Accounting 303 | Name ___________________________
Exam 3, Chapters 7-9
Fall 2012 | Section _______ Row _______

I. Multiple Choice Questions. (2 points each, 34 points in total) Read each question carefully and indicate your answer by circling the letter preceding the one best answer.

1. Which of the following is an appropriate reconciling item to the balance per bank in a bank reconciliation?
   a. Bank service charge.
   b. Note collection by bank.
   c. Deposit in transit.
   d. Chargeback for NSF check.

2. The journal entries for a bank reconciliation
   a. are taken from the "balance per bank" section only.
   b. may include a debit to Office Expense for bank service charges.
   c. may include a debit to Notes Receivable for a note collected by the bank.
   d. may include a debit to Accounts Payable for a note collected by the bank.

3. Assuming the market interest rate is 10% per year, how much would Green Co. record as sales revenue if it sold a machine to a customer on a zero interest bearing note and the note only requires one $80,000 payment in two years?
   a. $80,000.
   b. $72,563.
   c. $72,727.
   d. $66,116.

4. Under the allowance method of recognizing uncollectible accounts, the entry to write off an uncollectible account
   a. increases the allowance for uncollectible accounts.
   b. has no effect on the allowance for uncollectible accounts.
   c. has no effect on net income.
   d. decreases net income.

5. Under which section of the balance sheet is "cash restricted for plant expansion" reported?
   a. Current assets.
   b. Current liabilities.
   c. Non-current assets.
   d. Stockholders' equity.

6. Which of the following is a generally accepted method of determining the amount of the adjustment to bad debt expense?
   a. A percentage of sales adjusted for the balance in the allowance account.
   b. A percentage of sales not adjusted for the balance in the allowance account.
   c. A percentage of accounts receivable not adjusted for the balance in the allowance account.
   d. An amount derived from aging accounts receivable and not adjusted for the balance in the allowance account.

7. EE Roads sold $80,000 of goods on June 30, 2012, and accepted the customer's $80,000 10% 1-year note payable as payment. Assuming 10% approximates the market rate of return, how much interest would be recorded for the year ending December 31, 2012?
   a. $0.
   b. $2,000.
   c. $4,000.
   d. $8,000.

8. Goods in transit which are shipped to the buyer f.o.b. destination should be
   a. included in the inventory of the seller.
   b. included in the inventory of the buyer.
   c. included in the inventory of the shipping company.
   d. none of these are correct.

9. What is the effect of a $50,000 overstatement of last year's inventory on current years ending retained earning balance (after closing entries)?
   a. Need more information to determine.
   b. Understated by $50,000.
   c. Overstated by $50,000.
   d. No effect.

10. An inventory pricing procedure in which the oldest costs incurred rarely have an effect on the ending inventory valuation is
    a. FIFO.
    b. LIFO.
    c. base stock.
    d. weighted-average.

11. In a period of rising prices, the inventory method which tends to give the highest reported inventory is
    a. FIFO.
    b. moving average.
    c. LIFO.
    d. weighted-average.

12. The floor to be used in applying the lower-of-cost-or-market method to inventory is determined as the
    a. net realizable value.
    b. net realizable value less normal profit margin.
    c. replacement cost.
    d. selling price less costs of completion and disposal.

Use the following information for questions 13 and 14. Transactions for the month of June were:

Purchases			Sales	
June 1	(balance) 1,200 @ $3.20		June 2	900 @ $5.50
3	3,300 @ 3.10		6	2,400 @ 5.50
7	1,800 @ 3.30		9	1,500 @ 5.50
15	2,700 @ 3.40		10	600 @ 6.00
22	750 @ 3.50		18	2,100 @ 6.00
	9,750		25	300 @ 6.00
				7,800

13. Assuming that periodic inventory records are kept for a units based inventory method, the ending inventory on a LIFO basis is
    a. $6,165.
    b. $6,240.
    c. $6,435.
    d. $6,705.

14. Assuming that perpetual inventory records are kept, the ending inventory on a FIFO basis is
    a. $6,165.
    b. $6,240.
    c. $6,435.
    d. $6,705.

15. Lexington Company sells product 1976NLC for $50 per unit. The cost of one unit of 1976NLC is $45, and the replacement cost is $43. The estimated unavoidable selling cost of a unit is $10, and the normal profit is 40% of selling price. At what amount per unit should product 1976NLC be reported, applying lower-of-cost-or-market?
    a. $20.
    b. $40.
    c. $43.
    d. $45.

16. Which statement is true about the retail inventory method?
    a. It may **not** be used to estimate inventories for interim financial statements.
    b. It may **not** be used to estimate inventories for annual financial statements.
    c. It may **not** be used for tax purposes.
    d. None of these statements are true.

17. The following information is available for October for Barton Company.

Beginning inventory	$150,000
Net purchases	450,000
Net sales	900,000
Percentage markup on sales	40%

Fire destroyed most of Barton's October 31 inventory, only leaving undamaged inventory with a cost of $9,000. Using the gross profit method, the estimated inventory destroyed by fire is
    a. $51,000.
    b. $231,000.
    c. $240,000.
    d. $300,000.

