Fall 2009
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. __________
2. __________
3. __________
4. __________
5. __________
6. __________
7. __________
8. __________
9. __________
10. __________
11. __________
12. __________
13. __________
14. __________
15. __________

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	25	
Short Answer	20	
Total	100	

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

1. In periods when prices are rising, what is an advantage of using the LIFO inventory costing method?
   A. Ending inventory will include latest (most recent) costs and thus be more realistic.
   B. Cost of goods sold will include latest (most recent) costs and thus be more realistic
   C. Net income will be the highest and thus reflect the prosperity of the company
   D. For most companies, the flow of costs follows the physical flow of items in the warehouse

2. Manuel's Tune-up Shop follows the accrual method of accounting using the revenue recognition principle. His employee Javier services a car for a customer on August 31. The customer picks up the vehicle on September 1 and mails a check to Manuel on September 5. Manuel receives the check in the mail on September 6. When should Manuel record the revenue on his books?
   A. August 31.
   B. September 1.
   C. September 5.
   D. September 6.

3. Which of the following statements about inventory systems is true?
   A. The perpetual method requires physical counts at the end of the accounting period to determine the inventory balance.
   B. Under the periodic method, the balance in the inventory account is updated with each inventory purchase action.
   C. The perpetual method generally requires greater use of technology.
   D. The account 'Purchases' has much more activity under the perpetual method than the periodic method.

4. 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-March. The overtime wages should be recorded as an expense in:
   A. January.
   B. February.
   C. March.
   D. Either January or February depending on when employees get their checks.

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.	Unearned revenue	XX	
	Income summary		XX
D.	Sales	XX	
	Income summary		XX

6. Welsh Company purchased an item for inventory that cost $18 per unit. Because of the bad economy, the item is now marked to sell at $16 less selling costs of $1. It was determined that the replacement cost is $13 per unit. Using the lower-of-cost-or-market rule, the per unit valuation for inventory should be
   A. $18.00
   B. $16.00
   C. $15.00
   D. $13.00

7. Which of the following companies would most likely have the highest inventory turnover?
   A. An art gallery.
   B. An automobile dealer.
   C. A piano dealer.
   D. A bakery.

8. In all comparisons of performance for a retailer, Walmart outperforms Kmart. Which of the following ratios is likely to be higher for Kmart than Walmart?
   A. Gross profit ratio.
   B. Profit margin ratio.
   C. Inventory turnover.
   D. Days sales in inventory.

9. Which term indicates that the seller owns the merchandise in transit?
   A. 2/10 net 30
   B. FOB shipping point
   C. Goods on consignment
   D. FOB destination

10. Which of the following statements is true regarding a comparison of the profit margin ratio and the gross profit rate?
   A. There is no difference in the terms; 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. Dividing net income by net sales.

15. For which of the following products is a company most likely to use the specific identification perpetual inventory method?
    A. celery in a grocery store
    B. automobiles at a car dealer
    C. car batteries at an auto parts store
    D. a coal company.

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
	26	Purchase........................	55 units @	$196	=	10,780
			180			30,960

One hundred and fifty units were sold for $250 each. The Physical count of inventory at October 31 indicates that 30 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 30 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 (25 points)

Four Star Video has been in the video rental business for five years. An unadjusted trial balance at May 31, 2006, follows.

Four Star Video
Unadjusted Trial Balance
May 31, 2006

	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
Unearned 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 $20,000.
C. The display stands have an estimated useful life of five years and an estimated salvage value of $500.
D. The one employee is paid $80 a day and works Monday through Friday and is paid on Friday for the week's work. Assume May 31, 2006 was a Thursday.
E. In addition to individual rentals, Four Star operates a popular subscription 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, 2006 (on the following page). Add accounts as needed.

General Journal

Entry	Description	Debit	Credit

Short Answer – Question III (20 points)
Use the adjusted trial balance below to complete the multi-step income statement, retained earnings statement, and classified balance sheets on the following page.

SAVE-MART WHOLESALE COMPANY
Adjusted Trial Balance
December 31, 2010

	Debit	Credit
Cash	$ 31,400	
Accounts Receivable	37,600	
Merchandise Inventory	70,000	
Land	92,000	
Buildings	200,000	
Accumulated Depreciation—Buildings		$ 72,000
Equipment	83,500	
Accumulated Depreciation—Equipment		49,500
Notes Payable ($20,000 due in 2011, balance in 2012)		54,700
Accounts Payable		17,500
Interest Payable		4,500
Income Tax Payable		20,000
Common Stock		160,000
Retained Earnings		68,200
Dividends	10,000	
Sales		922,100
Sales Discounts	5,000	
Cost of Goods Sold	709,900	
Salaries Expense	51,300	
Utilities Expense	11,400	
Repair Expense	8,900	
Gas & Oil Expense	7,200	
Insurance Expense	4,800	
Depreciation Expense—Buildings	12,000	
Depreciation Expense—Equipment	9,000	
Income Tax Expense	20,000	
Interest Expense	4,500	
Totals	$1,368,500	$1,368,500

SAVE-MART WHOLESALE COMPANY
Income Statement
For the Year Ended December 31, 2010

Sales revenues		
Sales	$922,100	
Less: ________ (A)	______ (A)	
Net sales		______ (B)
________(C)		______ (C)
Gross profit		-------------(D)
Operating expenses		
________ (E)	$____E_	
Depreciation expense—buildings	12,000	
Utilities expense	11,400	
Depreciation expense—equipment	9,000	
Repair expense	8,900	
Gas & oil expense	7,200	
Insurance expense	4,800	
Total operating expenses		104,600
Income from operations		______ (F)
Other expenses and losses		
________ (G)		______ (G)
Income before income tax		______
________ (H)		(H)____
Net income		$______ (I

SAVE-MART WHOLESALE COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2010

Retained earnings, January 1	$ 68,200
Add: Net income	______ (I)
Less: Dividends	10,000
Retained earnings, December 31	$______ (J)

SAVE-MART WHOLESALE COMPANY
Balance Sheet
December 31, 2010

Assets

Current assets				
Cash		$ 31,400		
________ (K)			______ (K)	
________ (L)			______ (L)	
Total current assets				$______(M)
Property, plant, and equipment				
Land		92,000		
Buildings	$200,000			
Less: Accum. depreciation		72,000	128,000	
Equipment		83,500		
Less: Accum. depreciation		49,500	34,000	254,000
Total assets				$______

Liabilities and Stockholders' Equity

Current liabilities		
Notes payable ________	$ ______(O)	
Accounts payable	17,500	
Income tax payable	20,000	
Interest payable	4,500	
Total current liabilities		$ ______
Long-term liabilities		
Notes payable ________(P)		______
Total liabilities		______
Stockholders' equity		
Common stock	160,000	
Retained earnings	______(J)	
Total stockholders' equity		______
Total liabilities and stockholders' equity		$______