Spring 2008
Financial Accounting 201
EXAM #2
A

NAME________________________
SECTION TIME **(Circle one)** 8:00 9:00

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

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

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	30	
Problem I	25	
Problem II	30	
Short Answer	15	
Total	100	

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

1. When prices are rising, the method of inventory valuation that results in the highest relative net cash inflow (Most cash left after taxes)?
   A. FIFO
   B. LIFO
   C. Average Cost
   D. The cash flow will be the same under all assumptions

2. Under the revenue recognition principle, revenues are recognized
   A. When they are realized, or realizable, and earned.
   B. When cash is received.
   C. When expenses are incurred.
   D. At the end of the accounting period.

3. 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.

4. A landscaping business signs a contract with a new customer on April 1. New trees are planted for the customer on May 1, and the bill for the services is paid on June 1. Under the accrual basis, the business should recognize revenue on
   A. April 1.
   B. May 1.
   C. June 1.
   D. December 31.

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

A. Income summary	XX	
Salary expense		XX
B. Retained earnings	XX	
Dividends		XX
C. Prepaid expense	**XX**	
Income summary		**XX**
D. Sales	XX	
Income summary		XX

6. Welsh Company purchased an item for inventory that cost $12 per unit and was marked to sell at $16 less selling costs of $1. It was determined that the replacement cost is $13 per unit. No purchases in the near future are anticipated. Using the lower-of-cost-or-market rule, the per unit valuation for inventory should be
   A. $16.00
   B. $15.00
   C. $13.00
   D. $12.00

7. Net sales is equal to
   A. **sales revenue less sales returns and allowances and sales discounts.**
   B. sales revenue less cost of goods sold.
   C. sales revenue less selling and administrative expenses.
   D. none of the above.

8. The association of revenue of a period with all of the costs necessary to generate that revenue is called
   A. the revenue recognition principle.
   B. the matching principle.
   C. the income recognition principle.
   D. the conservation constraint.

9. 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

10. 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.

11. A furniture factory's employees work overtime to finish an order that is shipped FOB shipping point on January 31. The office sends a statement to the customer in early February and payment is received by mid-March. The furniture factory should record the sale and cost of goods sold in
   A. January.
   B. February.
   C. March
   D. The cost of goods sold in January when goods are shipped and the sale in February when the bill is sent.

12. Which of the following steps in the accounting cycle is *not* in the correct order?
   A. Journalize transactions and post them to accounts in the ledger.
   B. Prepare an adjusted trial balance and prepare financial statements.
   C. Close the accounts and then record and post adjusting entries.
   D. Prepare an unadjusted trial balance and then journalize adjustments.

13. The type of inventory system in which the Inventory account is updated at the time of each sale is called
    A. a periodic system.
    B. a perpetual system.
    C. FIFO.
    D. LIFO.

14. The gross profit ratio is computed by
    A. dividing gross profit by net sales.
    B. dividing net sales by gross profit.
    C. dividing gross profit by cost of goods sold.
    D. none of the above.

15. For which of the following products is a company most likely to use the specific identification perpetual inventory method?
    A. boxes of soap in a grocery store
    B. automobiles at a car dealer
    C. car batteries at an auto parts store
    D. The specific identification cannot be used by any companies.

Problem I (25 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	**Ave**
	26	Purchase	55 units @	$196	=	10,780	**cost**
			180			30,960	**172**

One hundred and forty units were sold for $250 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 @ $196
2. Weighted-average cost
3. First in, first out
4. Last in, first out

		Specific ID	Weighted Average Cost	FIFO	LIFO
Sales	**140 x 250 =**	**35,000**	**35,000**	**35,000**	**35,000**
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		**(7,840)**	**(6,880)**	**(7,840)**	**(5,430)**
Cost of Sales		**23,120**	**24,080**	**23,120**	**25,530**
Gross Profit		**11,880**	**10,920**	**11,880**	**9,470**
		40 x 196 = 7,840	**172 x 40 = 6,880**	**40 x 196 = 7,840**	**10 x 93= 930 30 x 150 = 4,500 5,430**

Problem II (30 points)

Four Star Video has been in the video rental business for five years. An unadjusted trial balance at May 31, 2008, follows.

Four Star Video
Unadjusted Trial Balance
May 31, 2008

	Debit	Credit
Cash	$ 54,000	
Prepaid rent	6,600	
Video Supplies	25,600	
Display Stands	8,900	
Accumulated Depreciation		$ 5,100
Accounts Payable		3,260
Mortgage Payable		50,000
Customer Subscriptions		4,450
Capital Stock		5,000
Retained Earnings		22,170
Rental Revenue		9,200
Tax Expense	0	
Wage and Salary Expense	2,320	
Depreciation Expense	0	
Utilities Expense	1,240	
Interest Expense	0	
Video Expense	0	
Advertising Expense	600	
Miscellaneous Expense	0	
Totals	$ 99,260	$ 99,260

The following additional information is available:

A. Four Star rents a store in a shopping mall and prepays the annual rent of $7,200 on April 1 of each year.
B. The asset account Video Supplies is maintained on a periodic basis. When a new title is purchased from a supplier, its cost is debited to this account. Based on the monthly count, the cost of titles on hand at the end of May is $23,140.
C. The display stands have an estimated useful life of five years and an estimated salvage value of $500.
D. Wages and salaries owed by unpaid to employees at the end of May amount to $1,450.
E. In addition to individual rentals, Four Star operates a popular discount program. Customers pay an annual fee of $120 for an unlimited number of rentals. Based on the $10 per month earned on each of these subscriptions, the amount earned for the month of May is $2,440.
F. Four Star accrues income taxes for the month of $5,000.
G. The mortgage carries on an interest rate of 6% and interest has not been paid this month.

Using the additional information provided above, prepare the adjusting entries that should be made by Four Star Video for the month ending May 31, 2008 (on the following page).

General Journal

Entry	Description	Debit	Credit
A	Rent expense	600	
	Prepaid rent		600
	(7,200 / 12 = 600 month)		
B	Video expense	2,460	
	Video supplies		2,460
	(25,600 – 23/40 = 2,460)		
C	Depreciation expense	140	
	Accumulated depreciation		140
	$\left(\frac{8,900 - 500}{60} = \frac{8,400}{60} = 140\right)$		
D	Wages & salary expense	1,450	
	Accounts payable		1,450
E	Customer subscriptions	2,440	
	Rental revenue		2,440
F	Income tax expense	5,000	
	Accounts payable		5,000
G	Interest expense	250	
	Accounts payable		250
	(.06 x 50,000 X ½ = 250 month)		

Short Answer – Question III (15 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: Which product is the most profitable and why?

Yuengling because gross profit is highest also, it has high turnover which indicates rapid sales, which would also increase profit.