INSTRUCTIONS: For the true-false questions, circle either “True” or “False.” For the multiple-choice questions, circle the letter of the best answer.

CHAPTER 7:

1. Cash equivalents would include investments in marketable equity securities as long as management intends to sell the securities in the next three months.
   True  False

2. From a financial accounting perspective, the main purposes of a system of internal control are to improve the accuracy and reliability of accounting information and to safeguard assets.
   True  False

3. In a good system of internal control, the person who initiates a transaction should be allowed to effectively control the processing of the transaction through its final inclusion in the accounting records.
   True  False

4. In a bank reconciliation, adjustments to the bank balance could include adding deposits in transit and deducting bank service charges.
   True  False

5. Cash may not include:
   A. Foreign currency.
   B. Money orders.
   C. Restricted cash.
   D. Undeposited customer checks.

6. Cash that is restricted and not available for current operations is reported in the balance sheet as:
   A. Equity.
   B. Investments.
   C. Liabilities.
   D. A separate section between liabilities and equity.

7. Memorex Disks sells computer disk drives with right-of-return privileges. Returns are material and reasonably predictable. Memorex should:
   A. Not record sales until the right to return has expired.
   B. Record an allowance for sales returns in the year of the sale.
   C. Debit sales returns in the period of the return.
   D. Debit sales in the period of the return.
8. A company uses the allowance method to account for bad debts. What is the effect on each of the following accounts of the collection of an account previously written off?

<table>
<thead>
<tr>
<th>Allowance for Uncollectible Accounts</th>
<th>Accounts Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>B. No effect</td>
<td>Decrease</td>
</tr>
<tr>
<td>C. Increase</td>
<td>No effect</td>
</tr>
<tr>
<td>D. No effect</td>
<td>No effect</td>
</tr>
</tbody>
</table>

Calistoga Produce estimates bad debt expense at $\frac{1}{2}\%$ of credit sales. The company reported accounts receivable and allowance for uncollectible accounts of $471,000 and $1,650 respectively, at December 31, 2008. During 2009, Calistoga's credit sales and collections were $315,000 and $319,000, respectively, and $1,720 in accounts receivable were written off.

9. Calistoga's adjusted allowance for uncollectible accounts at December 31, 2009, is:
A. $1,575.
B. $1,505.
C. $1,650.
D. $1,720.

10. Which of the following is recorded by a credit to Accounts receivable?
A. Sale of inventory on account.
B. Estimating the annual allowance for uncollectible accounts.
C. Estimating annual sales returns.
D. Write-off of bad debts.
11. San Mateo Company had the following account balances at December 31, 2009 before recording bad debt expense for the year:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$1,400,000</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>22,000</td>
</tr>
<tr>
<td>(credit balance)</td>
<td></td>
</tr>
<tr>
<td>Credit sales for 2009</td>
<td>1,950,000</td>
</tr>
</tbody>
</table>

San Mateo is considering the following approaches for estimating bad debts for 2009:
- Based on 3% of credit sales
- Based on 6% of year-end accounts receivable

What amount should San Mateo charge to bad debt expense at the end of 2009 under each method?

<table>
<thead>
<tr>
<th>Percentage of credit sales</th>
<th>Percentage of accounts receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. $ 36,500</td>
<td>$62,000</td>
</tr>
<tr>
<td>B. $ 58,500</td>
<td>$62,000</td>
</tr>
<tr>
<td>C. $ 58,500</td>
<td>$84,000</td>
</tr>
<tr>
<td>D. $117,000</td>
<td>$95,000</td>
</tr>
</tbody>
</table>

12. At December 31, 2008, Gill Co reported accounts receivable of $216,000 and an allowance for uncollectible accounts of $8,400. During 2009, accounts receivable increased by $22,000 after a $7,800 write-off of bad debts. An analysis of Gill Co.'s December 31, 2009, accounts receivable suggests that the allowance for uncollectible accounts should be 3% of accounts receivable. Bad debt expense for 2009 would be:
A. $6,540.
B. $7,800.
C. $7,140.
D. None of these is correct.

