American University of Beirut
School Of Business
ACCT 210
Midterm II
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	Points	Minutes
I - Multiple Choice	20	20
II Problems:		
Problem 1:Bank Reconciliation	20	15
Problem 2: Accounts Receivable	20	25
Problem 3: Perpetual inventory	20	25
Problem 4: Periodic inventory	15	25
Problem 5: Lower of cost or market	5	10
Total	100	120

<u>**SHOW ALL SUPPORTING COMPUTATIONS**</u>

<u>Good Luck!</u>

I Multiple Choice: (20points, 20min)

Circle the correct answer to the following multiple choice questions:

1. Molloy Co. uses a periodic inventory system. An examination of its closing entries revealed a debit to the Cost of Goods Sold for \$735,000. Its beginning inventory was \$180,000 and the year-end inventory showed \$200,000 of merchandise on hand. Purchases for the year amounted to:
   a. \$715,000
   b. \$20,000
   c. \$735,000
   d. \$755,000

735,000 = 180,000 + X - 200,000

2. The aging of the accounts receivable approach to estimating uncollectible accounts does *not*:
   a. Take into consideration the existing balance in the Allowance for Doubtful Accounts.
   b. Utilize a percentage of probable uncollectible accounts for each age group of accounts receivable.
   c. Stress the relationship between uncollectible accounts expense and net sales.
   d. Tend to give a reliable estimate of uncollectible accounts because of the consideration given to the collectibility of specific accounts receivable.

3. In a **perpetual** inventory system, purchases of merchandise on account are recorded by debiting:
   a. Cost of Goods Sold.
   b. Accounts Payable.
   c. Purchases.
   d. Inventory.

4. In a *periodic* inventory system, which of the following accounts may be closed by debiting the Cost of Goods Sold?
   a. Sales, Inventory (beginning), and gross profit.
   b. Inventory (beginning) and Purchases.
   c. ~~Purchases and Inventory (ending).~~
   d. Sales, Inventory (beginning), and Cost of Goods Available for Sale.

A.B

5. During a period of steadily *falling prices*, which of the following methods of measuring the cost of goods sold is likely to result in reporting the *highest gross profit*?
   a. Specific identification.
   b. Average cost.
   c. LIFO.
   d. FIFO.

6. Short-term creditors are likely to view a higher-than-average inventory turnover rate as indicating that:
   a. A company is in financial difficulty.
   b. The company is able to sell its inventory quickly.
   c. The company probably has an excessive amount of inventory.
   d. The company has a longer-than-average operating

FIFO

COGS

cycle

7. During the current year Wirth, Inc. had an inventory turnover rate of 5.0 to 1 and an average inventory of $60 million. If Wirth, Inc. reported gross profit of $250 million for this year, sales for the year amounted to:

a. $550 million.
b. $300 million.
c. $1,250 million.
d. Some other amount.

A

INVTOR = COGS / AVG INV

Gross Profit = Sales − COGS

250 = Sales − 300

Sales = 250 + 300 = 550

8. The accounts receivable turnover rate for Adams Corporation is 8 and for Barber Company is 10. These statistics indicate that:

a. Barber collects its accounts receivable within 10 days on average; Adams collects its accounts receivable in 8 days on average.
b. Barber writes off as uncollectible a greater percentage of its accounts receivable than does Adams Company.
c. Barber collects its accounts receivable faster than does Adams Company.
d. Barber makes on average 10 credit sales annually to each of its customers, while Adams makes 8 credit sales to each customer.

✓

Use the following data for questions 9 and 10

Trader Bay had credit sales of $400,000 for March. Accounts receivable of $3,500 were determined to be worthless and were written off during March. Accounts receivable total $260,000 at March 31. Management feels that based on past experience, approximately 2% of net credit sales will prove to be uncollectible.

9. *Refer to the above data.* Assuming Trader Bay uses the ***income statement approach*** (an allowance method) to account for uncollectible accounts, uncollectible accounts expense for March is:

a. $4,500.
b. $8,000.
c. $3,500.
d. $11,500.

✓

B.D.E. 3500
A/R 3500

10. ***Refer to the above data.*** Assuming Trader Bay uses the ***direct write-off method*** of accounting for uncollectible accounts, uncollectible accounts expense for March is:

a. $8,000.
b. $4,500.
c. $3,500.
d. $5,200.

