Multiple Choice There is only one BEST answer. (TWO points each)

1. Nunn Company reported the following data:

Quick assets………………..	$ 55,000
Current assets……………….	150,000
Total liabilities……………..	300,000
Average net receivables…….	12,600
Beginning inventory………..	38,000
Long-term liabilities………..	200,000
Net credit sales……………..	126,000
Cost of goods sold………….	84,000
Ending inventory…………..	46,000

The inventory turnover ratio was
A) 10 times
B) 6.7 times
C) 1.5 to 1.
D) 0.5 to 1.
E) 2 to 1.

2. Accrual accounting requires that the loss resulting from the failure of credit customers to pay their bills should
A) not be recorded until cash is collected from the customer in settlement of the account because that is the only sure event.
B) be estimated in the period in which sales are made but should not be recorded until the customer defaults because of the matching principle.
C) be estimated and recorded in the period in which sales are made so that periodic expenses are matched with periodic revenues.
D) be recognized in the period in which the account receivable proves to be uncollectible because that is the only date when the loss will really be known.
E) None of the above is correct.

Use the following to answer questions 3 & 4:

Liberty Company estimates that its annual bad debts approximate 4% of credit sales. Liberty had the following balances at year-end prior to recording adjusting entries:

Credit Sales	$160,000
Accounts Receivable	30,000
Allowance for Doubtful Accounts	100 credit balance

3. On Liberty's income statement for the year, bad debt expense would amount to
A) $6,400.
B) $6,500.
C) $6,300.
D) $5,200.
E) None of the above is correct.

4. Liberty estimates that its annual bad debt approximate 4% of credit sales. The net realizable value of the receivables on Liberty's year-end balance sheet would be
   A) $29,900.
   B) $23,700.
   C) $23,600.
   D) $23,500.
   E) None of the above is correct.

5. For accounting purposes, cash includes
   A) IOU's received from employees.
   B) postage stamps accompanying an order received from a customer.
   C) balances on deposit in banks.
   D) a note received from a customer in settlement of an overdue account receivable.
   E) a post-dated check received from a customer.

6. Which of the following would not be considered an element of good internal control?
   A) Require monthly reconciliation of bank accounts with the cash account.
   B) Require that all cash receipts be deposited on a daily basis.
   C) Require that the individual who handles cash receipts be responsible for the accounting function related to those funds.
   D) Require that approval for cash payments and the signing of checks be assigned to different individuals.
   E) None of the above is correct.

7. Which of the following inventory costing methods provides management and the warehouse personnel the most control over determining year end inventory cost?
   A) LIFO.
   B) FIFO.
   C) Weighted-average cost.
   D) Specific identification.
   E) Lower of cost or market

8. Which of the following would be the most likely justification for choosing FIFO?
   A) During inflation it usually results in higher reported net income
   B) It usually matches the most recent costs against current sales in the income statement
   C) It usually results in significant tax and cash flow benefits
   D) It usually provides management with the most up to date cost information
   E) It is the only method that can be used with a periodic inventory system

9. Welsh Company purchased an item for inventory that cost $10 per unit and was marked to sell at $14. It was determined that the replacement cost is $11 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) $14.00.
   B) $12.00.
   C) $10.00.
   D) $ 9.00.
   E) None of the above is correct.

10. A company is considering changing its policy for collection customer receivables From 2/20 net 60 to 2/10, net 30. Which of the following results is most likely to occur?

a. Accounts receivable turnover will decrease
b. Cash collection of receivables will increase
c. Sales discounts will increase
d. Bad debts will increase
e. Inventory turnover will increase

11. Under the periodic inventory system:

A) a transaction by transaction unit inventory record is maintained.
B) the cost of goods sold for each sale is recorded at the time each sale is made.
C) there is no need to physically count inventory at the end of the period.
D) a continuous inventory record provides the amount of ending inventory and the cost of goods sold throughout the period.
E) Accounting and technology costs are usually less than under perpetual.

12 Which of the following would be classified as Property (operational (fixed) asset)?

A) Land purchased and held for sale by a realtor.
B) Land purchased and held for development by Walmart as a new store site.
C) Land and buildings owned by Toys "R" Us that are store sites closed due to restructuring and consolidating operations.
D) A Ford Motor Company manufacturing plant used to manufacture the Taurus line in Dearborn, Michigan.
E) All of the above are classified as operational (fixed) assets.

13.On April 1, 2002, Marx Corporation purchased a new machine for $80,000. It cost the company $5,000 for its delivery, $10,000 to set the machine up, $3,000 in financing cost to borrow the needed funds for 3 months after installation, and finally, they incurred $2,000 in unexpected repair costs when it was damaged during installation. What amount should be capitalized to the equipment account as the cost basis of the asset?

A) $85,000.
B) $95,000.
C) $98,000.
D) $100,000.

14. The main purpose of recording depreciation is to

A) allocate the cost of a tangible asset to the periods in which its use contributes to earning revenue.
B) estimate the remaining useful life of the asset.
C) report the asset on the balance sheet at the estimated amount for which the asset could be sold on the balance sheet date.
D) estimate the current replacement cost of the asset.
E) reflect asset values at the lower of cost or market.

15. If a company classifies an expenditure as a capital expenditure instead of a revenue expenditure, which of the following will be true?
   A) Income for the year of acquisition will be higher.
   B) The initial cost basis of the asset will be higher.
   C) Depreciation expense will be higher over the asset's life.
   D) All of the above are true.
   E) None of the above is true.

16..Which of the following would most likely not be a revenue expenditure?
   A) Replacing carpet in the sales department's offices.
   B) Repairing a leaky roof.
   C) Putting a hydraulic lift on our delivery truck making it easier and quicker to deliver appliances.
   D) Painting the exterior of our store.
   E) All of the above would be revenue expenditures.

17. Under what conditions would a company most likely **NOT** adopt the double declining-balance method for financial reporting?
   A) They have high technology, robotic equipment in their plant that becomes obsolete quickly and declines in utility to the company more rapidly in the early years of the assets' lives.
   B) They have a fleet of trucks where repair costs increase annually as the fleet ages.
   C) They expect the asset to lose its market value more rapidly in the first few years of its life.
   D) They own rental real estate which wears out gradually over time
   E) They wish to minimize record keeping effort by using approximately the same method of depreciation for tax and financial statements.

18. Which of the following intangible operational assets would be expected to have the longest service life?
   A) Patent.
   B) Copyright.
   C) Purchased goodwill.
   D) Player contract.
   E) Trademark.

19. Which of the following methods ordinarily would be the most appropriate to determine depletion of natural resources for financial reporting purposes?
   A) Straight-line.
   B) Two hundred percent declining-balance.
   C) Specific identification.
   D) Units of production.

20.In accounting, goodwill
   A) may be recorded whenever a company achieves a level of net income that exceeds the industry average.
   B) Should always be amortized over 50 years even when it becomes impaired.
   C) may be recorded when a company purchases another business.
   D) must be expended in the period it is recorded because benefits from goodwill are difficult to identify.
   E) is never recorded.

Problem I (20 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory..........	45 units @ $145	=	6,525
	8	Purchase	35 units @ $150	=	5,250
	15	Purchase	25 units @ $130	=	3,250
	26	Purchase	20 units @ $200	=	4,000
			125		19,025

Seventy units were sold for $300 each. The Physical count of inventory at October 31 indicates that fifty-five units are on hand, and the company owns them. 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 25 units @ $130 and 30 units @ $150 are on hand at October 31.
2. Weighted-average cost
3. First in, first out
4. Last in, first out

	Specific ID	Weighted Average Cost	FIFO	LIFO
Sales	21,000	21,000	21,000	21,000
Beginning Inventory	6,525	6,525	6,525	6,525
Purchases	12,500	12,500	12,500	12,500
Less: Ending Inventory	(7750)	(8371)	(8750)	(8025)
Cost of Sales	11,275	10,654	10,235	11,000
Gross Profit	9,725	10,346	10,725	10,000

Problem II (15 points)

Prepare a bank reconciliation and appropriate journal entries to adjust using the following information:

a. Balance per bank statement as of May 31, $9,600
b. Balance per books as of May 31, $8,412
c. Deposits in transit, $800
d. Outstanding checks, $1,600
e. Bank service charge, $12
f. Collection of note by bank, $400

1.

Bank Reconciliation

Balance per Bank:	$9600	Balance per Books:	$8412
Additions:		Additions:	
Deposit in Transit	800	Collections	400
Deductions:		Deductions:	
Outstanding Check	(1600)	Service Charge	(12)
Adjusted Balance	8800	Adjusted Balance:	8800

2. Prepare Journal Entries in the space below.

Date	Description	Debit	Credit
5/31	Service Charge Expense	12	
	Cash		12
	Cash	400	
	Notes Receivable		400

Problem III (20 points)

A Corporation purchased a delivery van on January 1, 2001, for $48,000. The van has an estimated life of five years, or 70,000 miles and an estimated residual value of $6,000. The company's fiscal year corresponds to the calendar year.

Required (a): Compute annual depreciation expense for 2001, 2002 and 2003 using the methods indicated below. Show calculations.

	2001	2002	2003
Annual Expense			
Straight-line	8400	8400	8400

(48,000 – 6,000) / 5 = 8,400 annually

	2001	2002	2003
Units of Production	12,000	24,000	6,000
Actual miles driven	20000 miles	40000 miles	30000 miles

(48,000 – 6,000) / 70,000 miles = $.60 per mile

	2001	2002	2003
Double-declining-balance	19,200[1]	11,520[2]	6,912[3]

1. 48000 * (2/5) = 19,200
2. (48,000 – 19,200) * (2/5) = 11,520
3. (48,000 – 19,200 – 11,520) * (2/5) = 6,912

Problem IV   Short Answer (5 points)

Buster Trust is the accountant for Wet N Wax Surf Shop which uses the periodic inventory system. Burt Surfer owns the shop, but is seldom there since he travels the world competing in surfing contests. Buster Trust makes the deposits daily and writes and signs all checks. He also orders all inventory and performs the year end count and reconciles the cash account. He makes all necessary adjusting entries and prepares financial statements.

Burt Surfer feels his friend Buster Trust is overworked and hires a CPA to prepare financial statements and the year end tax return. Buster is upset because the CPA recommends that Buster no longer reconcile cash, make deposits or sign checks.

REQUIRED: Do you agree with the CPA's recommendation limiting his bookkeeper's responsibility? Why or why not? Briefly defend your answer.