

**Accounting 201
TEST III
Spring 2006**

NAME _____

Section _____

TIME 8:00 or 9:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

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

- 16. _____ **B** _____
- 17. _____ **D** _____
- 18. _____ **C** _____
- 19. _____ **B** _____
- 20. _____ **B** _____

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

Complete ***ONLY*** if not
previously submitted

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. The operating cycle of a merchandising company is
 - A. always one year in length.
 - B. ordinarily longer than that of a service company.**
 - C. about the same as that of a service company.
 - D. ordinarily shorter than that of a service company.

2. Receivables are
 - A. One of the most liquid assets and thus are always considered current assets.
 - B. Claims that are expected to be collected in cash.**
 - C. Shown on the Income Statement at cash realizable value.
 - D. Always the result of revenue recognition.

3. When a perpetual inventory system is used, which of the following is a purpose of taking a physical inventory?
 - A. To check the accuracy of the perpetual inventory records**
 - B. To determine cost of goods sold for the accounting period
 - C. To compute inventory ratios
 - D. All are a purpose of taking a physical inventory when a perpetual inventory system is used.

4. Under the allowance method, writing off an uncollectible account
 - A. affects only balance sheet accounts.**
 - B. affects both balance sheet and income statement accounts.
 - C. affects only income statement accounts.
 - D. is not acceptable practice.

5. 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.

6. Which of the following should **not** be included in the physical inventory of a company?
 - A. Goods held on consignment from another company.**
 - B. Goods in transit from another company shipped FOB shipping point.
 - C. Goods shipped on consignment to another company.
 - D. All of the above should be included.

7. An assumption about cost flow is necessary
- A. because it is required by the income tax regulation.
 - B. even when there is no change in the purchase price on inventory.
 - C. only when the flow of goods cannot be determined.
 - D. because prices usually change, and tracking which units have been sold is difficult.**
8. Under the allowance method, Bad Debt Expense is recorded
- A. when an individual account is written off.
 - B. when the loss amount is known.
 - C. for an amount that the company estimates it will not collect.**
 - D. several times during the accounting period.
9. A problem with the specific identification method is that
- A. inventories can be reported at actual costs.
 - B. management can manipulate income.**
 - C. matching is not achieved.
 - D. the lower of cost or market basis cannot be applied.
10. The Allowance for Doubtful Accounts is necessary because
- A. when recording uncollectible accounts expense, it is not possible to know which specific accounts will not pay.**
 - B. uncollectible accounts that are written off must be accumulated in a separate account.
 - C. a liability results when a credit sale is made.
 - D. management needs to accumulate all the credit losses over the years.
11. 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.
12. 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.

13. 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.**
14. Under the direct write-off method of accounting for uncollectible accounts, Bad Debts Expense is debited
- A. when a credit sale is past due.
 - B. at the end of each accounting period.
 - C. whenever a pre-determined amount of credit sales have been made.
 - D. when an account is determined to be uncollectible.**

Use the following information for questions 15-16.

The following information was available for Caron Company at December 31, 2007: beginning inventory \$90,000; ending inventory \$70,000; cost of goods sold \$660,000; and sales \$900,000.

15. Carton's inventory turnover ratio in 2007 was
- A. 9.4 times.
 - B. 8.3 times.**
 - C. 7.3 times.
 - D. 6.0 times.
16. Carton's days in inventory in 2007 was
- A. 38.8 days.
 - B. 44.0 days.**
 - C. 50.0 days.
 - D. 60.8 days.
17. The primary difference between a periodic and perpetual inventory system is that a periodic system
- A. keeps a record showing the inventory on hand at all time.
 - B. provides better control over inventories.
 - C. records the cost of the sale on the date the sale is made.
 - D. determines the inventory on hand only at the end of the accounting period.**

