

SELF STUDY QUESTIONS

Fill in the Blank

Section 3

Module 1

In the space provided, write the word or words to either replace the question mark or answer the question.

1. One common balance sheet format is called the ? form. It lists the assets by sections on the left side and the liabilities and stockholders' equity by section on the right side.

2. One common balance sheet format is called the ? form. It lists the liabilities and stockholders' equity directly below the assets and on the same page.

3. The difference between current assets and current liabilities is usually referred to as ?.

In the space provided, write the word or words to either replace the question mark or answer the question.

1. What are the names of the two different methods that can be used to account for uncollectible accounts receivable?

2. Which of the two different methods that can be used to account for uncollectible accounts receivable is theoretically preferable?

3. The Herman Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated, on the basis of past experience, that 3% of their charge sales will be uncollectible. Charge sales for the current year totaled \$500,000. The balance in the Allowance for Doubtful Accounts account is a debit balance of \$3,000. What amount would be debited to the Uncollectible Accounts Expense account when the year-end adjusting entry is made?

4. The Richards Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has just aged their accounts receivable and has determined that they have accounts of doubtful collectibility amounting to \$12,000. The balance in the Allowance for Doubtful Accounts account is a debit balance of \$2,000. What amount would be debited to the Uncollectible Accounts Expense account when the year-end adjusting entry is made?

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5. The Johnson Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated, on the basis of past experience, that 4% of their accounts receivable will be uncollectible. The year-end balance in Accounts Receivable is \$700,000. The balance in the Allowance for Doubtful Accounts account is a credit balance of \$6,000. What amount would be debited to the Uncollectible Accounts Expense account when the year-end adjusting entry is made?

6. During 20x3, the Pinson Company, which uses the allowance method of accounting for uncollectible accounts receivable, had charges to Uncollectible Accounts Expense of \$65,000 and wrote off, as uncollectible, accounts receivable of \$50,000. How much would working capital decrease as a result of these transactions?

7. What type of account (be specific) is the Allowance for Doubtful Accounts account?

In the space provided, write the word or words to either replace the question mark or answer the question.

1. The inventory of a manufacturing concern would include ? inventory which represents tangible goods purchased or obtained from natural sources and on hand principally for direct use in the manufacture of goods for resale.

2. The inventory of a manufacturing concern would include ? inventory which consists of goods partly processed and requiring further processing before sale.

3. The ? inventory of a manufacturing concern would consist of manufactured items completed and being held for sale.

4. Under the ? inventory method, merchandise inventory is recorded in the Purchases account, and no running record is maintained of the amount of inventory on hand.

5. The basic characteristic of the ? inventory method is that it results in a running record of the inventory on hand.

6. A procedure used to determine inventory cost in which the oldest costs incurred rarely have an effect on the ending inventory valuation is ?.

7. It is frequently contended that the ? (Lifo/Fifo) inventory method will result in an ending inventory valuation that approximates current replacement cost.

8. If prices are rising, will the Lifo or the Fifo method of inventory valuation result in the higher gross margin?

SELF STUDY QUESTIONS

Fill in the Blank

Section 3

Module 4

9. Jamison Corporation's inventory cost on its statement of financial position was lower using first-in, first-out than last-in, first-out. Assuming no beginning inventory, what direction did the unit cost of purchases move during the period: up, down, or steady?
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10. The Accounting Principles Board stated in APB Opinion No. 20, "Accounting Changes; that " . . . in the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type." The concept expressed by the APB is referred to as the ? principle.
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11. Frequently, assets and liabilities are measured in a context of significant uncertainties. Historically, managers, investors, and accountants have generally preferred that possible errors in measurement be in the direction of understatement rather than overstatement of net income and net assets. This has led to the accounting convention of ?.
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Circle the letter of the best answer.

1. One balance sheet format lists the liabilities and stockholders' equity directly below the assets and on the same page. The format is called the
 - A. account form
 - B. report form
 - C. financial position form
 - D. working capital form

2. One balance sheet format lists the assets by sections on the left side and the liabilities and stockholders' equity by sections on the right side. The format is called the
 - A. account form
 - B. report form
 - C. financial position form
 - D. working capital form

3. Working capital of a business enterprise consists of
 - A. capital that has been reinvested in the enterprise
 - B. current assets less current liabilities
 - C. unappropriated retained earnings invested in productive resources
 - D. the group of assets enabling the enterprise to operate profitably

4. Working capital equals
 - A. the difference between total assets and total liabilities
 - B. the difference between current assets and current liabilities
 - C. current assets
 - D. cash
 - E. none of the above

Circle the letter of the best answer.

