Answers to all the multiple-choice and true/false questions are to be placed on a scantron provided. Answers to the problems are to be placed on the lined pages provided at the end of the exam.

1. The revenue recognition principle applies to merchandising companies by recognizing sales revenues when they are earned.
2. Uncollectible accounts must be estimated because it is not possible to know which accounts will not be collected.
3. With the periodic inventory system, goods available for sale must be calculated before cost of goods sold.
4. Receivables are valued and reported in the balance sheet at their gross amount less any sales returns and allowances and less any cash discounts.
5. Allowance for Doubtful Accounts is a contra account that is deducted from Accounts Receivable on the balance sheet.
6. When an invoice is paid within the discount period, the amount of the discount decreases Merchandise Inventory.
7. When the terms of sale are FOB shipping point, legal title to the goods remains with the seller until the goods reach the buyer.
8. Under a periodic inventory system, the merchandise on hand at the end of the period is determined by a physical count of the inventory.
9. An effective system of internal control requires that at least two individuals be assigned to one cash drawer so that each can serve as check on the other.
10. Gross profit appears on both the single-step and multiple-step forms of an income statement.
11. The safeguarding of assets is an objective of a company's system of internal control.
12. Sales revenues are only earned during the period cash is collected from the buyer.
13. The specific identification method of costing inventories tracks the actual physical flow of the goods available for sale.
14. Net sales minus cost of goods sold is called gross profit.
15. When an account receivable that was previously written off is collected, it is first necessary to reverse the entry to reinstate the customer's account before recording the collection.
16. Allowance for Doubtful Accounts is debited under the direct write-off method when an account is determined to be uncollectible.
17. Raw materials inventories are the goods that a manufacturing company has completed and are ready to be sold to customers.
18. The Sales Returns and Allowances account and the Sales Discount account are both classified as expense accounts.
19. In accounting for inventory, the assumed flow of costs must match the physical flow of goods.
20. Accounts receivable are the result of cash and credit sales.
21. The First-in, First-out (FIFO) inventory method results in an ending inventory valued at the most recent cost.
22. An aging of accounts receivable schedule is based on the premise that the longer the period an account remains unpaid, the greater the probability that it will eventually be collected.
23. If a company uses the allowance method to account for uncollectible accounts, the entry to write off an uncollectible account only involves balance sheet accounts.
24. Bonding means insuring a company against theft by employees.
1. June 4 Black Company purchased $12,500 worth of merchandise, terms n/30 from Hayes Company. The cost of the merchandise was $8,750.
June 12 Black returned $1,250 worth of goods to Hayes for full credit. The goods had a cost of $875 to Hayes.
June 12 Black paid the account in full.

Instructions: Prepare the journal entries to record these transactions in
a. Black's records and
b. Hayes' records. Assume use of the perpetual inventory system for both companies.

2. The following information is available for Quayle Company:

Sales $470,000
Sales Returns and Allowances 39,000
Cost of Goods Sold 262,000
Selling Expense 68,000
Administrative Expense 29,000
Interest Expense 2,000
Interest Revenue 7,000

Instructions: Use the above information to prepare a multiple-step income statement for the year ended December 31, 2010.

3. Compute the cost to be assigned to ending inventory for each of the methods indicated given the following information about purchases and sales during the year.

<table>
<thead>
<tr>
<th></th>
<th>January 1 Beginning Inventory</th>
<th>May 1 Purchases</th>
<th>Total Available</th>
<th>Total Sales</th>
<th>December 31 Ending Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>500 items @ $14 = $7,000</td>
<td>2,750 items @ $17 = 46,750</td>
<td>3,250 items</td>
<td>53,750</td>
<td>680</td>
</tr>
</tbody>
</table>

a. Cost assigned on an average basis.
b. Cost assigned on a FIFO basis.
c. Costs assigned on a LIFO basis.
4. The information below relates to the Cash account in the ledger of Remington Company.

Balance September 1—$21,590 Cash deposited—$99,000.
Balance September 30—$27,440 Checks written—$93,150.

The September bank statement shows a balance of $27,935 on September 30 and the following memoranda.

<table>
<thead>
<tr>
<th>Credits</th>
<th>Debits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection of $2,500 note plus interest $50</td>
<td>$2,550 NSF check: J. E. Hoover $355</td>
</tr>
<tr>
<td>Interest earned on checking account</td>
<td>$45 Safety deposit box rent $115</td>
</tr>
</tbody>
</table>

At September 30, deposits in transit were $6,980, and outstanding checks totaled $5,350.

Instructions
a. Prepare the bank reconciliation at September 30.
b. Prepare the journal entry(s) to properly report the cash balance at September 30.

5. At the beginning of the current period, Emler Corp. had balances in Accounts Receivable of $200,000 and in Allowance for Doubtful Accounts of $9,000 (credit). During the period, it had net credit sales of $600,000 and collections of $570,000. It wrote off as uncollectible accounts receivable of $5,000. However, a $2,000 account previously written off as uncollectible was recovered before the end of the current period. Uncollectible accounts are estimated to total $22,000 at the end of the period.

Instructions
a. Determine the ending balance in Accounts Receivable. (show calculation)
b. Determine the ending balance in Allowance for Doubtful Accounts. (show calculation)
c. Calculate the net realizable value of the receivables at the end of the period.