18. 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 credit balance, the adjustment to record bad debts for the period will require a
- A. debit to Bad Debts Expense for \$4,000.
 - B. debit to Allowance for Doubtful Accounts for \$2,800.
 - C. debit to Bad Debts Expense for \$2,800.**
 - D. credit to Allowance for Doubtful Accounts for \$4,000.
19. An aging of a company's accounts receivable indicates that \$3,000 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
- A. debit to Bad Debts Expense for \$3,000.
 - B. debit to Bad Debt Expense for \$4,200.**
 - C. debit to Bad Debts Expense for \$1,800.
 - D. credit to Allowance for Doubtful Accounts for \$4,000.
20. Manning 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 5% 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?
- | | | |
|--|--------------|--------------|
| A. Bad Debts Expense | 10,000 | |
| Allowance for Doubtful Accounts | | 10,000 |
| B. Bad Debts Expense | 8,000 | |
| Allowance for Doubtful Accounts | | 8,000 |
| C. Bad Debts Expense | 8,000 | |
| Accounts Receivable | | 8,000 |
| D. Bad Debts Expense | 10,000 | |
| Accounts Receivable | | 10,000 |

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 and eleven were sold for \$200 each. The Physical count of inventory at October 31 indicates that 44 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 44 units @ \$150 are on hand at October 31. (44 x 150 = 6,600)
2. Weighted-average cost
3. First in, first out
4. Last in, first out

	<u>Specific ID</u>	<u>Weighted Average Cost</u>	<u>FIFO</u>	<u>LIFO</u>
Sales (111 x 200)	<u>22,200</u>	<u>22,200</u>	<u>22,200</u>	<u>22,200</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 (44)	<u>(6,600)</u>	<u>(7,524)</u>	<u>(8,730)</u>	<u>(6,030)</u>
Cost of Sales	<u>19,905</u>	<u>18,981</u>	<u>17,775</u>	<u>20,475</u>
Gross Profit	<u>2,295</u>	<u>3,219</u>	<u>4,425</u>	<u>1,725</u>
		EI - LI	EI = FI	
weighted ave. = $\frac{26,505}{155} = 171$		$30 \times 200 = 6,000$	$10 \times 93 = 930$	
x 44		<u>$14 \times 195 = 2,730$</u>	<u>$34 \times 150 = 5,100$</u>	
7,524		44 8,730	44 6,030	

Problem II (25 points)

Using the following information, prepare a bank reconciliation for Gouge Company for July 31, 2007.

- a. The bank statement balance is \$3,506.
- b. The cash account balance is \$3,630
- c. Outstanding checks totaled \$1,085.
- d. Deposits in transit are \$1,170.
- e. The bank service charge is \$30.
- f. A check for \$98 for supplies was recorded as \$89 in the ledger.

Instructions

- a. Prepare the Bank Reconciliation at July 31, 2007:

Balance per books	3,630	Balance per bank	3,506
Less: service charge	(30)	Less: outstanding check	(1,085)
Error	<u>(9)</u>	Add: deposit in transit	<u>1,170</u>
Adjusted books	3,591		3,591

- b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
1.	Service charge expense Cash	30	30
2.	Supplies Cash	9	9

Problem III (20 points) Internal Controls

Guard Dog Company recently changed its system of internal control over cash disbursements. The system includes the following features.

Instead of being unnumbered and manually prepared, all checks must now be pre-numbered and written by using the new check-writer purchased by the company. Before a check can be issued, each invoice must have the approval of Jane Bell, the purchasing agent, and Dennis Kurt, the receiving department supervisor. Checks must be signed by either Tom Kimball, the treasurer, or Karen Thews, the assistant treasurer. Before signing a check, the signer is expected to compare the amounts of the check with the amounts on the invoice.

After signing a check, the signer stamps the invoice "paid" and inserts within the stamp, the date, check number, and amount of the check. The "paid" invoice is then sent to the accounting department for recording.

Blank checks are stored in a safe in the treasurer's office. The combination to the safe is known by only the treasurer and assistant treasurer. Each month the bank statement is reconciled with the bank balance per books by the assistant chief accountant.

Required: Using the information in the case, indicate one example of each of the five 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		