**LEBANESE AMERICAN UNIVERSITY**

**FINANCIAL ACCOUNTING (ACC203)**

**EXAM 3, CH. 7-9**

**FALL 2013**

**NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**TYPE OF QUESTION POINTS MINUTES**

**MULTIPLE CHOICE 10 20**

**PROBLEM 1 – BANK RECONCILIATION 20 15**

**PROBLEM 2 – UNCOLLECTIBLE ACCOUNTS 20 15**

**PROBLEM 3 – INVENTORY COST FLOWS 20 20**

**PROBLEM 3 – DEPRECIATION METHODS 20 20**

**TOTAL 100 90**

**ALL ANSWERS (INCLUDING THE MULTIPLE CHOICE QUESTIONS) MUST BE ENTERED ON THE EXAMINATION BOOKLET**

**MULTIPLE CHOICE (1 POINT EACH, TOTAL OF 10 POINTS)**

1. Which of the following best describes the application of generally accepted accounting principles to the valuation of accounts receivable?   
A. Realization principle—Accounts receivable are shown at their net realizable value in the balance sheet.  
B. Matching principle—The loss due to an uncollectible account is recognized in the period in which the sale is made, not in the period in which the account receivable is determined to be worthless.  
C. Cost principle—Accounts receivable are shown at the initial cost of the merchandise to customers, less the cost the seller must pay to cover uncollectible accounts.  
D. Principle of conservatism—Accountants favor using the lowest reason­able estimate for the amount of uncollectible accounts shown in the balance sheet.

2. When the account Allowance for Doubtful Accounts is used, writing-off of an uncollectible accounts receivable will:   
A. Reduce income.  
B. Reduce an expense.  
C. Not change income or total assets.  
D. Increase total assets.

 3. Which of the following items would cause cash per the bank statement to be smaller than the balance of cash shown in the accounting records?   
A. Outstanding checks.  
B. Interest earned on the average balance of the checking account.  
C. Check no. 824, in the amount of $620.30, is recorded by the bank as $602.30.  
D. Deposits in transit.

4. Marketable securities are classified into three types; which one is not one of the three types?   
A. Available-for-sale.  
B. Mark-to-market.  
C. Trading.  
D. Held-to-maturity.

5. Which of the following statements is not a characteristic of the LIFO method of pricing inventory?   
A. During a period of rising prices, LIFO tends to minimize the amounts of income taxes owed.  
B. The cost of goods sold is measured in relatively current costs.  
C. Inventory is valued at relatively current costs.  
D. During a period of falling prices, LIFO tends to maximize the amounts of income taxes owed.

6. Which of the following will cause net income to be overstated for the following year?   
A. Current year's ending inventory is understated.  
B. Current year's ending inventory is overstated.  
C. Next year's beginning inventory is overstated.  
D. Next year's ending inventory is understated.

7. The write-down of inventory:   
A. Only affects the balance sheet and not the income statement.  
B. Only affects the income statement and not the balance sheet.  
C. Affects both the income statement and the balance sheet.  
D. Affects neither the income statement nor the balance sheet.

8. An accelerated depreciation method:   
A. Results in reporting higher earnings every year.  
B. Depreciates an asset over a shorter life than does the straight-line method.  
C. Is required for assets that become technologically obsolete before they physically wear out.

D. Recognizes more depreciation expense in the early years of an asset's useful life and less in the later years.

9. The book value of plant assets (other than land):   
A. Increases with the passage of time.  
B. Decreases with the passage of time.  
C. Remains the same with the passage of time.  
D. May increase or decrease depending upon the economy.

 10. Armstrong Company recently acquired a new computer system. Which of the following costs associated with the computer should not be debited to the Equipment account?   
A. Insurance coverage purchased by Armstrong to cover the computer during shipment from the manufacturer.  
B. Wages paid to system programmers hired to prepare the new computer for use.  
C. Installation of new electrical power supplies required for the computer.

D. Replacement of several circuit boards damaged during installation.

**PROBLEMS**

**1. Bank Reconciliation (20 Points)**

You are to complete the June 30 bank reconciliation for Huang, Inc. using the following information:  
 

  Prepare the journal entries required on the books of Huang Inc.

**2. Adjusting Entry for Uncollectible Accounts (20 Points)**

The general ledger controlling account for Accounts Receivable has a balance of $120,500 at year-end before adjustment. The company uses the balance sheet approach to estimate uncollectible accounts. By aging the individual customers' accounts, it was determined that the doubtful accounts amounted to $5,020. Prepare the year-end adjusting entry for uncollectible accounts under each of the following independent assumptions.  
(a.) Allowance for Doubtful Accounts has a credit balance of $2,850.  
(b.) Allowance for Doubtful Accounts has a *debit* balance of $925.

**3. Inventory Cost Flow Assumptions (20 Points)**Funky Fashions uses a periodic inventory system. The beginning inventory of a particular product, and the purchases during the current year, were as follows:  
    
At December 31, the ending inventory of this product consisted of 1,300 units.  
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:  
 

**4. Depreciation Methods (20 Points)**

On September 6, 2010, East River Tug Co. purchased a new tugboat for $400,000. The estimated life of the boat was 20 years, with an estimated residual value of $40,000.  
Compute the depreciation on this tugboat in 2010 and 2011 using the following methods. Apply the half-year convention. (If necessary, round to the nearest dollar.)  
 