1. Which of the following items would ordinarily be included in cash in the current asset section of the balance sheet?
 - A. IOU's from employees included in petty cash drawer
 - B. cash in a bond retirement fund
 - C. passbook savings account
 - D. postdated checks received from customers
 - E. certificates of deposit

2. Which of the following items would ordinarily be included in cash in the current asset section of the balance sheet?
 - A. postage stamps
 - B. cash in a bond retirement fund
 - C. petty cash
 - D. certificates of deposit
 - E. postdated checks received from customers

3. Which of the following items would ordinarily be included in cash in the current asset section of the balance sheet?
 - A. postdated checks received from customers
 - B. certificates of deposit
 - C. cash in a bond sinking fund
 - D. money orders received from customers
 - E. postage stamps

4. Postage stamps and IOU's found in cash drawers should be reported as
 - A. supplies and receivables
 - B. cash because they represent the equivalent of money
 - C. petty cash
 - D. investments

5. Which of the following items would ordinarily be excluded from cash in the current asset section of the balance sheet?
 - A. cash in a bond retirement fund
 - B. demand deposits
 - C. money orders received from customers
 - D. coins
 - E. petty cash

6. Which of the following items would ordinarily be excluded from cash in the current asset section of the balance sheet?
- A. coins
 - B. demand deposits
 - C. certificates of deposit
 - D. money orders received from customers
 - E. unrestricted deposits in foreign banks
7. Which of the following items would ordinarily be excluded from cash in the current asset section of the balance sheet?
- A. certificates of deposit
 - B. currency
 - C. petty cash
 - D. passbook savings accounts
 - E. money orders received from customers

Circle the letter of the best answer.

1. During 20x5, the Copy Company, which uses the allowance method of accounting for uncollectible accounts, had charges to Bad Debt Expense for \$40,000 and wrote off, as uncollectible, accounts receivable of \$28,000.
As a result of these transactions, working capital was decreased by
 - A. \$0
 - B. \$12,000
 - C. \$28,000
 - D. \$40,000
 - E. \$68,000

2. The Johnson Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated that 2% of their 20x4 sales of \$700,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a debit balance of \$3,000. The necessary year-end adjusting entry would result in the Allowance for Doubtful Accounts account being credited for
 - A. \$0
 - B. \$11,000
 - C. \$14,000
 - D. \$17,000

3. The Edison Corp. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated that 1% of their 20x6 sales of \$450,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a credit balance of \$1,000. The necessary year-end adjusting entry would result in the Allowance for Doubtful Accounts account being credited for
 - A. \$0
 - B. \$3,500
 - C. \$4,500
 - D. \$5,500

4. The Franco Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated that 2% of their 20x4 sales of \$800,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a credit balance of \$4,000. The necessary year-end adjusting entry would result in Uncollectible Accounts Expense being debited for
 - A. \$0
 - B. \$12,000
 - C. \$16,000
 - D. \$20,000

5. The Wright Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated that 2% of their accounts receivable balances of \$250,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a debit balance of \$2,000. The necessary year-end adjusting entry would result in Uncollectibility Accounts Expense being debited for
- \$0
 - \$3,000
 - \$5,000
 - \$7,000
6. The Edwards Co. uses the allowance method of accounting for uncollectible accounts receivable. The company has estimated, on the basis of past experience, that 2% of their accounts receivable will be uncollectible. The year-end balance in Accounts Receivable is \$400,000. The balance in the Allowance for Doubtful Accounts account is a credit balance of \$2,000. What amount would be debited to the Uncollectible Accounts Expense account when the year-end adjusting entry is made?
- \$0
 - \$6,000
 - \$8,000
 - \$10,000
7. The following accounts were abstracted from the trial balance of Marion Company at December 31, 20x7:

	Debit	Credit
Credit sales		\$500,000
Sales discounts	\$10,000	

On January 1, 20x7, the account Allowance for Doubtful Accounts had a credit balance of \$12,000. During 20x7, \$20,000 of accounts receivable deemed uncollectible were written off.

Historical experience indicates that 3% of gross credit sales prove uncollectible. What should be the balance in the account Allowance for Doubtful Accounts after the current provision is made?