13. Drebin Security Systems sold merchandise to a customer in exchange for a $50,000, 5-year, noninterest-bearing note when an equivalent loan would carry 10% interest. Drebin would record sales revenue on the date of sale equal to:
A. $50,000.
B. Zero.
C. The future value of $50,000 using a 10% interest rate.
D. The present value of $50,000 using a 10% interest rate.
Excerpts from Huckabee Company's December 31, 2009 and 2008, financial statements are presented below:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$ 80,000</td>
<td>$ 72,000</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>58,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Net sales</td>
<td>400,000</td>
<td>372,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>240,000</td>
<td>220,000</td>
</tr>
</tbody>
</table>

14. Huckabee's 2009 receivables turnover is:
   A. 3.69.
   B. 5.00.
   D. 3.16.

   **CHAPTER 8:**

15. Physical counts of inventory are never done with perpetual inventory systems.
   True   False

16. Cost of goods on consignment is included in the consignee's inventory until sold.
   True   False

17. The choice of cost flow assumption (FIFO, LIFO, or average) does not depend on the physical flow of the product.
   True   False

18. During periods of falling prices, LIFO ending inventory will be less than FIFO ending inventory.
   True   False

19. The gross profit ratio is calculated by dividing gross profit by average inventory.
   True   False
20. The Mateo Corporation's inventory at December 31, 2009, was $325,000 based on a physical count priced at cost, and before any necessary adjustment for the following:
   • Merchandise costing $30,000, shipped F.o.b. shipping point from a vendor on December 30, 2009, was received on January 5, 2010.
   • Merchandise costing $22,000, shipped F.o.b. destination from a vendor on December 28, 2009, was received on January 3, 2010.
   • Merchandise costing $38,000 was shipped to a customer F.o.b. destination on December 28, arrived at the customer's location on January 6, 2010.
   • Merchandise costing $12,000 was being held on consignment by Traynor Company.

   What amount should Mateo Corporation report as inventory in its December 31, 2009, balance sheet?
   A. $367,000.
   B. $427,000.
   C. $405,000.
   D. $325,000.

21. In a period when costs are rising and inventory quantities are stable, the inventory method that would result in the highest ending inventory is:
   A. Weighted average.
   B. Moving average.
   C. FIFO.
   D. LIFO.

For #22, #23 and #24: Fulbright Corp. uses the periodic inventory system. During its first year of operations, Fulbright made the following purchases (listed in chronological order of acquisition):

   • 40 units at $100
   • 70 units at $ 80
   • 170 units at $ 60

   Sales for the year totaled 270 units, leaving 10 units on hand at the end of the year.

22. Ending inventory using the average cost method is:
   A. $ 650.
   B. $1,000.
   C. $ 707.
   D. $ 600.
23. Ending inventory using the FIFO method is:
A. $ 650.
B. $1,000.
C. $ 707.
D. $ 600.

24. Ending inventory using the LIFO method is:
A. $ 650.
B. $1,000.
C. $ 707.
D. $ 600.

For #25, #26, and #27: Inventory records for Herb's Chemicals revealed the following:

March 1, 2009, inventory - 1,000 gallons @ $7.20 = $7,200

<table>
<thead>
<tr>
<th>Purchases</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 10 600 gals @ $7.25</td>
<td>Mar. 5 400 gals</td>
</tr>
<tr>
<td>Mar. 16 800 gals @ $7.30</td>
<td>Mar. 14 700 gals</td>
</tr>
<tr>
<td>Mar. 23 600 gals @ $7.35</td>
<td>Mar. 20 500 gals</td>
</tr>
<tr>
<td></td>
<td>Mar. 26 700 gals</td>
</tr>
</tbody>
</table>

25. Ending inventory assuming LIFO in a perpetual inventory system would be:
A. $4,960.
B. $5,060.
C. $5,080.
D. $5,140.

26. The ending inventory assuming FIFO is:
A. $5,140.
B. $5,080.
C. $5,060.
D. $5,050.
27. The ending inventory under a periodic inventory system assuming average cost is:
   A. $5,087.
   B. $5,107.
   C. $5,077.
   D. $5,005.

