal-Mart
  - C. Coastal Beverage
  - D. Miller Brewing Company**
  
2. Under a perpetual inventory system
  - A. Accounting records for inventory are continuously updated**
  - B. The purchases account is debited for all inventory purchases
  - C. Accounting records for inventory are updated periodically
  - D. There is no need for physical inventory
  
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. Sales Returns and Allowances is classified as a(n)
  - A. Asset account
  - B. Contra Asset account
  - C. Expense account
  - D. Contra revenue account**
  
5. Closing entries are performed for all of the following accounts *except*
  - A. Dividends
  - B. Unearned revenue**
  - C. Interest income
  - D. Cost of goods sold
  
6. 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**
  
7. If a note payable with a principal amount of \$250,000 has an interest rate of 7% for four months, what is the amount of interest that will accrue over the four-month period?
  - A. \$17,500
  - B. \$5,833**
  - C. \$5,760
  - D. \$1,458

8. Which of the following situations would *not* require an adjusting journal entries at the end of the month?
- A. An outstanding note payable has incurred three months of interest that has not been accrued.
  - B. Cash is received for services that have not yet been performed.**
  - C. One month of prepaid rent has expired.
  - D. Depreciation expense must be recognized.
9. The company purchases goods with the terms 1/15, *n*/45. What do the terms mean?
- A. A 1% discount is available for 45 days; otherwise, the invoice must be paid in 15 days.
  - B. A 1% discount is available for 15 days after the invoice date; otherwise, the invoice must be pain in 45 days.**
  - C. A 15% discount is available and the invoice is due in 45 days.
  - D. A 15% discount is available and the invoice is due in 15 days.
10. Jacob Company purchased \$200 worth of merchandise on account from Jones Company. How would Jacob Company record this transaction in its accounting records assuming that the company uses a perpetual inventory system?
- A. Debit cost of goods sold and credit cash
  - B. Debit inventory and credit cash**
  - C. Credit cost of goods sold and debit accounts payable
  - D. Debit inventory and credit accounts payable
11. Which term indicated that the buyer will be responsible for transportation charges for goods purchased?
- A. Freight-in
  - B. FOB shipping point**
  - C. Transportation-in
  - D. FOB destination
12. Gross profit does not appear on a
- A. Multi-step income statement
  - B. Single-step income statement**
  - C. Contribution margin income statement
  - D. Multi-step or Single-step income statement

Use the following information to answer the next three questions.

Selected account information from Aphrodite Corporation is presented below:

Cost of Goods Sold	\$250,000	Net Sales	\$500,000
Merchandise Inventory	13,000	Accounts Receivable	6,000
Selling Expense	115,000	Administrative Expense	90,000

13. Based on the information for Aphrodite Corporation presented above, the gross profit amount shown on the company's income statement would be:
- A. \$500,000
  - B. \$250,000**
  - C. \$135,000
  - D. \$45,000
14. Based on the information for Aphrodite Corporation presented above, the gross profit ratio is
- A. 100%
  - B. 50%**
  - C. 27%
  - D. 9%
15. Based on the information for Aphrodite Corporation presented above, the profit margin ratio is:
- A. 50%
  - B. 27%
  - C. 9%**
  - D. 6%
16. 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

17. In a period of rising prices, which inventory method is best to use for tax purposes?
- A. Specific identification.
  - B. Average-cost.
  - C. LIFO.**
  - D. FIFO.
18. Which of the following statements is correct with respect to inventories?
- A. The FIFO method assumes that the costs of the earliest goods acquired are the last to be sold.
  - B. It is generally good business management to sell the most recently acquired goods first.
  - C. Under FIFO, the ending inventory is based on the latest units purchased.**
  - D. FIFO seldom coincides with the actual physical flow of inventory.
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. Which of these would cause the inventory turnover ratio to increase the most?
- A. Increasing the amount of inventory on hand.
  - B. Keeping the amount of inventory on hand constant but increasing sales.
  - C. Keeping the amount of inventory on hand constant but decreasing sales.
  - D. Decreasing the amount of inventory on hand and increasing sales.**

**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 .....	<u>55</u> units @	<u>\$196</u>	=	<u>10,780</u>
			180			30,960

One hundred and forty units were sold for \$200 each. The Physical count of inventory at October 31 indicates that 40 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
2. Weighted-average cost
3. First in, first out
4. Last in, first out

