Fall 2008
Financial Accounting 201
EXAM #2

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.	_________	11.	_________
2.	_________	12.	_________
3.	_________	13.	_________
4.	_________	14.	_________
5.	_________	15.	_________
6.	_________	16.	_________
7.	_________	17.	_________
8.	_________	18.	_________
9.	_________	19.	_________
10.	_________	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	20	
Problem II	30	
Short Answer	10	
Total	100	

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

1. What organization issues U.S. accounting standards?
   a. Security Exchange Commission.
   b. International Accounting Standards Committee.
   c. American Institute of Certified Public Accountants
   d. Financial Accounting Standards Board.

2. A practical decision to expense small capital expenditures such as staples and wastebaskets rather than record them as property, plant, and equipment and depreciate them probably is made on the basis of the accounting constraint of
   a. consistency.
   b. materiality.
   c. full disclosure.
   d. conservatism.

3. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
   a. Monetary unit assumption
   b. Economic entity assumption
   c. Time period assumption
   d. Going concern assumption

4. Closing entries
   a. Are prepared before the financial statements
   b. Reduce the number of permanent accounts
   c. Cause the revenue and expense accounts to have zero balances
   d. Summarize the activity in every account

5. Customers often return merchandise to the store where they bought the merchandise. In order to capture information on returned merchandise, stores should record the dollar amount of merchandise returned by customers
   a. As a reduction in the Sales account
   b. As an addition to the Purchases account
   c. In a special inventory account called purchase returns and allowances
   d. In a contra-revenue account called sales returns and allowances

6. Which of the following statements is **false**?
   a. The Inventory account is updated after every sale and purchase of merchandise under the perpetual inventory system
   b. The Inventory account is updated only at the end of the accounting period under the periodic inventory system.
   c. A Cost of Goods Sold account is updated after each sale of merchandise under the perpetual inventory system
   d. A Purchases account is used under both the periodic and perpetual Inventory systems

7. An adjusted trial balance
   a. Is prepared after the financial statements are completed
   b. Proves the equality of the total debit balances and total credit balances of ledger accounts after all adjustments have been made
   c. Is a required financial statement under generally accepted accounting principles
   d. Cannot be used to prepare financial statements

8. Sales revenues are usually considered earned when
   a. Cash is received from credit sales
   b. An order is received
   c. Goods have been transferred (title has passed) from the seller to the buyer
   d. Adjusting entries are made

9. 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

10. What is the 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. It is assumed that the activities of Ford Motor Corporation can be distinguished from those of General Motors because of the
    a. going concern assumption.
    b. economic entity assumption.
    c. monetary unit assumption.
    d. time period assumption.

12. The accounting practice of recording depreciation during the life of an asset instead of when sold and the practice of not recording real estate gains until sold are applications of
    a. materiality
    b. reliability
    c. conservatism
    d. giving concern

13. In the multi-step income statement of Walmart, which of the following is the largest expense?
    A. Salaries
    B. Total operating expenses
    C. Cost of sales
    D. Income taxes

14. 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.

15. 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.

16. 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.

17. The principle that requires a company to recognize expenses when incurred whether cash has been paid or not is the
    A. cost-benefit
    B. cost principle
    C. matching principle
    D. revenue recognition
    E. none of the above

18. An accrual refers to an event
    A. where the expense or revenue is recorded after the cash settlement
    B. where the liability is recorded after the cash settlement
    C. where the asset is recorded after the cash settlement
    D. where the expense or revenue is recorded before the cash settlement

19. Which of the following accounts is NOT closed as part of the closing process?
    A. Income Summary
    B. Retained Earnings
    C. Dividends
    D. Revenue

20. Which of the following transactions is recorded the same way when using either the cash or accrual method:
    A.Collecting a cash advance before services are rendered
    B.Paying two years' insurance premium
    C.Collecting cash when services are performed
    D. Purchasing six months of office supplies

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 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

	Specific ID	Weighted Average Cost	FIFO	LIFO
Sales				
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				
Cost of Sales				
Gross Profit				

Problem II (30 points)

The Welcome Inn opened for business on March 1, 2007. Here is its trial balance before adjustment on March 31.

WELCOME INN
Trial Balance
March 31, 2007

	Debit	Credit
Cash	$ 2,700	
Prepaid Insurance	2,400	
Supplies	3,300	
Land	25,000	
Lodge	85,000	
Furniture	22,400	
Accounts Payable		$ 9,200
Unearned Rent		2,800
Mortgage Payable		50,000
Common Stock		72,000
Rent Revenue		11,000
Salaries Expense	3,000	
Utilities Expense	800	
Advertising Expense	400	
	$145,000	$145,000

Other data:

1. Prepaid insurance is one payment on March 1 for a year's insurance policy.
2. An inventory of supplies shows $1,900 of unused supplies on March 31.
3. Annual depreciation is $4,440 on the lodge and $3,600 on furniture.
4. The mortgage interest rate is 9%. (The mortgage was taken out on March 1.)
5. Unearned rent includes $1,500 unearned at the end of March.
6. Salaries of $960 are accrued and unpaid at March 31.
7. The electric bill for March of $100 was received on April 6.
8. On April 1, it was discovered that one tenant had not paid his rent of $500 for March.

Instructions:

A. Journalize the adjusting entries on March 31.

General Journal

Entry	Description	Debit	Credit

Short Answer – Question III (10 points)

Please provide short, concise answers in the space provided.

1. Baby Swankest, Inc. is a chain of retail stores that sell high-end equipment for baby transportation including carriages, miniatures BMW's and Porsches, and car seats. Management is interested in good internal control and wants a system which will help them know when to order. Should they choose perpetual or periodic and why:

2. Continuing with the information above, Baby Swankest, Inc. buys and pays for most of its inventory in January each year but sells the most products and collects the most cash in March and December. Assuming a monthly accounting period, should Baby Swankest use cash or accrual accounting and why: