

ACCT 3110 - Professor Mayper  
SAMPLE EXAM  
EXAM II Spring 2003

**PART 1**

I. Multiple Choice (6 pts.) Record answer in blank provided.

\_\_\_\_\_ 1. Generally, which inventory costing method: a.) approximates most closely the current cost for Cost of Goods Sold and Ending Inventory; and b.) will give you the highest Income Tax Expense? Assume increasing inventory levels over time and decreasing prices.

	<u>Ending Inventory</u>	<u>Cost of Goods Sold</u>	<u>Highest Income Tax Expense</u>
a.	FIFO	LIFO	FIFO
b.	LIFO	FIFO	FIFO
c.	LIFO	Weighted Average	FIFO
d.	FIFO	FIFO	LIFO
e.	FIFO	LIFO	LIFO
f.	LIFO	FIFO	LIFO

\_\_\_\_\_ 2. Which of the following items should be included in "X" company's inventory at the balance sheet date?

- a. Goods sold to a customer which are in transit and shipped f.o.b. destination.
- b. "X" Company's Finished Goods held by "Y" company for sale on consignment.
- c. Goods in transit which were purchased from our supplier f.o.b. shipping point.
- d. (a) and (b) should be included
- e. (a) and (c) should be included
- f. (b) and (c) should be included
- g. (a), (b) and (c) should be included

II. Receivables: Short Answer (4 points) (must fill in the blank for any credit)

A.) Which method of recognizing sales discounts clearly segregates operating revenue from financing revenue?

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B) We accept a note from a customer in exchange for our product. The stated interest rate for the note is less than the market rate of interest. The total amount of cash received from this customer was [ *less than? equal to? more than?* ] the amount of sales revenue recognized and the note was issued at [ *a premium? par? a discount* ]?

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\_\_\_\_\_ And \_\_\_\_\_

*III. Bad Debts (12 pts.)*

Beal company estimates their allowance for bad debts in a two step process. During the year, on a monthly basis, they record an estimate of bad debts as **1% of net credit sales**. Their final adjusting entry at 12/31 is based on an aging of the accounts receivable as of 12/31. They provide you with the following information for the year 2000:

Allowance for Bad Debts at 1/1/00:	\$ 22,000 CR
Credit Sales from 1/1/00 - 11/30/00:	3,550,000
Credit Sales Returns 1/1/00 - 11/30/00, no returns occurred in December	150,000
Accounts written off as of 11/30/00, no accounts were written off in December.	21,500

*Aging Schedule at 12/31/00:*

<u>Day's Old</u>	<u>Amount</u>	<u>Est. Uncollectible</u>
0-30	\$350,000	2%
31-89	70,000	5%
90 or >	40,000	40%

**REQUIRED:**

i. Record the SUMMARY journal entry for the monthly bad debt adjustments through 11/30/00.

ii. Record the SUMMARY journal entry for the accounts written off through 11/30/00.

iii. Record the necessary adjusting entry at **12/31/00**.

iv. Total Bad Debt Expense for 2000 and The ending balance in the Allowance Account at 12/31/00 (after adjustment) is what?

Bad Debt Expense \_\_\_\_\_ Allow. for Bad Debts (12/31/00) \_\_\_\_\_

IV. Basic Inventory (12 points)

DATE		NUMBER OF UNITS AT UNIT PRICE	TOTAL PRICE
1/1/02	Beginning inventory	<b>800 units @ \$11.00</b>	\$8,800
2/3/02	Purchases	<b>200 units @ 9.50</b>	1,900
6/5/02	Sales	<b>925 units</b>	
12/10/02	Purchases	<b>500 units @ 7.00</b>	3,500

a. What is the 2002 Cost of Goods Sold using the Simple Weighted Average Cost method(*Periodic*)?

b. What is the 2002 Cost of Goods Sold using FIFO Cost method (*Perpetual*)?

c. What is the 2002 Cost of Goods Sold using the LIFO Cost method (*Periodic*)?

What are the advantages for using Dollar Value LIFO rather than basic unit LIFO?

