

Management 1A
Spring 2013
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EXAM 2

Solutions
Section No: 2

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Name: _____

PROBLEM	POINTS	SCORE
1-40	2.5 points each	
TOTAL	100	

For each of the following, choose true or false or the choice that best answers the question or statement. Mark your answers on your SCANTRON. Write your name and section number on this test paper as well as on your SCANTRON. (You may use this test paper as scratch paper and write on it as much as your wish.) Turn in this exam and turn in the SCANTRON when finished.

Chapter 5

1. The credit terms 2/10, n/30 are interpreted as:
 - A. 2% cash discount if the amount is paid within 10 days, or the balance due in 30 days.
 - B. 10% cash discount if the amount is paid within 2 days, or the balance due in 30 days.
 - C. 30% discount if paid within 2 days.
 - D. 30% discount if paid within 10 days.
 - E. 2% discount if paid within 30 days.

Answer: **A**

2. A trade discount is:
 - A. A term used by a purchaser to describe a cash discount given to customers for prompt payment.
 - B. A reduction in price below the list price.
 - C. A term used by a seller to describe a cash discount granted to customers for prompt payment.
 - D. A reduction in price for prompt payment.
 - E. Also called a rebate.

Answer: **B**

3. The amount recorded for merchandise inventory includes all of the following except:
 - A. Purchase discounts.
 - B. Returns and allowances.
 - C. Freight costs paid by the buyer.
 - D. Freight costs paid by the seller.
 - E. Trade discounts.

Answer: **D**

4. A company uses the perpetual inventory system and recorded the following entry:

Accounts Payable.....	2,500
Merchandise Inventory.....	50
Cash.....	2,450

This entry reflects a:

- A. Purchase of merchandise on credit.
- B. Return of merchandise.
- C. Sale of merchandise on credit.
- D. Payment of the account payable and recognition of a 2% cash discount taken.
- E. Payment of the account payable and recognition of a 1% cash discount taken.

Answer: **D**

5. Using the following year-end information for Breanna Boutique, calculate the current ratio and acid-test ratio for the boutique:

Cash.....	\$ 52,000
Short-term investments.....	12,000
Accounts receivable.....	54,000
Inventory.....	325,000
Prepaid expenses.....	17,500
Accounts payable.....	106,500
Other current payables.....	25,000

- A. 1.8 and 1
- B. 1.97 and 1.52
- C. 2.73 and 1.52
- D. 3.50 and 0.90
- E. None of the choices are correct

Answer: **D**

Feedback: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

$$\text{Current Ratio} = \$460,500 / \$131,500 = 3.50$$

$\text{Acid-Test Ratio} = \text{Quick Assets} / \text{Current Liabilities}$

$$\text{Acid-Test Ratio} = \$118,000 / \$131,500 = 0.90$$

6. A company's gross profit was \$83,750 and its net sales were \$347,800. Its gross margin ratio equals:
- A. 4.2%.
 - B. 24.1%.
 - C. 75.9%.
 - D. \$83,750.
 - E. \$264,050.

Answer: **B**

Feedback: $\text{Gross Margin Ratio} = \text{Gross Profit} / \text{Net Sales}$

$$\text{Gross Margin Ratio} = \$83,750 / \$347,800 = 24.1\%$$

7. A company's net sales were \$676,600, its cost of goods sold was \$236,810 and its net income was \$33,750. Its gross margin ratio equals:
- A. 5%.
 - B. 9.6%.
 - C. 35%.
 - D. 65%.
 - E. 285.7%.