- \$6,700
- \$7,000
- \$14,700
- \$15,000
- \$23,000

8. The December 31, 20x8, trial balance of the Mark Company before adjustments included the following accounts:

	Debit	Credit
Allowance for doubtful accounts	\$2,000	
Sales		\$830,000
Sales returns and allowances	\$10,000	

Mark estimates its bad debts based upon 2% of net sales. What amount should Mark record as bad debt expense for 20x8?

- A. \$14,400
 B. \$14,600
 C. \$16,400
 D. \$16,600
9. Based upon its past collection experience, Alden Company provides for bad debt expense at the rate of 2% of credit sales. On January 1, 20x1, the allowance for doubtful accounts balance was \$10,000 (credit). During 20x1 Alden wrote off \$18,000 of uncollectible receivables and recovered \$5,000 of bad debts written off in prior years. If credit sales for 20x1 totaled \$1,000,000, the allowance for doubtful accounts balance at December 31, 20x1, should be
- A. \$12,000
 B. \$17,000
 C. \$20,000
 D. \$30,000
10. When an accounts receivable aging schedule is prepared at the end of the fiscal year, a series of computations like the following is sometimes made: 5% of the total dollar balance of accounts from 1-30 days past due, plus 10% of the total dollar balance of accounts from 31-60 days past due, et seq. Which of the following statements best describes how the sum of the amounts determined in this series of computations is used?
- A. it is the amount that should be added to the allowance for doubtful accounts at year end
 B. it is the amount of desired credit balance of the allowance for doubtful accounts to be reported in the year-end financial statements
 C. it is the amount of bad debts expense for the year
 D. when added to the total of accounts written off during the year, this new sum is the desired credit balance of the allowance for doubtful accounts to be reported in the year-end financial statements

11. Marshall Company prepared an aging of its accounts receivable at December 31, 20x2, and determined that the net realizable value of the receivables at that date is \$50,000. Additional information is available as follows:

Accounts receivable at December 31, 20x1	\$48,000
Accounts receivable at December 31, 20x2	54,000
Allowance for doubtful accounts at	
December 31, 20x1 -- credit balance	6,000
Accounts written off as uncollectible during 20x2	5,000

Marshall's bad debt expense for the year ended December 31, 20x2, was

- A. \$3,000
 - B. \$4,000
 - C. \$5,000
 - D. \$7,000
12. The following information is available for the Leer Company:

Credit sales during 20x9	\$200,000
Allowance for Doubtful Accounts	
at December 31, 20x8 (credit balance)	2,400
Accounts receivable deemed worthless	
and written off during 20x9	3,200

As a result of a review and aging of accounts receivable in early January, 20x10, it has been determined that an allowance for doubtful accounts of \$2,200 is needed at December 31, 20x9. What amount should Leer record as bad debt expense for the year ended December 31, 20x9?

- A. \$2,200
 - B. \$3,000
 - C. \$3,200
 - D. \$4,200
13. When the allowance method of recognizing bad debt expense is used, the typical write off of a specific customer's account
- A. has no effect on net income
 - B. decreases net income
 - C. decreases current assets
 - D. decreases working capital

14. When a specific customer's account receivable is written off as uncollectible, what will be the effect on net income under each of the following methods of recognizing bad debt expense?

	<u>Allowance</u>	<u>Direct Write-off</u>
A.	none	none
B.	decreased	none
C.	none	decreased
D.	decreased	decreased

15. Which of the following methods of determining bad debts expense usually does not match expense and revenue?

- A. charging bad debts with a percentage of sales under the allowance method
- B. charging bad debts with a percentage of accounts receivable under the allowance method
- C. charging bad debts with an amount derived from aging accounts receivable under the allowance method
- D. charging bad debts as accounts are written off as uncollectible
- E. all of the above are acceptable methods which usually match expense and revenue

16. During the year, Barrington Company made an entry to write off a \$2,200 uncollectible account. Before this entry was made, the balance in accounts receivable was \$30,000 and the balance in the allowance accounts was \$2,500. The net realizable value of accounts receivable after the write-off entry was

- A. \$30,000
- B. \$29,700
- C. \$27,800
- D. \$27,500
- E. none of the above

17. Before year-end adjusting entries, Morgan Company's account balances at December 31, 20x8, for accounts receivable and the related allowance for uncollectible accounts were \$750,000 and \$30,000 respectively. An aging of accounts receivable indicated that \$53,800 of the December 31 receivables may be uncollectible. The net realizable value of accounts receivable after adjustment is

- A. \$666,200
- B. \$696,200
- C. \$720,000
- D. \$726,200
- E. none of the above