II. Problems – (66 points in total) Show all work where appropriate!

1. (9 points**)** The trial balance before adjustment of Whitehall Company reports the following balances. Answer the two independent parts of this question.

	Dr.	Cr.
Accounts receivable	$150,000	
Allowance for doubtful accounts	2,500	
Sales (all on credit)		$850,000
Sales returns and allowances	40,000	

(a) Prepare the adjusting entry for estimated bad debts assuming that doubtful accounts are estimated to be 6% of gross accounts receivable.

(b) Prepare the adjusting entry for estimated bad debts assuming that doubtful accounts are estimated to be 1% of net credit sales.

2. (13 points) On February 25, St. Bartholomew, LTD factored $1,000,000 of accounts receivable to Utley Finance Co. on a with recourse basis. Under the arrangement, Utley was to handle disputes concerning service and make the collections. Utley assessed a finance charge of 6% of the total accounts receivable factored and retained an amount equal to 3% of the total receivables to cover sales returns or discounts. St. Bartholomew's, LTD estimates the fair value of the recourse provision is $23,000. Prepare the entry on February 25 on the St. Bartholomew, LTD books to record this arrangement.

3. (12 points) Yorkshire Co. uses a perpetual inventory system and records purchases at net. Prepare journal entries in general journal form for the following:

a. Yorkshire purchased merchandise costing $15,000 with terms 2/10, n/30.

b. Due to some of the goods not meeting the specifications of the order, Yorkshire returned $4,000 of the merchandise.

c. Yorkshire made payment thirty days after the purchase.

4. (14 points) On December 31, 2011, Coventry Company adopted the dollar-value LIFO inventory method. The inventory value on that date was $500,000. Other inventory data are as follows:

Year	Inventory at year-end prices	Price index (base year 2011)
2012	$549,920	112
2013	713,000	115

Compute the inventory at December 31, 2012 and 2013, using the dollar-value LIFO method for each year.

2012

2013

5. (18 points) Harrods Department Store uses the retail inventory method to value its ending inventory. Information relating to the computation of the inventory at December 31, 2012, is as follows:

Inventory, January 1, 2012, at retail, \$14,500; at cost, \$10,440
Purchases during 2012, at retail, \$42,900; at cost, \$31,550
Freight-in during 2012, \$2,000; purchase discounts during 2012, \$250
Net markups during 2012, \$3,400; net markdowns during 2012, \$1,300
Sales during 2012, \$45,100; Sales returns during 2012, \$600

	At Cost	**At Retail**

Compute the December 31, 2012, ending inventory at cost under each of the following assumptions. Carry out ratio calculations to four decimal places.

a. Harrods uses the Average Retail Method?

b. Harrods uses the LIFO Retail Method?

Solutions

Multiple Choice

Question	Answer		Question	Answer
1	c		11	a
2	b		12	b
3	d		13	a
4	c		14	d
5	c		15	b
6	b		16	d
7	c		17	a
8	a			
9	d			
10	a			

Problems

Solution for Problem 1

(a)	Bad Debt Expense	11,500	
	Allowance for Doubtful Accounts		11,500
(b)	Bad Debt Expense	8,100	
	Allowance for Doubtful Accounts		8,100

Solution for Problem 2

(a)	Cash..	910,000	
	Due From Factor	30,000	
	Loss on Sale of A/R..	83,000	
	A/R..		1,000,000
	Recourse Liability		23,000

Solution for Problem 3

(a) Inventory (.98 × $15000)	14,700	
Accounts Payable		14,700
(b) Accounts Payable (.98 × $4000)	3,920	
Inventory		3,920
(c) Accounts Payable	10,780	
Purchase Discounts Lost	220	
Cash		11,000

Solution for Problem 4

2012

Computation of Ending Inventory

Ending Inventory at Base-Year Price	Increase (Decrease)
$549,920 ÷ 1.12 = $491,000	491,000 – 500,000 = (9,000)

	Layers at Base-Year Prices		Price Index		Ending Inventory at Dollar-Value LIFO
2011 Layer	$491,000	×	1.00	=	$491,000

2013

Computation of Ending Inventory

Ending Inventory at Base-Year Price	Increase (Decrease)
$713,000 ÷ 1.15 = $620,000	620,000 – 491,000 = 129,000

	Layers at Base-Year Prices		Price Index		Ending Inventory at Dollar-Value LIFO
2011 Layer	$491,000	×	1.00	=	$491,000
2013 Layer	$129,000	×	1.15	=	148,350
					$639,350

Solution for Problem 5

	At Cost	At Retail
Beginning Inventory	10,440	14,500
Purchases	31,550	42,900
Purchases Discounts	(250)	
Freight-In	2,000	
Net Markups		3,400
Net Markdowns		(1,300)
	43,740	59,500
Sales		(45,100)
Sales Returns		600
Ending Inventory at Retail		15,000
Ending Inventory at Cost		

a. Average Retail Method

43,740/59,500 = .7351

15,000 x .7351 = 11,027

b. LIFO Retail Method

33,300/45,000 = .7400

15,000 – 14,500 = 500 increase

	End Inv @ Retail	Ratio	End Inv @ Cost
Prior Year Layer	14,500		10,440
Current Year Layer	500	.7400	370
			10,810