Problem - I — Multiple Choice

Circle the one best answer.

1. Inventoriable costs include all of the following except the
   a. cost of the goods purchased.
   b. freight out.
   c. cost of the beginning inventory.
   d. freight in.

2. Abaco Enterprises had beginning inventory of $15,000 at March 1, 2006. During the
   month, the company made purchases of $120,000. The inventory at the end of the
   month is $17,000. What is cost of goods available for sale for the month of March?
   a. $15,000
   b. $17,000
   c. $118,000
   d. $135,000

3. A check correctly written and paid by the bank for $361 is incorrectly recorded on the
   company's books for $316. The appropriate adjustment on a bank reconciliation would be to
   a. deduct $361 from the book's balance.
   b. deduct $45 from the book's balance.
   c. deduct $45 from the bank's balance.
   d. add $45 to the bank's balance.

4. A 90-day promissory note dated May 28 matures on
   a. August 28.
   b. August 27.
   c. August 26.
   d. August 25.

5. An error in the physical count of goods on hand at the end of the current period resulted in
   a $3,000 understatement of the ending inventory. The effect of this error in the current
   period is to
   a. overstate cost of goods sold.
   b. understate cost of goods available for sale.
   c. overstate gross profit.
   d. overstate net income.

6. In a period of rising prices, the inventory method that will show the highest net income is
   a. Average Cost.
   b. FIFO.
   c. LIFO.
   d. Moving Average.

7. Cost of goods available for sale includes each of the following except
   a. beginning inventory.
   b. freight-in.
   c. ending inventory.
   d. net purchases.
Problem - II — Computation of Net Purchases/Cost of Goods Sold

Barkley Company uses a periodic inventory system and has the following account balances: Beginning Inventory $50,000, Ending Inventory $70,000, Freight-in $12,000, Purchases $450,000, Purchase Returns and Allowances $8,000, and Purchase Discounts $6,000.

Instructions

Compute each of the following:

(a) Net purchases
(b) Cost of goods available for sale
(c) Cost of goods sold

Problem - III — Bank Reconciliation

Thome Company received a bank statement for the month of October 2005, which showed a balance per bank of $3,102. The company's Cash account in the general ledger showed a balance of $1,204 at October 31. Other information that may be relevant in preparing a bank reconciliation for October follows:

1. The bank returned an NSF check from a customer for $480.
2. The company recorded cash receipts of $932 on October 31 but this amount does not appear on the bank statement.
3. A check correctly written and paid by the bank for $1,740 was incorrectly recorded in the cash payments journal for $1,470. The check was a payment on account.
4. Checks which were written in September but still had not been presented to the bank for payment at October 31 amounted to $780.
5. The bank statement included a credit memorandum for $1,620, which represents a collection of a customer's note by the bank for the company; principal amount of the note was $1,500 and the remainder was interest.
6. The bank statement included a $20 debit memorandum for service charges for the month of October.
7. Checks written in October which have not been paid by the bank at October 31 amounted to $1,200.

Instructions

1. Prepare a bank reconciliation for Thome Company for October which reconciles the balance per books and the balance per bank to their adjusted correct balances.
2. Prepare the necessary adjusting entries for Thome Company at October 31, 2005.
Problem - IV — Periodic Inventories

Carson Company uses the periodic inventory method and had the following inventory information available for the month of November.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Units</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/1</td>
<td>Beginning inventory</td>
<td>400</td>
<td>$3</td>
</tr>
<tr>
<td>11/5</td>
<td>Purchase No. 1</td>
<td>600</td>
<td>$5</td>
</tr>
<tr>
<td>11/12</td>
<td>Sale No. 1</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>11/18</td>
<td>Purchase No. 2</td>
<td>500</td>
<td>$6</td>
</tr>
<tr>
<td>11/25</td>
<td>Sale No. 2</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>11/30</td>
<td>Purchase No. 3</td>
<td>500</td>
<td>$7</td>
</tr>
</tbody>
</table>

A physical count of units on November 30 revealed that 600 units were on hand.

Answer the following independent questions and show computations supporting your answers.

1. Assume that the company uses the average cost method. What is the dollar value of the ending inventory on November 30?

2. Assume that the company uses the LIFO inventory method. What is the dollar value of the cost of goods sold during November?

3. Assume that the company uses the FIFO inventory method. The dollar value of the ending inventory on November 30 is:

Problem - V — Accounts Receivable

Dolan Company uses the allowance method to account for uncollectible accounts. Prepare the appropriate journal entries to record the following transactions during 2006. You may omit journal entry explanations.

June 20 The account of Ken Unruh for $1,000 was deemed to be uncollectible and is written off as a bad debt.

Oct. 14 Received a check for $1,000 from Ken Unruh, whose account had previously been written off as uncollectible.