18. At the close of its first year of operations, December 31, 20x5, the Walker Company had accounts receivable of \$250,000 which were net of the related allowance for doubtful accounts. During 20x5, the company had charges to bad debt expense of \$40,000 and wrote off, as uncollectible, accounts receivable of \$10,000. What should the company report on its balance sheet at December 31, 20x5, as accounts receivable before the allowance for doubtful accounts?
- A. \$220,000
 - B. \$250,000
 - C. \$260,000
 - D. \$280,000
 - E. \$300,000
19. On a balance sheet, what is the preferable presentation of notes or accounts receivable from officers or employees:
- A. as current assets, but separate from other receivables, if they otherwise qualify as current assets
 - B. as trade notes and accounts receivable even if they otherwise do not qualify as current assets
 - C. as trade notes and accounts receivable if they otherwise qualify as current assets
 - D. as non-current assets, even if they otherwise qualify as current assets

Circle the letter of the best answer.

1. Which of the following is true of the perpetual inventory method?
 - A. it requires that a physical count of inventory be taken before the cost of goods sold can be accurately determined
 - B. it is usually less expensive to maintain than the periodic inventory
 - C. it is not as helpful as the periodic inventory method in providing management with timely reports about inventory quantities and costs
 - D. it allows management to estimate inventory losses from pilferage better than the periodic inventory method does

2. A firm using the periodic inventory method purchased \$1,000 of inventory on terms 2/10, n/30. The journal entry to record this transaction would include a debit to:
 - A. Purchases
 - B. Purchase Discounts
 - C. Merchandise Inventory
 - D. Accounts Payable

3. A firm that uses the perpetual inventory method purchased \$1,000 of inventory on terms 2/10, n/30. The journal entry to record this transaction would include a debit to:
 - A. Purchases
 - B. Purchase Discounts
 - C. Merchandise Inventory
 - D. Accounts Payable

4. The following information is available for Wagner Corporation for 20x1:

Sales	\$500,000
Beginning inventory	180,000
Ending inventory	95,000
Freight-out	45,000
Purchases	215,000

How much is the cost of goods sold?

- A. \$200,000
- B. \$300,000
- C. \$345,000
- D. \$440,000

5. The following information is available for The Gant Company for 20x6:

Freight-in	\$20,000
Purchase returns	80,000
Selling expenses	200,000
Ending inventory	90,000

The cost of goods sold is equal to 700% of selling expenses. What is the cost of goods available for sale?

- A. \$1,390,000
 - B. \$1,490,000
 - C. \$1,500,000
 - D. \$1,590,000
6. When using the periodic inventory method, which of the following generally would not be separately accounted for in the computation of cost of goods sold?
- A. trade discounts applicable to purchases during the period
 - B. cash (purchase) discounts taken during the period
 - C. purchase returns and allowances on merchandise during the period
 - D. cost of transportation-in for merchandise purchased during the period
7. Which of the following is not a true statement?
- A. freight on goods or materials purchased for resale should be added directly to the cost of goods purchased
 - B. purchase returns should be deducted from the cost of goods purchased at their original purchase cost
 - C. storage costs on purchased merchandise while it is in transit or in storage should never be included in inventory costs
 - D. cash discounts should be deducted from the cost of goods purchased
8. When ending inventory is understated in period 1, net income in period 2 will be
- A. understated
 - B. overstated
 - C. stated correctly
 - D. none of the above
9. An overstatement of purchases results in cost of goods sold being
- A. overstated
 - B. understated
 - C. stated correctly
 - D. none of the above

10. A company using the periodic inventory method correctly recorded a December 29 purchase of merchandise, but the goods (stacked in a dark corner of the warehouse) were not noticed when the physical inventory count was made on December 31. The error results in:
- an understatement of inventory, purchases, and accounts payable
 - an understatement of both net income and assets by the same amount
 - an overstatement of inventory, purchases and accounts payable
 - an overstatement of both net income and assets by the same amount
11. A company using a periodic inventory system neglected to record a purchase of merchandise on account at year end. This merchandise was omitted from the year-end physical count. How will these errors affect assets, liabilities, and stockholders' equity at year end and net earnings for the year?
- | | Assets | Liabilities | Stockholders' Equity | Net Earnings |
|----|------------|-------------|----------------------|--------------|
| A. | no effect | understate | overstate | overstate |
| B. | no effect | overstate | understate | understate |
| C. | understate | understate | no effect | no effect |
| D. | understate | no effect | understate | understate |
12. Which of the following will result if the current year's ending inventory amount is overstated in the cost of goods sold calculation?
- cost of goods sold will be overstated
 - total assets will be understated
 - net income will be overstated
 - both A and C
13. Ending inventory on December 31, 20x3, is overstated by \$30,000 (and beginning inventory is correct). If income taxes are ignored, what is the effect on net income for 20x3?
- net income is overstated by \$30,000
 - net income is understated by \$30,000
 - net income is overstated by \$60,000
 - there is no effect on net income
 - the answer cannot be determined