✓

AFBD

3500	
	8000

A/R

	3500
260,000	

5 → 1

→ 6.0

Cash

blems:

Problem 1: (20points, 15 min)

The Cash account in the ledger of Seymour Company showed a balance of $6,134 at March 31. The bank statement, however, showed a balance of $5,443 at the same date. The only reconciling items consisted of a $1,210 deposit in transit, a bank service charge of $28, outstanding checks totaling $745, and an NSF check from N. Webb, one of Seymour's customers for $198.

Required:

1. prepare a bank reconciliation for Seymour Company as of March 31.
2. Give the journal entry necessary, if any, to adjust Seymour Company's accounting records at March 31

AF.BD

12000	15500 (beg)
	3000
	6500 unadjusted
	2220
	8720

A.E

Bad DE 2220

AFBD 2220

Problem 2: (20points, 25min)

Hoomer Company uses the balance sheet approach in estimating uncollectible account expense. It has completed an aging analysis of accounts receivable at December 31, 2001. This analysis disclosed the following information:

	Age Group Total	Percentage	Considered Uncollectible
not yet due	$51,000	5%	2550
1 – 30 days past due	$29,000	13%	3770
31 – 60 days past due	$12,000	20%	2400

- The beginning balance of the Allowance for Doubtful Accounts was $15,500 credit on Jan 1, 2001.
- Accounts written off on June 5, 2001 amounted to $12,000 AFBD 12000 A/R 12000
- $3,000 of accounts previously written off were collected on Sept 16,2001 A/R 3000 AFBD 3000 Cash 3000 A/R 3000
- The balance of Accounts receivable at Dec 31, 2001 was $92,000

Required:

1. Prepare the journal entry to record the accounts written off on June 5 ,2001
2. Prepare the required journal entries to record the collection of the previously written off accounts on Sept 16, 2001
3. Determine the amount of Allowance for doubtful accounts at Dec 31 2001, using the age analysis
4. Prepare the necessary adjusting entry at Dec 31, 2001 to account for the doubtful accounts using the age analysis
5. Determine the Net Realizable Value of the account receivable at Dec 31, 2001

NRV = 92000 - 8720 = 83280

Problem 3: (20points, 25min)

Sonic Stereo uses a perpetual inventory system, and the LIFO valuation method. Shown below are Sonic's beginning inventory of a particular product and purchases during January:

	Quantity	Unit Cost	Total Cost
Beginning inventory (Jan. 1)	10	$180	$1,800
Purchase (Jan. 6)	20	210	4,200
Purchase (Jan. 25)	20	215	4,300
Total	50		$10,300

On January 23 (*prior* to the purchase on January 25), Sonic sold *25* units of this product at a price of $ 300/unit cash.

Required:

Inv
Cash

1. Prepare the journal entries of Jan 6, Jan 23 and Jan 25.(assume they paid cash for their purchases)
2. Post to an Inventory subsidiary ledger.
3. A physical count on Jan 31, showed that there are only 23 units left on hand. Prepare the necessary adjusting entry. (assume that it is immaterial)& post it to the subsidiary ledger
4. Determine the **Cost of Goods Sold** for January and the dollar amount of **Inventory** that would appear in Sonic Stereo's Balance Sheet as of Jan 31.

In V
1,800
4200
4300
10300
Sold
5350
420
1530
End InV
COGS 360
Inv 360
180

Problem 4: (15points, 25min)

Fashion World uses a periodic inventory system. The beginning inventory of a particular product, and the purchases during the current year, were as follows:

Jan. 1	Beginning inventory	400 units	@ $ 9.00	=	$ 3,600
Feb. 15	Purchase	1,000 units	@ $ 9.50	=	9,500
June 30	Purchase	1,400 units	@ $10.00	=	14,000
Nov. 25	Purchase	1,200 units	@ $10.25	=	12,300
	Total available for sale in year	4,000 units			$39,400

At December 31, the ending inventory of this product consisted of *1,500* units COGS 2500

Required:

Determine the cost of **the year-end inventory** and the **cost of goods sold** for this product under each of the following methods of inventory valuation:

1. Average cost → $\frac{39400}{4000} = 9.85$ \$/unit → COGS = 2500 × 9.85 = 24625
   End InV = 1500 × 9.85 = 14775
2. FIFO
3. LIFO

End InV = (1200 × 10.25) + (300 × 10) = 15300
COGS = 39400 − 15300 = 24,100

End InV = (400 × 9) + (1000 × 9.5) + (100 × 10) = 14,100
COGS = 39400 − 14100 = 25,300