

**Accounting 201
TEST III
Fall 2006**

NAME _____

Section _____

TIME 10:00 12:00 1:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

- | | |
|--------------------------|--------------------------|
| 1. _____ B _____ | 11. _____ C _____ |
| 2. _____ A _____ | 12. _____ C _____ |
| 3. _____ D _____ | 13. _____ D _____ |
| 4. _____ D _____ | 14. _____ B _____ |
| 5. _____ D _____ | 15. _____ C _____ |
| 6. _____ B _____ | 16. _____ A _____ |
| 7. _____ B _____ | 17. _____ D _____ |
| 8. _____ B _____ | 18. _____ B _____ |
| 9. _____ C _____ | 19. _____ B _____ |
| 10. _____ D _____ | 20. _____ C _____ |

Multiple Choice	40
Problem I	25
Problem II	20
Problem III	15
	<u>100</u>

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

1. Which of the following activities is **not** a component of the operating cycle?
 - A. Sale of merchandise
 - B. Payment of employees' salaries**
 - C. Collection of cash from merchandise sales
 - D. Purchase of merchandise

2. If goods in transit are shipped FOB destination
 - A. the seller has legal title to the goods until they are delivered.**
 - B. the buyer has legal title to the goods until they are delivered.
 - C. the transportation company has legal title to the goods while the goods are in transit.
 - D. no one has legal title to the goods until they are delivered.

3. 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 \$9 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.**

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

5. Joe's Grocery Store has the following policy. 'Only one cashier can have access to a cash drawer.' Which internal control principle supports this policy?
 - A. Documentation procedures
 - B. Segregation of duties
 - C. Physical, mechanical, and electronic controls
 - D. Establishment of responsibilities**

6. Which one of the following items would be considered cash or cash equivalent?
 - A. Marketable securities
 - B. Savings account**
 - C. NSF check
 - D. Postdated checks

7. Which of the following is not an internal control activity for cash?
 - A. The number of persons who have access to cash should be limited.
 - B. The functions of record keeping and maintaining custody of cash should be combined.**
 - C. Surprise audits of cash on hand should be made occasionally.
 - D. All cash receipts should be recorded promptly.

8. The matching principle relates to the accounting for credit losses using the allowance method by stating that bad debt expense should be recorded
- in the same period as allowed for tax purposes.
 - in the period of the sale.**
 - Within 120 days of the sale.
 - in the period when the specific account is determined and written off.
9. When the allowance method is used to account for uncollectible accounts, Bad Debts Expense is debited when
- a sale is made.
 - an account becomes bad and is written off.
 - management estimates the amount of uncollectibles.**
 - a customer's account becomes past due.
10. The direct write-off method of accounting for uncollectible accounts
- emphasizes the matching of expenses with revenues.
 - emphasizes balance sheet relationships.
 - emphasizes cash realizable value.
 - is not generally accepted as a basis for estimating bad debts.**
11. An aging of a company's accounts receivable indicates that \$4,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a \$1,200 debit balance, the adjustment to record bad debts for the period will require a
- debit to Bad Debts Expense for \$4,000.
 - debit to Allowance for Doubtful Accounts for \$5,200.
 - debit to Bad Debts Expense for \$5,200.**
 - credit to Allowance for Doubtful Accounts for \$4,000.
12. Laurs Company uses the percentage of receivables method for recording bad debts expense. The Accounts Receivable balance is \$200,000 and credit sales are \$1,000,000. Management estimates that 4% of accounts receivable will be uncollectible. What adjusting entry will Manning Company make if the Allowance for Doubtful Accounts has a credit balance of \$2,000 before adjustment?
- | | | |
|---------------------------------|--------|--------|
| Bad Debts Expense | 10,000 | |
| Allowance for Doubtful Accounts | | 10,000 |
 - | | | |
|---------------------------------|-------|-------|
| Bad Debts Expense | 8,000 | |
| Allowance for Doubtful Accounts | | 8,000 |
 - | | | |
|--|--------------|--------------|
| Bad Debts Expense | 6,000 | |
| Allowance for Doubtful Accounts | | 6,000 |
 - | | | |
|---------------------|--------|--------|
| Bad Debts Expense | 12,000 | |
| Accounts Receivable | | 12,000 |
13. A company purchased land for \$70,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, the cost of land would be recorded at
- \$77,000.
 - \$70,000.
 - \$75,000.
 - \$82,000.**

