

TEST III - B  
Fall 2003

NAME \_\_\_\_\_  
Section \_\_\_\_\_  
TIME 10:00 or 12:00 or 1:00

MULTIPLE CHOICE (2 POINTS EACH):

There is only ONE Best Answer

1.	<u>    <b>B</b>    </u>	11.	<u>    <b>D</b>    </u>		
2.	<u>    <b>B</b>    </u>	12.	<u>    <b>D</b>    </u>		
3.	<u>    <b>A</b>    </u>	13.	<u>    <b>C</b>    </u>	Multiple Choice	40
4.	<u>    <b>D</b>    </u>	14.	<u>    <b>B</b>    </u>	Problem I	20
5.	<u>    <b>A</b>    </u>	15.	<u>    <b>A</b>    </u>	Problem II	15
6.	<u>    <b>D</b>    </u>	16.	<u>    <b>A</b>    </u>	Problem III	15
7.	<u>    <b>B</b>    </u>	17.	<u>    <b>C</b>    </u>	Problem IV	10
8.	<u>    <b>C</b>    </u>	18.	<u>    <b>A</b>    </u>		_____
9.	<u>    <b>B</b>    </u>	19.	<u>    <b>D</b>    </u>		<u>100</u>
10.	<u>    <b>C</b>    </u>	20.	<u>    <b>A</b>    </u>		

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

1. 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.
  
2. In a period of increasing prices, which inventory flow assumption will result in the lowest amount of income tax expense?
  - a. FIFO
  - b. LIFO**
  - c. Average Cost Method
  - d. Income tax expense for the period will be the same under all assumptions.
  
3. When applying the lower of cost or market rule to inventory valuation, market generally means
  - a. current replacement cost.**
  - b. original cost.
  - c. resale value.
  - d. original cost, less physical deterioration.
  
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. 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.
  
6. The direct write-off method of accounting for uncollectible accounts
  - a. emphasizes the matching of expenses with revenues.
  - b. emphasizes balance sheet relationships.
  - c. emphasizes cash realizable value.
  - d. is not generally accepted as a basis for estimating bad debts.**
  
7. The interest on a \$4,000, 6%, 60-day note receivable is
  - a. \$240.
  - b. \$40.**
  - c. \$80.
  - d. \$120.
  
8. A high receivable turnover ratio indicates
  - a. the company's sales are increasing.
  - b. a large proportion of the company's sales are on credit.
  - c. customers are making payments very quickly.**
  - d. customers are making payments slowly.

9. 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>b. Bad Debts Expense .....</b>	<b>8,000</b>	
<b>Allowance for Doubtful Accounts .....</b>		<b>8,000</b>
c. Bad Debts Expense .....	8,000	
Accounts Receivable .....		8,000
d. Bad Debts Expense .....	10,000	
Accounts Receivable .....		10,000

10. The two key parties to a promissory note are the

- a. maker and a bank.
- b. debtor and the payee.
- c. maker and the payee.**
- d. sender and the receiver.

11. A company purchased land for \$72,000 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

- a. \$79,000.
- b. \$72,000.
- c. \$77,000.
- d. \$84,000.**

12. Newton Hospital installs a new parking lot. The paving cost \$35,000 and the lights to illuminate the new parking area cost \$15,000. Which of the following statements is true with respect to these additions?

- a. \$35,000 should be debited to the Land account.
- b. \$15,000 should be debited to Land Improvements.
- c. \$50,000 should be debited to the Land account.
- d. \$50,000 should be debited to Land Improvements.**

13. General Molding is building a new plant that will take three years to construct. The construction will be financed in part by funds borrowed during the construction period. There are significant architect fees, excavation fees, and building permit fees. Which of the following statements is true?

- a. Excavation fees are capitalized but building permit fees are not.
- b. Architect fees are capitalized but building permit fees are not.
- c. Interest is capitalized during the construction as part of the cost of the building.**
- d. The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

14. Equipment was purchased for \$17,000. Freight charges amounted to \$700 and there was a cost of \$2,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$3,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be
- \$3,940.
  - \$3,340.**
  - \$2,860.
  - \$2,800.
15. The declining-balance method of depreciation produces a(n)
- decreasing depreciation expense each period.**
  - increasing depreciation expense each period.
  - declining percentage rate each period.
  - constant amount of depreciation expense each period.
16. Which depreciation method is most frequently used in businesses today?
- Straight-line**
  - Declining-balance
  - Units-of-activity
  - Double-declining-balance
17. The custodian of a company asset should
- have access to the accounting records for that asset.
  - be someone outside the company.
  - not have access to the accounting records for that asset.**
  - be an accountant.
18. Which of the following is not a suggested procedure to establish internal control over cash disbursements?
- Anyone can sign the checks.**
  - Different individuals approve and make the payments.
  - Blank checks are stored with limited access.
  - The bank statement is reconciled monthly.
19. Cash equivalents do not include
- money market accounts.
  - commercial paper.
  - U.S. Treasury bills.
  - long term investment.**
20. The Allowance for Doubtful Accounts is necessary because
- when recording uncollectible accounts expense, it is not possible to know which specific accounts will not pay.**
  - uncollectible accounts that are written off must be accumulated in a separate account.
  - a liability results when a credit sale is made.
  - management needs to accumulate all the credit losses over the years.

