

**Accounting 201
TEST III
Spring 2005**

NAME _____

Section _____

TIME 8:00 or 9:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

1. _____ **C** _____

2. _____ **A** _____

3. _____ **B** _____

4. _____ **A** _____

5. _____ **A** _____

6. _____ **D** _____

7. _____ **B** _____

8. _____ **B** _____

9. _____ **D** _____

10. _____ **A** _____

11. _____ **D** _____

12. _____ **C** _____

13. _____ **B** _____

14. _____ **D** _____

15. _____ **C** _____

Multiple Choice	30
Problem I	25
Problem II	25
Problem III	20

	<u>100</u>

Business Week:

In 25 words or less describe the business week session you attended:

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. Collection of cash from merchandise sales.
 - B. Purchase of merchandise.
 - C. Payment of employees' wages.**
 - D. Sale of merchandise.

2. Cash equivalents do not include
 - A. Stocks, bonds, and mutual funds**
 - B. money market accounts.
 - C. commercial paper.
 - D. U.S. Treasury bills..

3. Under the perpetual inventory system, which of the following accounts would *not* be used?
 - A. Cost of Goods Sold.
 - B. Purchases.**
 - C. Merchandise Inventory.
 - D. Sales.

Use the following information for questions 8-9.

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.

4. Rawley's inventory turnover ratio in 2003 was
 - A. 9.0 times.**
 - B. 10.5 times.
 - C. 10.0 times.
 - D. 11.7 times.

5. Rawley's days in inventory in 2003 was
 - A. 40.6 days.**
 - B. 34.8 days.
 - C. 36.5 days.
 - D. 31.2 days.

6. Which of the following goods would *not* be included in merchandise inventory for a purchasing company?
 - A. Goods on hand in the showroom.
 - B. Goods ordered and received from the supplier.
 - C. Goods in transit shipped FOB shipping point.
 - D. Goods in transit shipped FOB destination.**

7. 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.

8. The general ledger account for Accounts Receivable shows a debit of \$25,000. The Allowance for Uncollectible Accounts has a credit balance of \$1,500. Net sales for the year were \$250,000. In the past, 3 percent of sales have proved uncollectible, and an aging of Accounts Receivable resulted in an estimate of \$10,000 of uncollectible accounts receivable.

Using the percentage of net sales method, Uncollectible Accounts Expense would be debited for

- A. \$6,000.
 - B. \$7,500.**
 - C. \$10,000.
 - D. \$9,000.
9. In a small business, the lack of certain separations of duties can best be overcome by
- A. Hiring only honest employees.
 - B. Bonding the employees.
 - C. Holding one person responsible for a given set of transactions.
 - D. Getting the owner actively involved.**
10. You have just received notice that Edgar Dupler, a customer of yours with an Accounts Receivable balance of \$200, has gone bankrupt and will not be making any future payments. Assuming you use the allowance method, the journal entry you make is to
- A. Debit Allowance for Uncollectible Accounts and credit Accounts Receivable.**
 - B. Debit Allowance for Uncollectible Accounts and credit Uncollectible Accounts Expense.
 - C. Debit Uncollectible Accounts Expense and credit Accounts Receivable.
 - D. Debit Uncollectible Accounts Expense and credit Allowance for Uncollectible Accounts.
11. Which of the following documents is sent to the vendor of goods?
- A. Receiving report.
 - B. Purchase requisition.
 - C. Invoice.
 - D. Purchase order.**

12. Which of the following combinations 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 20.
 - C. Miller Brewing/ inventory turnover 8, receivable turnover 10.**
 - D. McDonalds/ inventory turnover 720, receivable turnover infinite.
13. Under the perpetual inventory system, in addition to making the entry to record a sale, a company would
- A. Make no additional entry until the end of the period.
 - B. Debit Cost of Goods Sold and credit Merchandise Inventory.**
 - C. Debit Cost of Goods Sold and credit Purchases.
 - D. Debit Merchandise Inventory and credit Cost of Goods Sold.
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 \$10 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. \$12.00.
 - D. \$10.00.**
15. The collection of a \$400 account within the 2 percent discount period would result in a
- A. Debit to Accounts Receivable for \$392.
 - B. Credit to Cash for \$392.
 - C. Debit to Sales Discounts for \$8.**
 - D. Credit to Accounts Receivable for \$392.

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 @	\$180	=	4,500
	19	Purchase.....	35 units @	\$195	=	6,825
	26	Purchase	<u>30</u> units @	<u>\$200</u>	=	<u>6,000</u>
			155			26,505

One hundred were sold for \$220 each. The Physical count of inventory at October 31 indicates that 55 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 55 units @ \$150 are on hand at October 31.
2. Weighted-average cost
3. First in, first out
4. Last in, first out

	(2) PTS	<u>Specific ID</u>	<u>Weighted Average Cost</u>	<u>FIFO</u>	<u>LIFO</u>
Sales (100x220)		<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>
Beginning Inventory		930	930	930	930
Purchases		<u>25,575</u>	<u>25,575</u>	<u>25,575</u>	<u>25,575</u>
Good available		26,505	26,505	26,505	26,505
Less: Ending Inventory		(8,250)	(9,405)	(10,875)	(7,680)
Cost of Sales	(2) PTS	<u>18,255</u>	<u>17,100</u>	<u>15,630</u>	<u>(18,825)</u>
Gross Profit	(3) PTS	<u>3,745</u>	<u>4,900</u>	<u>6,370</u>	<u>3,175</u>

see #1	ave=	End	End Inv=
55	<u>26,505</u> cost	Inv=Last Inv	First Inv
<u>x 150</u>	155 units	30x200=6,000	10x93=930
8,250	= \$171 ave.	25x195=4,875	45x150=
	<u>x 55</u>	10,875	<u>6,750</u>
	9,405		7,680

Problem II (25 points)

The following information pertains to the bank transactions of Crawford Company:

1. Cash on the books as of September 30 was \$719. Cash as shown on the bank statement for the same date was \$1,330.
2. A deposit of \$160, representing cash receipts of September 30, did not appear on the bank statement.
3. Outstanding checks totaled \$240.
4. Bank service charges for September amount to \$9.
5. The bank collected for Crawford Company \$840 (which includes \$40 interest) on a note left for collection.
6. An NSF check for \$80 from a customer, Jack Betz, was returned with the statement.
7. The bookkeeper erroneously posted a deposit of \$1,002 as \$1,222.

Instructions

a. Prepare the Bank Reconciliation at September 30:

Balance per Books	\$ 719	Balance per Bank	\$ 1,330	(2)
Add: Note collected by bank	840	Add: Deposit in transit	160	
Less: Service charge	(9)	Less: Outstanding checks	<u>(240)</u>	(2)
NSF (A/R)	(80)		<u>\$ 1,250</u>	
Bookkeeping error	<u>(220)</u>			
	<u>\$ 1,250</u>			

b. Prepare the General Journal entries required:

(6) PTS

Date	Description	Debit	Credit
9-30	Cash Note receivable Interest income	840	800 40
9-30	Service charge expense NSF check Sales (or A/R) Cash	9 80 220	309

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		
2. Segregation of duties		
3. Physical, mechanical, and electronic control devices		
4. Independent internal verification		
5. Adequate documentation		
6. Other Controls		