14. The September 30, 20x5, physical inventory of Clinton Company appropriately included \$3,800 of merchandise which was not recorded as purchases until October, 20x5. What effect will this error have on September 30, 20x5, assets, liabilities, retained earnings, and earnings for the year then ended, respectively?
- no effect; overstate; understate; understate
 - no effect; understate; understate; overstate
 - understate; no effect; overstate; overstate
 - no effect; understate; overstate; overstate
15. On April 15, 20x1, Mirchin Corporation accepted delivery of merchandise which it purchased on account. As of April 30, the corporation had not recorded the transaction or included the merchandise in its inventory. The effect of this omission on its balance sheet at April 30, 20x1, would be
- assets and owners' equity were overstated but liabilities were not affected
 - owners' equity was the only item affected by the omission
 - assets and liabilities were understated but owners' equity was not affected
 - assets and owners' equity were understated but liabilities were not affected
16. Beginning inventory is understated by \$1,200 and ending inventory is overstated by \$700. Ignoring income taxes, net income for the period will be
- understated by \$500
 - understated by \$1,900
 - overstated by \$500
 - overstated by \$1,900
 - none of the above
17. City Stationers, Inc., had 200 calculators on hand at January 1, 20x1, costing \$18 each. Purchases and sales of calculators during the month of January were as follows:

Date	Purchases	Sales
Jan. 12		150 @ \$28
14	100 @ \$20	
29	100 @ \$22	
30		100 @ \$32

City does not maintain perpetual inventory records. According to a physical count, 150 calculators were on hand at January 31, 20x1. The cost of the inventory at January 31, 20x1, under the FIFO method is

- \$400
- \$2,700
- \$3,100
- \$3,200

18. City Stationers, Inc., had 200 calculators on hand at January 1, 20x1, costing \$18 each. Purchases and sales of calculators during the month of January were as follows:

Date	Purchases	Sales
Jan. 12		150 @ \$28
14	100 @ \$20	
29	100 @ \$22	
30		100 @ \$32

City does not maintain perpetual inventory records. According to a physical count, 150 calculators were on hand at January 31, 20x1. The cost of the inventory at January 31, 20x1, under the LIFO method is

- A. \$400
 - B. \$2,700
 - C. \$3,100
 - D. \$3,200
19. In a company which adopted its inventory costing method five years ago and has not since changed it, which of these costing methods likely would yield a balance sheet ending inventory valuation most reflective of current prices?
- A. Lifo costed currently during the period
 - B. Fifo
 - C. Weighted average
 - D. Lifo costed at the end of the period
20. Application of the Fifo inventory costing method means that
- A. the cost of the last item purchased should be included in ending inventory
 - B. the cost of the first item purchased should be included in ending inventory
 - C. a periodic inventory system is used
 - D. cost of goods sold should reflect the most recent prices
 - E. none of the above
21. In a periodic inventory system which uses the LIFO inventory cost flow method, the cost of goods sold is the total cost of goods available for sale
- A. plus the ending inventory
 - B. minus the ending inventory
 - C. plus the beginning inventory
 - D. minus the beginning inventory

22. Which method of inventory pricing best approximates specific identification of the actual flow of costs and units in most manufacturing situations?
- weighted average
 - first-in, first-out
 - last-in, first-out
 - base stock
23. In a periodic inventory system which uses the FIFO cost flow method, the cost of goods available for sale is net purchases
- plus the ending inventory
 - plus the beginning inventory
 - minus the ending inventory
 - minus the beginning inventory
24. In a periodic inventory system which uses the weighted average cost flow method, the beginning inventory is the
- net purchases minus the cost of goods sold
 - net purchases minus the ending inventory
 - total goods available for sale minus the net purchases
 - total goods available for sale minus the cost of goods sold
25. Janis Manufacturing Company recorded the following data pertaining to raw material X:

		Received	Cost	Units Issued	On hand
1/ 1/x1	Inventory		\$1.00		400
1/ 8/x1	Purchase	600	\$1.10		1,000
1/12/x1	Issue			800	200

The weighted average unit cost of raw material X at January 12, 20x1 is

- \$1.00
 - \$1.05
 - \$1.06
 - \$1.10
26. When the inventory account on a trial balance reflects the inventory that was on hand at the beginning of the period, which of the following inventory costing alternatives is being employed?
- weighted average
 - lifo
 - fifo
 - answer cannot be determined based on information provided

27. Which inventory costing alternative results in a cost of goods sold amount that reflects the most recent costs?
- A. lifo
 - B. fifo
 - C. weighted average
 - D. specific identification
28. An inventory pricing procedure in which the oldest costs incurred rarely have an effect on the ending inventory valuation is
- A. Fifo
 - B. Lifo
 - C. Weighted average
 - D. none of the above
29. Nixon Corporation's inventory cost on its statement of financial position was lower using last-in, first-out than first-in, first-out. Assuming no beginning inventory, what direction did the unit cost of purchases move during the period?
- A. down
 - B. up
 - C. steady
 - D. cannot be determined
30. Raygon Corporation's cost of goods sold on its income statement was higher using first-in, first-out than last-in, first-out. Assuming no beginning inventory, what direction did the unit cost of purchases move during the period?
- A. down
 - B. steady
 - C. up
 - D. cannot be determined on the basis of information provided
31. During a period of rising prices the inventory method which tends to give the highest reported net income is
- A. last-in, first-out
 - B. weighted average
 - C. first-in, first-out
 - D. cannot be determined on the basis of information provided
32. In a period of rising prices, the use of which of the following inventory cost flow methods would result in the highest cost of goods sold?
- A. Fifo, using periodic inventory system
 - B. Lifo
 - C. Weighted average cost
 - D. Fifo, using perpetual inventory system

33. Bush Corporation's inventory cost on its statement of financial position was higher using last-in, first-out than first-in, first-out. Assuming no beginning inventory, what direction did the unit cost of purchases move during the period?
- A. down
 - B. up
 - C. steady
 - D. cannot be determined on the basis of information provided
34. A company has been using the LIFO cost method of inventory valuation for 12 years. Its 20x8 ending inventory was \$15,000 but it would have been \$25,000 if FIFO had been used. Thus, if FIFO had been used, this company's income before income taxes would have been
- A. \$10,000 greater in 20x8
 - B. \$10,000 less in 20x8
 - C. \$10,000 greater over the 12-year period
 - D. \$10,000 less over the 12-year period
35. Substantially all of the inventories of the Danforth Corp. are valued under the last-in, first-out (LIFO) method. Such LIFO inventories amounted to approximately \$80.3 million in 20x9 and \$73.6 million in 20x8. Current cost, which approximates first-in, first-out (FIFO) cost, exceeded LIFO cost by approximately \$112.6 million at December 31, 20x9 and \$104.2 million at December 31, 20x8. IF Danforth Corp. had been using the FIFO cost method of valuing inventory, company pretax income in 20x9 would have been
- A. \$1.7 million more than reported using LIFO
 - B. \$8.4 million more than reported using LIFO
 - C. \$112.6 million more than reported using LIFO
 - D. \$192.9 million more than reported using LIFO
 - E. none of the above
36. Which of the following would be true if per unit inventory costs were decreasing?
- A. LIFO would result in lower net income and lower ending inventory amounts than would FIFO
 - B. FIFO would result in lower net income and lower ending inventory amounts than would LIFO
 - C. LIFO would result in a lower net income amount, but a higher ending inventory amount than would FIFO
 - D. none of the above would be true

37. During a period of continuing inflation, which inventory cost flow alternative usually results in the lowest reported net income?
- A. FIFO, using periodic inventory system
 - B. LIFO, using periodic inventory system
 - C. LIFO, using perpetual inventory system
 - D. Weighted average
38. During an inflationary period, which inventory costing alternative usually results in a firm's paying the highest income taxes?
- A. FIFO
 - B. LIFO
 - C. Weighted average; periodic inventory method
 - D. Weighted average; perpetual inventory method
39. When prices are rising, which inventory costing alternative will generally result in the lowest reported gross margin?
- A. FIFO
 - B. LIFO
 - C. Weighted average; periodic inventory method
 - D. Weighted average; perpetual inventory method
40. In a period of falling prices, which inventory costing alternative yields the greatest tax advantage?
- A. FIFO
 - B. LIFO
 - C. Weighted average
 - D. the tax result will be the same, regardless of which alternative is used
41. If unit costs are rising and a company's physical inventory levels are unchanged, the use of FIFO rather than LIFO for inventory valuation in the current period will tend to cause a
- A. higher cost of goods sold valuation
 - B. higher income tax expense
 - C. lower ending inventory valuation
 - D. lower gross margin percentage
 - E. none of the above