Answer: **D**

Feedback: $\text{Gross Margin Ratio} = (\text{Net Sales} - \text{Cost of Goods Sold}) / \text{Net Sales}$

$$\text{Gross Margin Ratio} = (\$676,600 - \$236,810) / \$676,600 = 65\%$$

8. A company had net sales and cost of goods sold of \$752,000 and \$543,000, respectively. Its net income was \$17,530. The company's gross margin ratio equals:
- A. 18.9%
 - B. 24.5%
 - C. 27.8%
 - D. 34.7%
 - E. 35.2%

Answer: **C**

Feedback: $\text{Gross Margin Ratio} = (\text{Net Sales} - \text{Cost of Goods Sold}) / \text{Net Sales}$

$$\text{Gross Margin Ratio} = (\$752,000 - \$543,000) / \$752,000 = 27.8\%$$

9. Peg had net sales of \$28,496 million, its cost of goods sold was \$19,092 million, and its net income was \$997 million. Its gross margin ratio equals:
- A. 3.5%.
 - B. 5.2%.
 - C. 33%.
 - D. 67%.
 - E. 149.3%.

Answer: **C**

Feedback: $\text{Gross Margin Ratio} = (\text{Net Sales} - \text{Cost of Goods Sold}) / \text{Net Sales}$

$$\text{Gross Margin Ratio} = (\$28,496 - \$19,092) / \$28,496 = 33\%$$

10. A debit memorandum is:
- A. Required whenever a journal entry is recorded.
 - B. The source document for the purchase of merchandise inventory.
 - C. Required when a purchase discount is granted.
 - D. The document a buyer issues to inform the seller of a debit made to the seller's account in the buyer's records.
 - E. Not necessary in a perpetual inventory system.

Answer: **D**

Chapter 6

11. Costs included in the Merchandise Inventory account can include all of the following except:

- A. Invoice price minus any discount.
- B. Transportation-in.
- C. Storage.
- D. Insurance.
- E. Damaged inventory that cannot be sold.

Answer: **E**

12. During a period of steadily rising costs, the inventory valuation method that yields the lowest reported net income is:

- A. Specific identification method.
- B. Average cost method.
- C. Weighted-average method.
- D. FIFO method.
- E. LIFO method.

Answer: **E**

13. The inventory valuation method that tends to smooth out erratic changes in costs is:

- A. FIFO.
- B. Weighted average.
- C. LIFO.
- D. Specific identification.
- E. WIFO.

Answer: **B**

14. The inventory valuation method that has the advantages of assigning an amount to inventory on the balance sheet that approximates its current cost, and also mimics the actual flow of goods for most businesses is:

- A. FIFO.
- B. Weighted average.
- C. LIFO.
- D. Specific identification.
- E. All of the inventory valuation methods accomplish this.

Answer: **A**

15. The inventory valuation method that results in the lowest taxable income in a period of inflation is:
- A. LIFO method.
 - B. FIFO method.
 - C. Weighted-average cost method.
 - D. Specific identification method.
 - E. Gross profit method.

Answer: **A**

16. Merchandise inventory includes:
- A. All goods owned by a company and held for sale.
 - B. All goods in transit.
 - C. All goods on consignment.
 - D. Only damaged goods.
 - E. Only non-damaged goods.

Answer: **A**

17. Goods in transit are included in a purchaser's inventory:
- A. At any time during transit.
 - B. When the purchaser is responsible for paying freight charges.
 - C. When the supplier is responsible for freight charges.
 - D. If the goods are shipped FOB destination.
 - E. After the half-way point between the buyer and seller.

Answer: **B**

18. Goods on consignment:
- A. Are goods shipped by the owner to the consignee who sells the goods for the owner.
 - B. Are reported in the consignee's books as inventory.
 - C. Are goods shipped to the consignor who sells the goods for the owner.
 - D. Are not reported in the consignor's inventory since they do not have possession of the inventory.
 - E. Are always paid for by the consignee when they take possession.

Answer: **A**

19. Physical counts of inventory:
- A. Are not necessary under the perpetual system.
 - B. Are necessary to adjust the Inventory account to the actual inventory available.
 - C. Must be taken at least once a month.
 - D. Requires the use of hand-held portable computers.
 - E. Are not necessary under the cost-to benefit constraint.