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## PART 2

I. Multiple Choice (9 pts.) Record answer in blank provided.

- \_\_\_\_\_ 1. Valuation of inventory at the Lower of Cost or Market is a violation of
- a. Conservatism Convention
  - b. Matching Principle
  - c. Revenue Recognition Principle
  - d. Historical Cost Principle
  - e. Full Disclosure Principle
- \_\_\_\_\_ 2. On 11/15/A we contracted to buy 30,000 widgets at a price of \$30,000 for delivery on 2/15/B. Our year end is each 12/31. On 12/31/A the replacement cost of the widgets was \$28,500 and at 2/15/B the replacement cost was \$30,500. On 12/31/A we should record an estimated loss (recovery) on the purchase commitment of:
- a. \$ 30,500 Loss
  - b. \$ 28,500 Loss
  - c. \$( 500) Recovery
  - d. \$ 1,500 Loss
  - e. No Entry is required on 12/31/A
- \_\_\_\_\_ 3. During 2002, Sloan, Inc. began a project to construct a new corporate headquarters. The following are costs incurred by Sloan for this project:
- " \$1,000 government fine during construction, due to construction safety violations.
  - " Interest of \$186,000 on construction financing incurred *during* completion of construction.
  - " Interest of \$147,000 on construction financing paid *after* construction.
  - " \$12,000 architecture fees.
  - " \$65,000 cost of razing existing building on land.

What amount of the above costs should be capitalized to the cost of the **building**?

- a. \$ 65,000
- b. \$ 77,000
- c. \$147,000
- d. \$159,000
- e. \$186,000
- f. \$198,000
- g. \$199,000
- h. None of the above.



III. Retail Inventory Method (12 pts.)

Presented below is information related to the Raffle Company's inventory for 2002.

	<u>Cost</u>	<u>Retail</u>
Beginning Inventory	\$ 71,000	\$100,000
Purchases (net)	515,000	640,000
Net Additional Markups		14,500
Net Markdowns		38,723
Sales		585,000

**Required:**

- a. Provide the numbers to be used in calculating the cost-to-retail ratios for ending inventory, for each of the following methods. (you need only to provide the numerator & denominator for the ratios, rather than calculating the ratio itself).

i. Average Cost (**NOT** LCM) [-----]

ii. Relevant Purchase layer ratio for LIFO–Stable Dollar [-----]

- b. Calculate the Average Cost-LCM (**Conventional** LCM) estimate of ending inventory.

- c. **Assuming b. above**, what is the estimate of the cost of goods sold expense for 2002?

- d. Now ASSUME that Raffle adopted dollar value LIFO-retail-inventory as of the beginning of 2002. Beginning inventory for 2002 is the base inventory. The price index at the end of 2002 was 1.30. Use DOLLAR-VALUE-LIFO-RETAIL, and assume retail ending inventory current value is \$126,100.

What is the base value of the 2002 retail ending inventory?

What will be the reported cost of the inventory on the 2002 balance sheet?



V . Interest Capitalization (12pts)

Goodrich began construction on an office building on May 1, 2002. The following expenditures were incurred during 2002 for construction:

<u>Date</u>	<u>Expenditures</u>
5/1/02	\$ 75,000
6/1/02	40,000
8/1/02	65,000
9/1/02	110,000

The expenditure on 5/1 was for the purchase of land for the office building. The office was completed on July 1, 2003 (14 months construction). On 1/1/02, a 2-year construction loan was obtained amounting to \$100,000 at 5% interest. The only other debt outstanding during 2002 was a \$200,000, 10%, 20-year bond payable dated January 1, 1996.

i. The weighted average accumulated expenditures on the construction project for the year **2002** is how much?

ii. How much is the **actual** interest cost incurred for 2002?

iii. **Independent** of your answer in (i) **above, assume** the 2002 average accumulated expenditures for the construction project was \$150,000.

a. How much is total 2002 AVOIDABLE interest if the Average capitalization interest method is used?

b. How much is total 2002 AVOIDABLE interest if the Specific capitalization interest method is used?