ACCOUNTING 201

PRACTICE FINAL - (Covering Chapters 6 - 9)

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.

Date	Transaction	Units	Unit Cost
11/1	Beginning inventory	400	$3
11/5	Purchase No. 1	600	$5
11/12	Sale No. 1	400	
11/18	Purchase No. 2	500	$6
11/25	Sale No. 2	1,000	
11/30	Purchase No. 3	500	$7

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.

Solutions — Practice Final 200

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

1.

THOME COMPANY
Bank Reconciliation
October 31, 2005

Cash balance per bank statement		$3,102
Add: Deposit in transit		932
		4,034
Less: Outstanding checks—September	$ 780	
Outstanding checks—October	1,200	1,980
Adjusted cash balance per bank		$2,054
Cash balance per books		$1,204
Add: Collection of note receivable and interest		1,620
		2,824
Less: NSF check	480	
Bank service charge	20	
Error in recording a check	270	770
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					
11/1	400 units	×	$3	=	$1,200
11/5	200 units	×	$5	=	1,000
	600 units				$2,200

Cost of goods sold	
Cost of goods available	$10,700
Less: Ending inventory	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

June	20	Allowance for Doubtful Accounts	1,000	
		Accounts Receivable—Ken Unruh		1,000
Oct.	14	Accounts Receivable—Ken Unruh	1,000	
		Allowance for Doubtful Accounts		1,000
		Cash	1,000	
		Accounts Receivable—Ken Unruh		1,000
Dec.	31	Bad Debts Expense	1,030	
		Allowance for Doubtful Accounts		1,030
		[($131,000 × 3%) – $2,900]		

Problem - VI — Solution

Jul.	1	Notes Receivable	15,000	
		Accounts Receivable		15,000
Jul.	31	Interest Receivable	100	
		Interest Revenue		100
Oct.	1	Cash	15,300	
		Notes Receivable		15,000
		Interest Receivable		300
Oct.	1	Accounts Receivable	15,300	
		Notes Receivable		15,000
		Interest Revenue		300

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