Dec. 31 Use the following information for the year-end adjusting entry:

The balance of Accounts Receivable and Allowance for Doubtful Accounts at year end are $131,000 and $2,900, respectively. It is estimated that bad debts will be 3% of accounts receivable.
Problem - VI — Notes Receivable

Instructions
Prepare journal entries to record the following events:

Jul.  1  James Company accepted an 8%, 3-month, $15,000 note dated July 1 from Flint Company for account balance due.

Jul.  31  James accrued interest on the above note for the month of July.

Oct.  1  Collected Flint Company note in full. Assume interest was correctly accrued on August 31 and September 30.

Oct.  1  Assume instead that the note is dishonored and that no interest has been accrued. Flint Company is expected to eventually pay the amount owed.

10.  Meyer Company reported net income of $30,000 for the year. During the year, accounts receivable increased by $7,000, accounts payable decreased by $3,000 and depreciation expense of $5,000 was recorded. Net cash provided by operating activities for the year is
    a.  $25,000.
    b.  $45,000.
    c.  $29,000.
    d.  $30,000.

11.  Stone Company had a cost of purchases of $250,000. The comparative balance sheet analysis revealed a $10,000 decrease in inventory and a $20,000 increase in accounts payable. What were Stone's cash payments to suppliers?
    a.  $230,000.
    b.  $220,000.
    c.  $260,000.
    d.  $280,000.
Problem - I — Solution
1. c  2. d  3. b  4. c
5. a  6. b  7. c

Problem - II — Solution
(a) Net purchases: $450,000 – $8,000 – $6,000 = $436,000
(b) Cost of goods available for sale: $50,000 + $436,000 + $12,000 = $498,000
(c) Cost of goods sold: $498,000 – $70,000 = $428,000

Problem - III — Solution

THOME COMPANY
Bank Reconciliation
October 31, 2005

Cash balance per bank statement................................................................. $3,102
Add: Deposit in transit ............................................................................... 932
Less: Outstanding checks—September ..................................................... $ 780
Outstanding checks—October ................................................................. 1,200
Adjusted cash balance per bank ............................................................... $2,054

Cash balance per books............................................................................. $1,204
Add: Collection of note receivable and interest ........................................ 1,620
Less: NSF check ...................................................................................... 480
Bank service charge ............................................................................... 20
Error in recording a check ..................................................................... 270
Adjusted cash balance per books ........................................................... $2,054

2. Cash ........................................................................................................ 1,620
   Notes Receivable ................................................................................ 1,500
   Interest Revenue ................................................................................ 120
   Accounts Receivable .......................................................................... 480
   Cash ........................................................................................................ 480
   Miscellaneous Expense ..................................................................... 20
   Cash ........................................................................................................ 20
   Accounts Payable .............................................................................. 270
   Cash ....................................................................................................... 270

Problem - IV — Solution
1. Weighted average cost = ($1,200 + $3,000 + $3,000 + $3,500) ÷ 2,000 = $5.35
   Units available 2,000
   Units sold 1,400
   Ending inventory 600 × $5.35 = $3,210

2. Ending inventory
   Cost of goods sold
   11/1 400 units × $3 = $1,200 Cost of goods available $10,700
   11/5 200 units × $5 = 1,000 Less: Ending inventory 2,200
   600 units $2,200 Cost of goods sold $ 8,500

3. Ending inventory
   11/30 Purchase 500 units × $7 = $3,500
   11/18 Purchase 100 units × $6 = 600
   600 units $4,100
Problem - V — Solution

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 20</td>
<td>Allowance for Doubtful Accounts</td>
<td>1,000</td>
<td>Accounts Receivable—Ken Unruh 1,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cash 1,000</td>
</tr>
<tr>
<td>Oct. 14</td>
<td>Accounts Receivable—Ken Unruh</td>
<td>1,000</td>
<td>Allowance for Doubtful Accounts 1,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1,000</td>
<td>Accounts Receivable—Ken Unruh 1,000</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>Bad Debts Expense</td>
<td>1,030</td>
<td>Allowance for Doubtful Accounts 1,030</td>
</tr>
<tr>
<td></td>
<td>[(131,000 × 3%) – 2,900]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Problem - VI — Solution

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul. 1</td>
<td>Notes Receivable</td>
<td>15,000</td>
<td>Accounts Receivable 15,000</td>
</tr>
<tr>
<td></td>
<td>Interest Receivable</td>
<td>100</td>
<td>Interest Revenue 100</td>
</tr>
<tr>
<td>Oct. 1</td>
<td>Cash</td>
<td>15,300</td>
<td>Notes Receivable 15,000</td>
</tr>
<tr>
<td></td>
<td>Interest Receivable</td>
<td>300</td>
<td>Interest Revenue 300</td>
</tr>
<tr>
<td>Oct. 1</td>
<td>Accounts Receivable</td>
<td>15,300</td>
<td>Notes Receivable 15,000</td>
</tr>
<tr>
<td></td>
<td>Interest Revenue</td>
<td>300</td>
<td>Interest Revenue 300</td>
</tr>
</tbody>
</table>