Answer: **B**

20. On December 31 of the current year, Hewett Company reported an ending inventory balance of \$215,000. The following additional information is also available:
- Hewett sold goods costing \$38,000 to Trump Enterprises on December 28 and shipped the goods on that date with shipping terms of FOB shipping point. The goods were not included in the ending inventory amount of \$215,000 because they were not in Hewett's warehouse.
 - Hewett purchased goods costing \$44,000 on December 29. The goods were shipped FOB destination and were received by Hewett on January 2 of the following year. The shipment was a rush order that was supposed to arrive by December 31. These goods were included in the ending inventory balance of \$215,000.
 - Hewett's ending inventory balance of \$215,000 included \$15,000 of goods being held on consignment from Rumsfeld Company. (Hewett Company is the consignee.)
 - Hewett's ending inventory balance of \$215,000 did not include goods costing \$95,000 that were shipped to Hewett on December 27 with shipping terms of FOB destination and were still in transit at year-end.
- Based on the above information, the correct balance for ending inventory on December 31 is:
- A. \$194,000
 - B. \$209,000
 - C. \$200,000
 - D. \$171,000
 - E. \$156,000

Answer: E

Feedback: Start with beginning inventory of \$215,000. The information in the first bullet point was handled correctly, although the explanation for why is incorrect. No adjustment. For the second bullet point, the \$44,000 of goods should not have been included in ending inventory since the goods were shipped FOB destination. Subtract \$44,000. For the third bullet point, ending inventory should not include goods held on consignment from another company. Subtract \$15,000. The information in the fourth bullet point was handled correctly. No adjustment. $\$215,000 - \$44,000 - \$15,000 = \$156,000$.

Chapter 7

21. When the sales journal's column for accounts receivable and sales is totaled at the end of the month, its total is:
- A. Debited to Sales and credited to Accounts Receivable.
 - B. Debited to Accounts Receivable and credited to Cash.
 - C. Debited to Cash and credited to Accounts Receivable.
 - D. Debited to Accounts Receivable and credited to Sales.
 - E. Debited to Cash and credited to Sales.

Answer: **D**

22. A list of all the accounts in the accounts receivable ledger with their balances and the total is a(n):
- A. Schedule of accounts.
 - B. Controlling account.
 - C. Schedule of accounts receivable.
 - D. Subsidiary ledger.
 - E. Special journal.

Answer: **C**

23. The Accounts Payable account in the general ledger is:
- A. A controlling account for the subsidiary accounts payable ledger.
 - B. The account that controls the purchases journal.
 - C. The subsidiary account to the purchases journal.
 - D. Part of a special journal.
 - E. Part of a subsidiary ledger.

Answer: **A**

24. The purchases journal is used for recording:
- A. Credit purchases.
 - B. Credit sales.
 - C. Cash sales.
 - D. Cash purchases.
 - E. Cash disbursements.

Answer: **A**

25. Kala's Latin American segment had revenues of \$2,089 million, operating income of \$1,033 million, and average assets of \$1,443 million. The Latin American segment return on assets is:
- A. 49.4%
 - B. 69.0%
 - C. 71.6%
 - D. 139.7%
 - E. 144.8%

Answer: **C**

Feedback: $\text{Segment Return on Assets} = \text{Operating Income} / \text{Average Assets}$
 $\text{Segment Return on Assets} = \$1,033 / \$1,443 = 71.6\%$

26. The segment return on assets:
- A. Can only be determined for international companies.
 - B. Reflects the profitability of a segment.
 - C. Is difficult to calculate because companies with traded stock are not required to report segment information.
 - D. Is calculated as segment average assets divided by segment operating income.
 - E. Is calculated as segment sales divided by segment average assets.

Answer: **B**

27. A log that is used to record and post transactions of a similar type is a:
- A. Schedule.
 - B. Columnar ledger.

- C. Special journal.
- D. General journal.
- E. Subsidiary ledger.

Answer: C

28. When a company uses special journals, the general journal is used for selected transactions and events including:
- A. Recording adjusting transactions.
 - B. Posting transactions to special journals.
 - C. Accumulating debits and credits.
 - D. Collecting detailed listings of amounts.
 - E. Recording cash receipts.

Answer: A

29. A record that contains all accounts (with amounts) of a company is the:
- A. General ledger.
 - B. General journal.
 - C. Special ledger.
 - D. Special journal.
 - E. Column balance ledger.

Answer: A

30. A subsidiary ledger:
- A. Includes transactions not covered by special journals.
 - B. Is a listing of all of the accounts of a business.
 - C. Is a listing of individual accounts and amounts with a common characteristic.
 - D. Is also called a general ledger.
 - E. Is also called a special journal.

Answer: C

Chapter 8

31. A remittance advice is:
- A. An explanation for a payment by check.
 - B. A bank statement.
 - C. A voucher.
 - D. An EFT.
 - E. A cancelled check.

Answer: A

32. The days' sales uncollected ratio is used to:
- A. Measure how many days of sales remain until the end of the year.
 - B. Determine the number of days that have passed without collecting on accounts receivable.
 - C. Identify the likelihood of collecting sales on account.
 - D. Estimate how much time is likely to pass before the amount of accounts receivable is received in cash.
 - E. Measure the amount of layaway sales for a period.

Answer: D

33. Cash, not including cash equivalents, includes:
- A. Postage stamps.
 - B. Coins, currency, and checking accounts.
 - C. IOUs.
 - D. Two-year certificates of deposit.
 - E. Money market funds.

Answer: B

34. Cash equivalents:

- A. Are short-term, highly liquid investment assets.
- B. Include 6-month CDs.
- C. Include checking accounts.
- D. Are recorded in petty cash.
- E. Include money orders.

Answer: A

35. Cash equivalents:

- A. Include savings accounts.
- B. Include checking accounts.
- C. Are short-term investments sufficiently close to their maturity date that their value is not sensitive to interest rate changes.
- D. Include time deposits.
- E. Have no immediate value.

Answer: C

36. Cash equivalents:

- A. Are readily convertible to a known cash amount.
- B. Include short-term investments purchased within 3 months of their maturity dates.
- C. Have a market value that is not sensitive to interest rate changes.
- D. Include short-term U.S. treasury bills.
- E. All of the choices are cash equivalents.

Answer: E

37. Basic bank services include:

- A. Bank accounts.
- B. Bank deposits.
- C. Checking.
- D. Electronic funds transfer.
- E. All of the choices are basic bank services.

Answer: E

38. A bank statement includes:

- A. A list of outstanding checks.
- B. A list of petty cash amounts.
- C. The beginning and the ending balance of the depositor's account.
- D. A listing of deposits in transit.
- E. All of the choices are included on the bank statement.

Answer: C

39. Preparing a bank reconciliation on a monthly basis is an example of:

- A. Establishing responsibility.
- B. Separation of duties.
- C. Protecting assets by proving accuracy of cash records.
- D. A technological control.
- E. Poor internal control.

Answer: C

40. The following information is available for Johnson Manufacturing Company at June 30:

Cash in bank account	\$ 6,455
Inventory of postage stamps	\$ 74
Money market fund balance	\$12,400
Petty cash balance	\$ 350
NSF checks from customers returned by bank	\$ 867
Postdated checks received from customers	\$ 391

Money orders	\$ 257
A nine-month certificate of deposit maturing on December 31 of current year	\$ 8,000

Based on this information, Johnson Manufacturing Company should report Cash and Cash Equivalents on June 30 of:

- A. \$15,062
- B. \$20,146
- C. \$20,072
- D. \$19,205
- E. \$19,462

Answer: **E**

Feedback: Add \$6,455 of cash in bank + \$12,400 of money market fund, \$350 of petty cash balance + \$257 of money orders = \$19,462.