42. Which of the following statements is not valid as it applies to inventory costing methods?
- A. LIFO tends to smooth out the net income pattern since it matches current cost of goods sold with current revenue, when inventories remain at constant quantities
 - B. when a firm using the LIFO method fails to maintain its usual inventory position (reduces stock below customary levels) there may be a matching of old costs with current revenues
 - C. the use of FIFO permits some control by management over the amount of net income for a period through controlled purchases, which is not true with LIFO
 - D. if inventory quantities are to be maintained, part of the earnings must be invested (plowed back) in inventories when FIFO is used during a period of rising prices
43. If inventory levels are stable or increasing, an argument in favor of the FIFO method as compared to LIFO is
- A. income taxes tend to be reduced in periods of rising prices
 - B. cost assignments typically parallel the physical flow of goods
 - C. cost of goods sold tends to be stated at approximately current cost in the income statement
 - D. income tends to be smoothed as prices change over time as the current costs are matched against current revenues
44. Which of the following statements is not valid as it applies to inventory costing methods?
- A. when a firm using the FIFO method fails to maintain its usual inventory position (reduces stock below customary levels) there may be a matching of old costs with current revenue
 - B. if inventory quantities are to be maintained, part of the earnings must be invested (plowed back) in inventories when FIFO is used during a period of rising prices
 - C. LIFO tends to smooth out the net income pattern since it matches current costs of goods sold with current revenue, when inventories remain at constant quantities
 - D. the use of LIFO permits some control by management over the amount of net income for a period through controlled purchases, which is not true with FIFO
45. Which of the following statements about LIFO is false during periods of inflation?
- A. it reduces taxable income because of higher cost of goods sold
 - B. it improves cash flows because tax payments are reduced
 - C. the balance sheet valuation of inventory is more in line with current costs
 - D. the earnings amount usually is a better basis for dividend distributions

46. Which of the following is not a criticism of LIFO?
- A. year-end purchasing policy may be used to reduce reported income by increased purchases if costs have increased
 - B. year-end purchasing policy may be used to increase reported income by permitting inventories to decline and older lower costs to be allocated to cost of goods sold, if costs have increased
 - C. Lifo enables relative current costs to be matched against current revenue
 - D. balance sheet inventory valuations reflect the older costs
 - E. all are criticisms of Lifo
47. Which of the following statements is a sound theoretical argument in favor of Lifo?
- A. Lifo matches current costs against current revenues
 - B. Lifo establishes a base inventory layer which is reported on the balance sheet
 - C. Lifo must be used for financial reporting purposes if it is used for income tax purposes
 - D. Lifo enables management to influence reported income by increasing end-of-period purchases
 - E. none of the above statements is a sound theoretical argument in favor of Lifo
48. Which of the following is true regarding the use of LIFO for inventory valuation?
- A. if LIFO is used for external financial reporting, then it must also be used for internal reports
 - B. for purposes of external financial reporting, LIFO may not be used with the lower of cost or market approach
 - C. if FIFO is used for internal reports, then it is not permissible to convert to LIFO for external financial reporting
 - D. if LIFO is used for external financial reporting, then it must also be used for tax purposes
 - E. none of the above

1. What are the three requirements that must be met before an item may be classified as the current asset "cash" in the financial statements?
2. Briefly explain the nature of a compensating cash balance.
3. The December 31, 20x1 annual report for The Williams Companies contains the following footnote:

Under Williams' cash-management system, certain subsidiaries' cash accounts reflect credit balances . . . The amounts of these credit balances included in accounts payable are \$64 million at December 31, 20x1.

There were no other cash accounts shown anywhere in the financial statements of The Williams Companies. Explain how the company can apparently "get away with" overdrawing some of their checking accounts by \$64 million.

1. What are the names of the two different methods that can be used to account for uncollectible accounts receivable?
2. When a company has a policy of making sales for which credit is extended, it is reasonable to expect a portion of those sales to be uncollectible. As a result of this, a company must recognize bad debt expense. There are basically two methods of recognizing bad debt expense: (1) direct write-off method, and (2) allowance method.

