

**Accounting 201
TEST III
Fall 2004**

NAME _____

TIME 10:00 or 12:00 or 1:00
(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

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

Multiple Choice	30
Problem I	25
Problem II	25
Problem III	20
	<u>100</u>

Multiple Choice – There is only ONE best answer (2 points each)

1. Which of the following items in a cash drawer at November 30 is *not* cash?
 - A. Money orders.
 - B. Coins and currency.
 - C. A customer check dated December 1.**
 - D. A customer check dated November 28.

2. Which of these would cause the accounts receivable turnover ratio to increase the most?
 - A. Increasing the amount of accounts receivable
 - B. Keeping the amount of accounts receivable constant but increasing sales.
 - C. Keeping the amount of accounts receivable constant but decreasing sales.
 - D. Decreasing the amount of accounts receivable and increasing sales.**

3. Which of the following statements is correct with respect to inventories?
 - A. Raw materials and work in process are types of inventory frequently found in service businesses.
 - 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. LIFO usually coincides with the actual physical flow of inventory.

4. 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.

5. A bank reconciliation should be prepared
 - A. whenever the bank refuses to lend the company money.
 - B. when an employee is suspected of fraud.
 - C. By an individual independent of the accounting and check signing responsibilities to explain any difference between the depositor's balance per books with the balance per bank.**
 - D. by the person who is authorized to sign checks.

6. Which of the following combination of turnover ratios indicates a company which has the longest operating cycle
 - A. Coastal Beverage/ inventory turnover 15, receivable turnover 20.
 - B. Harley Davidson/ inventory turnover 12, receivable turnover 8**
 - C. Miller Brewing/ inventory turnover 8, receivable turnover 24
 - D. McDonalds/ inventory turnover 720, receivable turnover infinite

7. Cash equivalents do not include
- A. **Stocks, bonds, and mutual funds**
 - B. money market accounts.
 - C. commercial paper.
 - D. U.S. Treasury bills..
8. When paying bills in a company with good internal controls, which of the following is true?
- A. Accounting should mail the check to the vendor after signature.
 - B. Accounting should send a copy of the purchase order to the vendor
 - C. Accounting should not allow the check signer to see the voucher package
 - D. **Accounting should compare the purchase order to the invoice to the receiving report**

Use the following information for questions 9-10.

The following information was available for Rawley Company at December 31, 2003: beginning inventory \$80,000; ending inventory \$60,000; cost of goods sold \$630,000; and sales \$700,000.

9. Rawley's inventory turnover ratio in 2003 was
- A. **9.0 times.**
 - B. 10.5 times.
 - C. 10.0 times.
 - D. 11.7 times.
10. Rawley's days in inventory in 2003 was
- A. **40.6 days.**
 - B. 34.8 days.
 - C. 36.5 days.
 - D. 31.2 days.
11. Manning Company uses the percentage of sales/revenue method for recording bad debts expense. The accounts receivable balance is \$200,000, the allowance for doubtful accounts is \$2000 credit (before adjustment) at December 31 and credit sales were \$1,000,000 for the year then ended. Management estimates that 3% of sales will be uncollectible and accounting makes the appropriate adjustment at year end. What will Manning Company's net realizable receivables be after adjustment?
- A. \$170,000
 - B. **\$168,000**
 - C. \$30,000
 - D. \$172,000

12. Assuming a company has a balance of \$200,000 in accounts receivable and a balance in the allowance for uncollectible accounts of \$30,000 before recording a writeoff of an uncollectible account of \$25,000. Which of the following is true after recording the writeoff:
- A. cash realizable value of total accounts receivable will increase.
 - B. net accounts receivable will decrease.
 - C. The allowance account will increase.
 - D. net accounts receivable will stay the same.**
13. Which of the following is the best example of the application of both the accounting principles of conservatism and matching?
- A. Direct writeoff method of providing for bad debts.
 - B. Percent of sales/allowance method of estimating bad debts.**
 - C. Average cost method of calculating inventory cost
 - D. FIFO method of calculating inventory cost.
14. 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.**
15. The Kemp Company has just completed a physical inventory count at year end, December 31, 2003. Which of the following events was not properly handled:
- (a) There were goods in transit on December 31, 2003, from a supplier with terms FOB destination, costing \$10,000. Because the goods had not arrived, they were excluded from the physical inventory count.
 - (b) Kemp Company, on the date of the inventory, received notice from a supplier that goods ordered earlier, at a cost of \$4,000, had been delivered to the transportation company on December 28, 2003; the terms were FOB shipping point. Because the shipment had not arrived on December 31, 2003, it was excluded from the physical inventory.**
 - (c) On December 31, 2003, there were goods in transit to customers, with terms FOB shipping point, amounting to \$800 (expected delivery on January 8, 2004). Because the goods had been shipped, they were excluded from the physical inventory count.
 - (d) Kemp Company had delivered goods costing \$3000 to a nearby store to be sold on consignment. Although these goods were not at Kemp Company's warehouse as of December 31, 2003, they were owned by Kemp and were included in the physical inventory count.

Problem I (25 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory.....	20 units @	\$146	=	2,920
	8	Purchase	55 units @	\$150	=	8,250
	15	Purchase	25 units @	\$180	=	4,500
	19	Purchase.....	35 units @	\$195	=	6,825
	26	Purchase	<u>20</u> units @	\$200.50	=	<u>4,010</u>
			155			26,505

One hundred thirty units were sold for \$200 each. The Physical count of inventory at October 31 indicates that 25 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 @ \$180 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	130x200	<u>26,000</u>	<u>26,000</u>	<u>26,000</u>	<u>26,000</u>
Beginning Inventory		2,920	2,920	2,920	2,920
Purchases		<u>23,585</u>	<u>23,585</u>	<u>23,585</u>	<u>23,585</u>
Good available		26,505	26,505	26,505	26,505
		PTS (4)	(4)	(4)	(4)
Less: Ending Inventory		<u>(4,500)</u>	<u>(4,275)</u>	<u>(4,985)</u>	<u>(3,670)</u>
Cost of Sales		(4) <u>22,005</u>	<u>22,230</u>	<u>21,520</u>	<u>22,835</u>
Gross Profit		(3) <u>3,995</u>	<u>3,770</u>	<u>4,480</u>	<u>3,165</u>
		25x180= 4,500	<u>26,505</u> 155=171	20x2,005= 4,010	20x146= 2,920
				5x195= <u>975</u> 4,985	5x150= 750

Problem II (25 points)

The bank statement for Wilson Company indicates a balance of \$8,936 on September 30, 2004. The cash balance per books had a balance of \$3,285 on this date. The following information pertains to the bank transactions for the company.

1. A deposit of \$1425 made on September 29,2004 did not appear on the bank statement.
2. Outstanding checks totaled \$613.
3. Bank service charges for September amounted to \$60.
4. There was an EFT deposit of \$1,900 on the bank statement for the monthly rent from a tenant of Wilson Company. (Bank automatically collected for Wilson)
5. A NSF check for \$327 from a customer was returned with the statement.
6. The bookkeeper for Wilson had erroneously recoded a \$50 check as \$500. The check was to settle an account payable.
7. A deposit for \$500 made by Wilson on September 10 was erroneously recorded in Wilson's account as \$5000 by the bank.

Instructions

- a. Prepare the Bank Reconciliation at September 30: (2) PTS each numbered item

Balance per Bank	\$ 8,936	Balance per Books	\$ 3,285
Add: Deposit in transit	1,425	Add: EFT deposit	1,900
Less: O/S checks	(613)	Check error	450
Deposit error	<u>(4,500)</u>	Less: Service charge	(60)
Adjusted Bank	<u>\$ 5,248</u>	NSF check	<u>(327)</u>
		Adjusted Book	<u>\$ 5,248</u>

- b. Prepare the General Journal entries required:

(6 Total)

Date	Description	Debit	Credit
9-30	Cash in bank	2,350	
	Rent revenue		1,900
	Accounts payable		450
	Service charge	60	
	Accounts receivable (NSF)	327	
	Cash in bank		387

Problem III (20 points) Internal Controls

Ivan Spy, a retired police officer, started a private investigation agency called I Spy, Inc. after his partner was killed on duty. He hired his partner's widow Ann Oleander to be his bookkeeper. Ivan was very busy on cases and seldom came into the office. Ann only worked 20 hours a week and frequently took vacations. However, she made sure she was in the office whenever Ivan was in town.

Ann made all the plane and hotel reservations using the company credit card. She ordered and received all the supplies from vendors. Because of the nature of the business, supplies could be just about anything from clothes for disguises to tools to food. She instructed vendors where to deliver any items. Any packing slips, credit card statements, or invoices were placed in a large box. Ann did not cancel any invoices. She prepared and signed all checks.

Ann also did all the billing to customers based on phone calls from Ivan. She did all the collections which were frequently in cash. The business was too small to have a cash register, so she typed up an unnumbered receipt whenever a customer asked her for one. Cash and checks were kept in an unlocked desk drawer. Ann usually went to the bank on Friday except when it was raining. Since Ann handled so much cash, Ivan had bonding insurance on her with a \$100,000 limit.

Ann prepared the bank reconciliation. Ivan did not want to be bothered reviewing the books or the bank reconciliation, so he relied on Ann to let him know any problems. Ann always said there were no problems with the books or bank account.

Required: Using the information in the case, indicate one example of each of the six types of internal controls and indicate whether it is a strength or weakness.

<u>Type of Internal Control</u>	<u>Case Application</u>	<u>Strength or Weakness</u>
1. Establishment of responsibility	<i>Ann does everything</i>	<i>weakness</i>
2. Segregation of duties	<i>Ann is bookkeeper & handles cash Ann handles entire billing/revenue/disbursement</i>	<u>BIG</u> weakness
3. Physical, mechanical, and electronic control devices	<i>None - no cash register - no locked drawer - no daily deposit</i>	<i>weakness</i>
4. Independent internal verification	<i>None</i>	<i>weakness</i>
5. Adequate documentation	<i>No pre-numbered receipts No matching documentation to payment</i>	<i>weakness</i>
6. Other Controls	<i>\$100,000 bonding Vacation</i>	<i>strength not entirely strength since she is always there</i>