6. Erickson Company had a $400 credit balance in Allowance for Doubtful Accounts at December 31, 2010, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

<table>
<thead>
<tr>
<th>Estimated Percentage</th>
<th>Estimated Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncollectible</td>
<td>Uncollectible</td>
</tr>
<tr>
<td>Current Accounts</td>
<td>$140,000</td>
</tr>
<tr>
<td>1–30 days past due</td>
<td>$15,000</td>
</tr>
<tr>
<td>31–60 days past due</td>
<td>$12,000</td>
</tr>
<tr>
<td>61–90 days past due</td>
<td>$5,000</td>
</tr>
<tr>
<td>Over 90 days past due</td>
<td>$7,000</td>
</tr>
<tr>
<td>Total Accounts Receivable</td>
<td>$172,000</td>
</tr>
</tbody>
</table>

Instructions: Prepare the adjusting entry on December 31, 2010, to recognize bad debts expense.
**Financial Accounting - Midterm 2 Fall 2011 v1**

**Answer Key**

1. True
2. True
3. True
4. False
5. True
6. True
7. False
8. True
9. False
10. False
11. True
12. False
13. True
14. True
15. True
16. False
17. False
18. False
19. False
20. False
21. True
22. False
23. True
24. True

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>142</td>
</tr>
<tr>
<td></td>
<td>32</td>
<td>34</td>
<td>24</td>
<td>39</td>
<td>33</td>
<td>16</td>
<td>250</td>
</tr>
</tbody>
</table>
1. Solution

(a) Black's books

June 4 Merchandise Inventory ........................................ 12,500
      Accounts Payable ............................................. 12,500

12 Accounts Payable .............................................. 1,250
      Merchandise Inventory ...................................... 1,250

12 Accounts Payable .............................................. 11,250
      Cash ............................................................ 11,250

(b) Hayes' books

June 4 Accounts Receivable: ........................................ 12,500
      Sales ........................................................... 12,500

4 Cost of Goods Sold .............................................. 8,750
      Merchandise Inventory ...................................... 8,750

12 Sales Returns and Allowance ................................ 1,250
      Accounts Receivable ......................................... 1,250

12 Merchandise Inventory ........................................ 875
      Cost of Goods Sold ........................................... 875

12 Cash ............................................................. 11,250
      Accounts Receivable ......................................... 11,250
QUAYLE COMPANY
Income Statement
For the Year Ended December 31, 2010

Sales Revenues
Sales $470,000
Less: Sales Returns and Allowances 39,000
Net Sales 431,000
Cost of Goods Sold 262,000
Gross Profit 169,000
Operating Expenses
Selling Expenses $68,000
Administrative Expenses 29,000
Total Operating Expenses 97,000
Income from Operations 72,000
Other Revenues and Gains
Interest Revenue 7,000
Other Expenses and Losses
Interest Expense 2,000
Net Income $77,000

3. Solution
6. $11,246 ([$53,750/3,250] x 680]
6. $11,560 (680 x $17)
12. $10,060 ([500 x $14] + (180 x $17))
4. Solution

REMINGTON COMPANY
Bank Reconciliation
September 30

Cash balance per bank statement $27,935
Add: Deposits in transit 6,980
Less: Outstanding checks 34,915
Adjusted cash balance per bank 5,350

Cash balance per books $29,565
Add: Collection of note receivable ($2,500 + $50) $2,550
Interest earned 45
Less: NSF check 355
Safety deposit box rent 115
Adjusted cash balance per books $29,565

Solution

5. (a) Accounts Receivable

<table>
<thead>
<tr>
<th>Sales</th>
<th>600,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>570,000</td>
</tr>
</tbody>
</table>

(b) Allowance for Doubtful Accounts

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>5,000</td>
<td></td>
</tr>
</tbody>
</table>

(c) Accounts Receivable

<table>
<thead>
<tr>
<th>Allowance for Doubtful Accounts</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2,000</td>
<td></td>
</tr>
</tbody>
</table>

(d) Bad Debts Expense

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td>16,000</td>
<td></td>
</tr>
</tbody>
</table>

(a) Accounts Receivable

<table>
<thead>
<tr>
<th>Beg. Bal.</th>
<th>Collections</th>
<th>570,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Write-off</td>
<td>5,000</td>
</tr>
<tr>
<td>Recovery</td>
<td>Collections</td>
<td>2,000</td>
</tr>
<tr>
<td>End Bal</td>
<td>225,000</td>
<td></td>
</tr>
</tbody>
</table>

(b) Allowance for Doubtful Accounts

<table>
<thead>
<tr>
<th>Beg. Bal.</th>
<th>9,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-off</td>
<td>5,000</td>
</tr>
<tr>
<td>Recovery</td>
<td>2,000</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>16,000</td>
</tr>
<tr>
<td>End Bal</td>
<td>22,000</td>
</tr>
</tbody>
</table>

Net realizable value of receivables is $205,000 ($225,000 – $20,000)
6. **Solution**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Estimated Uncollectible</th>
<th>Estimated Uncollectible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Accounts</td>
<td>$140,000</td>
<td>1%</td>
</tr>
<tr>
<td>1–30 days past due</td>
<td>15,000</td>
<td>3%</td>
</tr>
<tr>
<td>31–60 days past due</td>
<td>12,000</td>
<td>6%</td>
</tr>
<tr>
<td>61–90 days past due</td>
<td>5,000</td>
<td>12%</td>
</tr>
<tr>
<td>Over 90 days past due</td>
<td>7,000</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Total Accounts</strong></td>
<td><strong>$179,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Allowance for Doubtful Accounts ($5,270 – $400)**

4,870

**Question 4(b)**

- Cash: 2,125
- Accounts Receivable: 355
- Bank Expense: 115
- Notes Receivable: 2,500
- Interest Revenue: 45
- Interest Revenue: 50

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