28. The primary reason for the popularity of LIFO is that it:
   A. Provides better matching of physical flow and cost flow.
   B. Saves income taxes currently.
   C. Simplifies recordkeeping.
   D. Provides a permanent reduction of income taxes.

Thompson TV and Appliance reported the following in its 2009 financial statements:

\[
\begin{array}{lcr}
\text{2009} & \\
\text{Sales} & \$420,000 & \\
\text{Cost of goods sold:} & \\
\quad \text{Inventory, January 1} & 82,000 & \\
\quad \text{Net purchases} & 340,000 & \\
\quad \text{Goods available for sale} & 422,000 & \\
\quad \text{Inventory, December 31} & 86,000 & \\
\quad \text{Cost of goods sold} & 336,000 & \\
\text{Gross profit} & \$84,000 & \\
\end{array}
\]

29. Thompson's 2009 inventory turnover ratio is:
   A. 3.91.
   B. 4.00.
   C. 4.88.
   D. 5.00.
30. Bond Company adopted the dollar-value LIFO inventory method on January 1, 2009. In applying the LIFO method, Bond uses internal cost indexes and the multiple-pools approach. The following data were available for Inventory Pool No. 3 for the two years following the adoption of LIFO:

<table>
<thead>
<tr>
<th>Year</th>
<th>At Current Cost</th>
<th>At Base Year Cost</th>
<th>Cost Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/09</td>
<td>$300,000</td>
<td>$300,000</td>
<td>1.00</td>
</tr>
<tr>
<td>12/31/09</td>
<td>345,600</td>
<td>320,000</td>
<td>1.08</td>
</tr>
<tr>
<td>12/31/10</td>
<td>420,000</td>
<td>350,000</td>
<td>1.20</td>
</tr>
</tbody>
</table>

Under the dollar-value LIFO method the inventory at December 31, 2010, should be
A. $357,600.
B. $350,000.
C. $351,600.
D. None of these.

31. Ramen Inc. adopted dollar-value LIFO (DVL) as of January 1, 2009, when it had a cost inventory of $600,000. Its inventory as of December 31, 2009, was $667,800 at year-end costs and the cost index was 1.06. What was DVL inventory on December 31, 2009?
A. $630,000.
B. $631,800.
C. $636,000.
D. None of these is correct.

CHAPTER 9:

32. Inventory written down due to LCM may be written back up if market values go back up.
   True    False

33. In applying LCM, market cannot be:
   A. Less than net realizable value minus a normal profit margin.
   B. Net realizable value less reasonable completion and disposal costs.
   C. Greater than net realizable value reduced by an allowance for normal profit margin.
   D. Less than cost.
34. Montana Co. has determined its year-end inventory on a FIFO basis to be $600,000. Information pertaining to that inventory is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$620,000</td>
</tr>
<tr>
<td>Disposal costs</td>
<td>$30,000</td>
</tr>
<tr>
<td>Normal profit margin</td>
<td>$80,000</td>
</tr>
<tr>
<td>Replacement cost</td>
<td>$520,000</td>
</tr>
</tbody>
</table>

What should be the carrying value of Montana’s inventory?
A. $600,000.
B. $520,000.
C. $590,000.
D. $510,000.

35. On July 8, a fire destroyed the entire merchandise inventory on hand of Larrenaga Wholesale Corporation. The following information is available:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales, January 1 through July 8</td>
<td>$700,000</td>
</tr>
<tr>
<td>Inventory, January 1</td>
<td>$130,000</td>
</tr>
<tr>
<td>Purchases, January 1 through July 8</td>
<td>$640,000</td>
</tr>
<tr>
<td>Gross profit ratio</td>
<td>30%</td>
</tr>
</tbody>
</table>

What is the estimated inventory on July 8 immediately prior to the fire?
A. $192,000
B. $490,000
C. $510,000
D. $280,000