Discuss the reasons why one of the above methods is preferable to the other and the reasons why the other method is not usually in accordance with generally accepted accounting principles.

3. Under what conditions would the non-preferred method of accounting for uncollectible accounts receivable be used?
4. On a balance sheet, what is the preferable presentation of notes or accounts receivable from officers or employees?
5. The December 31, 20x2 balance sheet for The Roca-Rola Company reported the following (dollars in thousands):

	20x2	20x1
Trade accounts receivable, less allowances of \$29,510 in 20x2 and \$14,347 in 20x1	913,541	768,335

- a. There are basically two methods of recognizing bad debt expense: (1) the direct write-off method, and (2) the allowance method. What are the deficiencies of the direct write-off method?
- b. If \$10,000 of trade accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)
- c. If the company were to use the direct write-off method instead of the allowance method and \$10,000 of trade accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)

6. The November 30, 20x6 annual report for McCormick & Company, Incorporated contains the following information (in thousands) in its Balance Sheet:

	20x6	20x5
Current assets		
Cash and short term investments.....	\$ 4,400	\$ 2,606
Receivables		
Trade.....	98,064	88,254
Other.....	13,328	8,495
Allowance for losses	(1,743)	(1,604)
	109,649	95,145

- a. How should you distinguish between trade and non-trade receivables?
- b. What reason(s) can be offered for separating trade receivables from non-trade receivables on the financial statements?
- c. If \$10,000 of trade accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)
- d. If the company were to use the direct write-off method instead of the allowance method and \$10,000 of trade accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)

1. Briefly explain the difference between the periodic and the perpetual inventory methods. Also list the major advantages of the perpetual inventory method.
2. What purpose is served by the taking of a physical inventory when the perpetual inventory method is used?
3. Cost for inventory purposes should be determined by the inventory cost flow method most clearly reflecting periodic income. In this course we have discussed the average cost, Fifo, and Lifo inventory cost flow methods. Discuss the reasons for using Lifo in an inflationary economy.
4. What are the principal disadvantages of the Lifo method of inventory valuation?
5. Companies using Lifo inventory sometimes establish a "Reserve for the Replacement of Lifo Inventory" account. Explain why and how this "Reserve" account is established and where it should be shown on the statement of financial position.
6. Chuck Thomas, president of Mondale, Inc., recently read an article that claimed that at least 100 of the country's largest 500 companies were either adopting or considering adopting the last-in, first-out (LIFO) method for valuing inventories. The article stated that the firms were switching to LIFO to (1) neutralize the effect of inflation in their financial statements, (2) eliminate inventory profits, and (3) reduce income taxes. Thomas wonders if the switch would benefit his company.

In discussing this trend toward LIFO inventory with business friends, he has been told that the LIFO system is more costly to operate. Thomas intends to use the inventory method that is best for the company in the long run rather than a method just because it is the current fad.

 - a. Explain to Mr. Thomas what "inventory profits" are and how the LIFO method of inventory valuation could reduce them.
 - b. Explain to Mr. Thomas the conditions that must exist for Mondale to receive tax benefits from a switch to the LIFO method.
7. What conditions must exist for the retail inventory method to provide valid results?
8. What would be the principal uses of the gross margin method of inventory valuation?
9. How should a person describe the consistency principle in accounting?
10. Why is the consistency principle important to financial statement users?
11. How should a person describe the accounting principle of conservatism?

12. The 20x7 annual report for Winn-Dixie Stores, Inc. revealed the following current asset section of the balance sheet:

Assets	20x7	20x6
Current assets	Amounts in thousands	
Cash and marketable securities.....	\$ 120,169	\$ 180,556
Receivables, less allowance for doubtful items of \$539,000 (\$532,000 in 20x6).....	65,624	73,715
Merchandise inventories at lower of cost or market less LIFO reserve of \$161,203,000 (\$151,512,000 in 20x6).....	632,137	548,060
Prepaid expenses.....	33,140	27,349
Total current assets.....	851,070	829,690

A footnote revealed that "At June 24, 20x7, inventories valued by the LIFO method would have been \$161,203,000 higher (\$151,512,000 higher at June 15, 20x6) if they were stated at lower of FIFO cost or market.

- a. What is a "LIFO reserve"?
- b. If Winn-Dixie had been using the lower of FIFO cost method of valuing inventory, would the company's pre-tax income for 20x7 have been higher or lower than that reported in 20x7? By how much?