		<u>Specific ID</u>	<u>Weighted Average Cost</u>	<u>FIFO</u>	<u>LIFO</u>
Sales	<b>140 X 200 =</b>	<u><b>28,000</b></u>	<u><b>28,000</b></u>	<u><b>28,000</b></u>	<u><b>28,000</b></u>
Beginning Inventory		930	930	930	930
Purchases		<u>30,030</u>	<u>30,030</u>	<u>30,030</u>	<u>30,030</u>
Good available		30,960	30,960	30,960	30,960
Less: Ending Inventory		<u><b>(6,000)</b></u>	<u><b>(6,880)</b></u>	<u><b>(7,840)</b></u>	<u><b>(5,430)</b></u>
Cost of Sales		<u><b>24,960</b></u>	<u><b>24,080</b></u>	<u><b>23,120</b></u>	<u><b>25,530</b></u>
Gross Profit		<u><b>3,040</b></u>	<u><b>3,970</b></u>	<u><b>4,880</b></u>	<u><b>2,470</b></u>
		<b>40</b> <u><b>X 150</b></u> <b>6,000</b>	<u><b>30,960</b></u> = 172 <b>180</b> <u><b>x 40</b></u> <b>7,840</b>	<b>40</b> <u><b>x 196</b></u> <b>7,840</b>	<b>10 x 93 = 930</b> <b>30 x 150 = 4,500</b> <b>5,430</b>

**Problem II** (30 points)

The Esiason Equipment Company prepared quarterly financial statements. The following is a list of some selected accounts and their balances in the September 30 trial balance before any adjustments have been made at the end of September.

THE ESIASON EQUIPMENT COMPANY  
Trial Balance (Selected Accounts)  
September 30, 2006

	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	\$11,435	
Supplies	3,745	
Prepaid Rent	21,600	
Inventory	93,265	
Office Equipment	33,500	
Accumulated Depreciation – Office Equipment		\$9,400
Sales & Delivery Equipment	89,680	
Accumulated Depreciation – Sales & Delivery Equipment		23,415
Unearned Sales Revenue		18,775
Supply Expense	0	
Rent Expense	0	
Depreciation Expense	0	
Sales Revenue		30,200
Wages Expense	9,000	

(Note: Debit column does not equal credit column because this is a *partial* listing of selected account balances.) An analysis of the account balances by the company's accountant provided the following additional information:

- (1) A physical count of supplies revealed \$2,360 on hand September 30.
- (2) One year of rent was prepaid on September 1, 2006.
- (3) Office Equipment depreciation \$2,800 per year. Sales and Delivery Equipment depreciated at a rate of \$6,200 per year. (All equipment was purchased in a previous year.)
- (4) The amount of sales revenue received in advance that was earned during the period was \$13,250.
- (5) Wages earned and unpaid at the end of the period were \$2,795.

Using the additional information provided above, prepare the adjusting entries that should be made by the Esiason Equipment Company for the month ending September 30 (on the following page). You may omit the explanations.

**General Journal**

Entry	Description	Debit	Credit
<b>9-30</b>	<b>Supply expense</b> <b>Supplies</b> <b>(3,745 – 2,360 = 1,385)</b>	<b>1,385</b>	<b>1,385</b>
<b>9-30</b>	<b>Rent expense</b> <b>Prepaid rent</b> <b>(21,600 / 12 = 1,800 month)</b>	<b>1,800</b>	<b>1,800</b>
<b>9-30</b>	<b>Depreciation expense</b> <b>Accumulated depreciation</b> - Office expense - Sales expense	<b>750</b>	<b>233</b> <b>517</b>
<b>9-30</b>	<b>Unearned sales</b> <b>Revenue</b> <b>Sales revenue</b>	<b>13,250</b>	<b>13,250</b>
<b>9-30</b>	<b>Wages expense</b> <b>Wages payable</b>	<b>2,795</b>	<b>2,795</b>

**Short Answer – Question III** (10 points)

In January, 2007, a student starts a new business by buying 20 portable hard drives each loaded with 70,000 music recordings. Each hard drive and related music rights cost \$200 and the student plans to sell them to his friends for \$300 each.

He sells and delivers 5 hard drives in January, 8 hard drives in February, and 6 in March. He has one left over for himself at the end of March, 2007. He charges the \$4,000 cost of the 20 hard drives on his VISA in January but doesn't pay the VISA bill until March. The customers pay him the entire \$5,700 owed in March.

Required: Applying the revenue recognition and matching principles of generally accepted accounting principles, determine the **gross profit** for the January, February, and March. Show your calculations:

	<u>Sales</u>	-	<u>Cost of Sales</u>	=	<u>Gross Profit</u>
January	\$1,500	-	1,000	=	<u>500</u>
February	\$2,400	-	1,600	=	<u>800</u>
March	\$1,800	-	1,200	=	<u>600</u>