36. Prunedale Co. uses a periodic inventory system. Beginning inventory on January 1 was overstated by $32,000, and its ending inventory on December 31 was understated by $62,000. These errors were not discovered until the following year. As a result, Prunedale’s cost of goods sold for this year was:
A. Overstated by $94,000.
B. Overstated by $30,000.
C. Understated by $94,000.
D. Understated by $30,000.
Data related to the inventories of Alpine Ski Equipment and Supplies is presented below:

<table>
<thead>
<tr>
<th></th>
<th>Skis</th>
<th>Boots</th>
<th>Apparel</th>
<th>Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$180,000</td>
<td>$150,000</td>
<td>$120,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Cost</td>
<td>128,000</td>
<td>133,000</td>
<td>90,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Replacement cost</td>
<td>120,000</td>
<td>130,000</td>
<td>110,000</td>
<td>41,000</td>
</tr>
<tr>
<td>Sales commission</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Normal gross profit ratio</td>
<td>20%</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

37. In applying the LCM rule, the inventory of skis would be valued at:
A. $162,000.
B. $128,000.
C. $120,000.
D. $126,000.

Data related to the inventories of Costco Medical Supply is presented below:

<table>
<thead>
<tr>
<th></th>
<th>Surgical Equipment</th>
<th>Surgical Supplies</th>
<th>Rehab Equipment</th>
<th>Rehab Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price</td>
<td>$260</td>
<td>$120</td>
<td>$340</td>
<td>$165</td>
</tr>
<tr>
<td>Cost</td>
<td>170</td>
<td>90</td>
<td>250</td>
<td>162</td>
</tr>
<tr>
<td>Replacement cost</td>
<td>240</td>
<td>80</td>
<td>235</td>
<td>158</td>
</tr>
<tr>
<td>Disposal cost</td>
<td>30</td>
<td>5</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Normal gross profit ratio</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

38. In applying the LCM rule, the inventory of surgical equipment would be valued at:
A. $230.
B. $240.
C. $170.
D. $152.
39. In applying LCM, market cannot be:
A. Less than net realizable value.
B. Greater than the normal profit.
C. Less than the normal profit margin.
D. Greater than net realizable value.

40. When using the gross profit method to estimate ending inventory, it is not necessary to know:
A. Beginning inventory.
B. Net purchases.
C. Cost of goods sold.
D. Net sales.

SHORT ANSWER: Attach your solution to the following problem to this pre-quiz.

Bermudez Cosmetic Company sells its products to customers on a credit basis. An adjusting entry for bad debt expense is recorded only at December 31, the company's fiscal year-end. The 2008 balance sheet disclosed the following:

Current assets:

<table>
<thead>
<tr>
<th>Receivables, net of allowance for uncollectible accounts of $25,000</th>
<th>$690,000</th>
</tr>
</thead>
</table>

During 2009, credit sales were $1,760,000, cash collections from customers $1,855,040, and $37,500 in accounts receivable were written off. In addition, $4,500 was collected from a customer whose account was written off in 2008. An aging of accounts receivable at December 31, 2009, reveals the following:

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage of Year-End Receivables in Group</th>
<th>Percent Uncollectible</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–60 days</td>
<td>64 %</td>
<td>4 %</td>
</tr>
<tr>
<td>61–90 days</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>91–120 days</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Over 120 days</td>
<td>8</td>
<td>40</td>
</tr>
</tbody>
</table>

Required:

1. Prepare summary journal entries to account for the 2009 write-offs and the collection of the receivable previously written off.
2. Prepare the year-end adjusting entry for bad debts according to each of the following situations:
   a. Bad debt expense is estimated to be 3% of credit sales for the year.
   b. Bad debt expense is estimated by computing net realizable value of the receivables. The allowance for uncollectible accounts is estimated to be 10% of the year-end balance in accounts receivable.
   c. Bad debt expense is estimated by computing net realizable value of the receivables. The allowance for uncollectible accounts is determined by an aging of accounts receivable.
3. For situations (a)–(c) in requirement 2 above, what would be the net amount of accounts receivable reported in the 2009 balance sheet?