14. Which one of the following items is not considered a part of the cost of a truck purchased for business use?
- A. Sales tax
 - B. Truck license**
 - C. Freight charges
 - D. Cost of lettering on side of truck
15. Elway Company purchases land for \$85,000 cash. Elway assumes \$2,500 in property taxes due on the land. The title and attorney fees totaled \$1,000. Elway has the land graded for \$2,200. They paid \$10,000 for paving of a parking lot. What amount does Elway record as the cost for the land?
- A. \$88,200
 - B. \$100,700
 - C. \$90,700**
 - D. \$85,000
16. Bale Company buys land for \$100,000 on 12/31/06. As of 3/31/07, the land has appreciated in value to \$101,000. On 12/31/07, the land has an appraised value of \$103,600. By what amount should the Land account be increased in 2007?
- A. \$0**
 - B. \$1,000
 - C. \$2,600
 - D. \$3,600
17. Which of the following methods will result in the highest depreciation in the first year?
- A. Sum-of-year's-digits
 - B. Time valuation
 - C. Straight-line
 - D. Declining-balance**
18. An expenditure for which of the following items would be considered a revenue expenditure?
- A. Plant asset
 - B. Ordinary repair**
 - C. Addition
 - D. Improvements
19. Research and development costs
- A. are classified as intangible assets.
 - B. must be expensed when incurred under generally accepted accounting principles.**
 - C. should be included in the cost of the patent they relate to.
 - D. are capitalized and then amortized over a period not to exceed 20 years.
20. Which of the following is not an intangible asset that is reported on the balance sheet?
- A. Goodwill
 - B. Trademarks
 - C. Employees**
 - D. Copyrights

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2006 for \$48,000. The equipment has an estimated life of twelve years, or 144,000 units of production and an estimated residual value of \$6,000. The company's fiscal year corresponds to the calendar year.

Required: Compute annual depreciation expense for 2006, 2007, and 2008 using the methods indicated below. Show calculations.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual Expense			
Straight-line	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	$\frac{48,000 - 6,000}{12} = \frac{4,200}{12} = 3,500$		
Units of Production (actual production)	<u>3,500</u> (12,000)	<u>2,334</u> (8,000)	<u>2,917</u> (10,000)
	$\frac{48,000 - 6,000}{144,000} = 2,917$		
Double-declining-balance	<u>8,000</u>	<u>6,667</u>	<u>5,555</u>
	$48,000 \times \frac{2}{12} = 8,000$	$\begin{array}{r} 48,000 \\ \underline{(8,000)} \\ 40,000 \times \frac{1}{6} \end{array}$	$\begin{array}{r} 48,000 \\ \underline{(8,000)} \\ \underline{(6,667)} \\ 33,333 \times \frac{2}{12} \end{array}$

Problem II (20 points)

White Food Store used the following information in recording its bank reconciliation for the month of April.

Balance per books April 30	\$ 1,445
Balance per bank statement April 30	\$11,300

- (1) Checks written in April but still outstanding \$10,600.
- (2) Deposits of April 30 not yet recorded by bank \$4,400.
- (3) NSF check of customer returned by bank \$500.
- (4) Check No. 210 for \$594 was correctly issued and paid by bank but incorrectly entered in the cash payments journal as payment on account for \$549.
- (5) Bank service charge for April was \$40.
- (6) The bank collected a note receivable for the company of \$4,000 plus \$240 interest revenue.

Instructions

Prepare a bank reconciliation at April 30.

Balance per books	1,445	Balance per bank	11,300
Less: NSF check	(500)	Less: outstanding check	(10,600)
Check error	(45)	Add: deposit in transit	<u>4,400</u>
Service charge	(40)		5,100
Add: note receivable	4,000		
Interest	<u>240</u>		
	5,100		

b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
4-30-06	Accounts receivable – NSF check	500	
	Accounts payable	45	
	Service charge (min) exp	40	
	Cash		585
	Cash	4,240	
	Note receivable		4,000
	Interest income		240

Problem III (15 points) Internal Controls

Sam Hill has worked for Dr. Lee Chang for several years. Sam demonstrates a loyalty that is rare among employees. He hasn't taken a vacation in the last three years. One of Sam's primary duties at the medical office is to open the mail and list the checks received. He also takes cash from patients at the cashier window as patients leave. At times it is so hectic that Sam doesn't bother with giving patients a receipt for the cash paid on their accounts. He assures them he will see to it that they receive the proper credit. When the traffic is slow in the office Sam offers to help Mary post the payments to the patients' accounts receivable. She is always happy to receive his help, because he is a very conscientious worker.

Required: Using the information in the case, indicate one example for **three** of the six types of internal controls listed below 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	Sam works in various areas when needed. One employee per job.	Weakness
2. Segregation of duties	Collects money and sometimes posts receivables	Weakness
3. Physical, mechanical, and electronic control		
4. Independent internal verification		
5. Documentation procedures	No receipt sometimes	Weakness
6. Other Controls	No vacation	Weakness