**Problem I** (20 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory.....	20 units @	\$145 =	2,900
	8	Purchase .....	55 units @	\$150 =	8,250
	15	Purchase .....	25 units @	\$130 =	3,250
	19	Purchase.....	5 units @	\$195 =	975
	26	Purchase .....	<u>20 units @</u>	<u>\$200 =</u>	<u>4,000</u>
			125		19,375

One hundred and five units were sold for \$200 each. The Physical count of inventory at October 31 indicates that twenty 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 20 units @ \$150 are on hand at October 31.
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	105x200=	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>
Beginning Inventory		2,900	2,900	2,900	2,900
Purchases		<u>16,475</u>	<u>16,475</u>	<u>16,475</u>	<u>16,475</u>
Good available		19,375	19,375	19,375	19,375
Less: Ending Inventory		<u>(3,000)</u>	<u>(3,100)</u>	<u>(4,000)</u>	<u>(2,900)</u>
Cost of Sales		<u>16,375</u>	<u>16,275</u>	<u>15,375</u>	<u>16,475</u>
Gross Profit		<u>4,625</u>	<u>4,725</u>	<u>5,625</u>	<u>4,525</u>
		20x150=3,000	19,375 = 155 125 x20 3,100	20x200=4,000	20x145=2,900

**Problem II** (15 points)

The Portland Boat Company's bank statement for the month of November showed a balance per bank of \$5,000. The company's Cash account in the general ledger had a balance of \$5,659 at November 30. Other information is as follows:

- (1) Cash receipts for November 30 recorded on the company's books were \$5,200 but this amount does not appear on the bank statement.
- (2) The bank statement shows a debit memorandum for \$32 for check printing charges.
- (3) The total amount of checks still outstanding at November 30 amounted to \$4,300.
- (4) Check No. 138 was correctly written and paid by the bank for \$409. The cash payment journal reflects an entry for Check No. 138 as a debit to Accounts Payable and a credit to Cash in Bank for \$490.
- (5) The bank returned an NSF check from a customer for \$560.
- (6) The bank included a credit memorandum for \$752, which represents collection of a customer's note by the bank for the company; principal amount of the note was \$700 and interest was \$52. Interest has not been accrued.

**Instructions**

- (a) Prepare a bank reconciliation for the Portland Boat Company at November 30.

Bank Reconciliation  
November 30

Cash balance per bank		\$ 5,000
Add:		<u>5,200</u>
Less:		<u>(4,300)</u>
Adjusted cash balance per books		\$ <u>5,900</u>
Cash balance per books		\$ 5,659
Add: Service charge (32); 81; NSF check (560); Credit memo 752		<u>          </u>
Less:		<u>          </u>
Adjusted cash balance per books		\$ <u>5,900</u>

- (b) Prepare any adjusting entries necessary as a result of the bank reconciliation.

**Adjusting entries:**

**General Journal**

Entry	Description	Debit	Credit

**Problem III** (15 points)

A Corporation purchased a delivery truck on January 1, 2003, for \$42,000. The truck has an estimated life of six years, or 100,000 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 2003, 2004 and 2005 using the methods indicated below. Show calculations.

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Annual Expense</u>			
Straight-line	$42,000 - 6,000$ <u>6,000</u>	<u>6,000</u>	<u>6,000</u>
Units of Production	<u>14,400</u>	<u>14,400</u>	<u>7,200</u>
Actual miles driven	40000 miles	40000 miles	20000 miles
$\frac{4,200 - 6,000}{100,000}$	$\times \frac{36}{14,400}$	$\times \frac{36}{14,400}$	$\times \frac{36}{7,200}$
Double-declining-balance	<u>14,000</u> $2/6 \times 42,000 = 14,000$	<u>9,333</u> 42,000 <u>(14,000)</u> 28,000 $\times \frac{2}{6}$ 9,333	<u>6,222</u> 42,000 <u>(23,333)</u> 18,667 $\times \frac{2}{6}$ 6,222

