Based on the information provided in the Figure 1, calculate the adjusted cash balance if it is reconciled from cash per books.

**CORRECT ANSWER**

(B) $710,650.00

**EXPLANATION**

Adjusted cash balance = Cash per books of $700,000 + Interest income of $7,000 - Bank charges of $350 + Interest collection by bank of $4,000 = $710,650 No outstanding checks or deposits in transit

A company's records indicate that 82 units are currently in stock, costing $50 per unit. The physical inventory finds that only 79 units are actually on hand. Which of the following adjusting entries is required to bring perpetual inventory records in line with the physical count?

YOU ANSWERED: **CONFIDENT**

**CORRECT ANSWER**

(B) Debit Cost of Goods Sold and credit Inventory for $150.

**EXPLANATION**

Inventory count as per books - Physical inventory = 82 units - 79 units = 3 units; 3 units x $50 = $150. The inventory account is reduced (credited) by $150 to mirror the shortfall (three missing units at $50 each). To increase expenses, Cost of Goods Sold must be debited by the same amount.

Tanix Inc. purchased inventory of $130,000 and the transportation cost is $1,500. The company follows a periodic inventory system. Identify the journal entry for the purchase of inventory.

**CORRECT ANSWER**

(D) Debit Purchase of Inventory and credit Accounts Payable for $130,000.

**EXPLANATION**

In a periodic system, when inventory is purchased, Purchase of Inventory is debited and Accounts Payable is credited for $130,000. It will not include the transportation cost.

QUESTION 3

Surist Inc. uses a periodic inventory system. Surist purchased inventory worth $180,000. The company's accountant accidentally debited Accounts Payable and credited Purchases. Which of the following statements is true?

YOU ANSWERED: **CONFIDENT**

**CORRECT ANSWER**

(B) The company's retained earnings are overstated.

**EXPLANATION**

The accountant should debit Purchases and credit Accounts Payable. As the entry is wrong, its assets and liabilities are understated. As expenses are understated, net income and retained earnings are overstated.

dividing the cost of goods sold for a period by the average **inventory** for that period

Utopus Inc. is following the FIFO cash flow assumption. As per FIFO, the opening inventory values $65,000, the purchases during the year amount to $540,000 and the ending inventory values $95,000. Assuming the company changes its inventory valuation method to LIFO, calculate the inventory turnover.

**CORRECT ANSWER**

(A) The inventory turnover for the period is 6.375 times.

**EXPLANATION**

Inventory turnover = cost of goods sold / average inventory; cost of goods sold = opening inventory + purchases - ending inventory = $65,000 + $540,000 - $95,000 = $ 510,000; average inventory = (opening inventory + closing inventory) /2 = ($65,000 + $95,000) / 2 = $80,000; Inventor turnover = $510,000 / $80,000 = 6.375 times.

Homegoods Inc. finds that in the ending inventory of the flooring tiles, six-year-old cost is being carried as the LIFO cash flow assumption is being applied. What will be the impact on financial statements in the year in which the old costs are expensed?

YOU ANSWERED: **CONFIDENT**

**CORRECT ANSWER**

(B) Homegoods Inc.'s ending inventory will have inventory items from the earlier period of the year.

**EXPLANATION**

The year in which the old costs are expensed will have inventory items from the earlier period of the year.

QUESTION 5

Which of the following is true of the moving average inventory system?

**CORRECT ANSWER**

(D) A moving average cost is applied to the cost of goods sold for the entire period.

**EXPLANATION**

The moving average inventory system uses a moving average cost to the cost of goods sold for the entire period.

QUESTION 3

Which of the following is true about the LIFO cash flow assumption?

**CORRECT ANSWER**

(C) The ending inventory reported in LIFO in inflationary times is not realistic.

**EXPLANATION**

The ending inventory reported in LIFO in inflationary times is not realistic as the real value of the ending inventory will be higher as compared to the value as per the LIFO cash flow assumption.

Universe Inc. follows the LIFO cash flow assumption. It has 1,450 units of gears valued at $11,600 in inventory for the last 3 years. From Figure 2-C.7, what is the amount of LIFO liquidation, assuming that each unit was sold for $18 each?

YOU ANSWERED: **SKIPPED**

you skipped the question

**Skipped**

**CORRECT ANSWER**

(C) $1,000.00

**EXPLANATION**

1,650 units sold consist of 1,000 units of $11,000, 550 units of $6,600, and 100 units of oldest inventory of $800. So, the LIFO Liquidation = 100 x ($18 - $8) = $1,000.

Total cost of sale.. 1650.. lifo.. last purchase is 1000@ 11000 that’s gone. Leaving 650 to account for.. the next to last purchase of inventory is 550@ 6600 that’s gone too, now we have 100 to account for, this comes from 1450@11600 base inventory. Dividing 1450/11600 gives us the 8, 8x100 is the 800. The 18 is giving in the question the current sale amount per item. Items of base inv. (100) times (current price – base inv per item price)(18-8) is 100x10 or 1000

QUESTION 8

Larison Inc. finds that in the ending inventory of the flooring tiles, eight-year-old cost is being carried as the LIFO cash flow assumption is being applied. What will be the impact on financial statements in the year in which the old costs are expensed?

**CORRECT ANSWER**

(D) Larison Inc. will have a lower ending inventory as compared to the inventory as per the FIFO cash flow assumption.

**EXPLANATION**

As Larison is following the LIFO method, ending inventory will be lower as compared to the ending inventory as per the FIFO cash flow assumption.

dentify a feature of the LIFO cash flow assumption.

**CORRECT ANSWER**

(B) The profit taxable is lower if the LIFO cash flow assumption is followed.

**EXPLANATION**

The profit taxable is lower if the LIFO cash flow assumption is followed.

QUESTION 2

Mercury, Inc. follows the LIFO cash flow assumption. It has 4,500 units of floor panels valued at $45,000 in inventory for the last 5 years. From Figure 7, what is the amount of LIFO liquidation on the oldest inventory sold, assuming that each unit was sold for $50 each?

**CORRECT ANSWER**

(C)

$24,000.00

**EXPLANATION**

This problem can be solved in two steps. Step 1 is to identify the quantity of the oldest inventory sold, which is calculated by taking 4,500 units sold, as given in the problem, and subtracting 2,400 units of purchases, and 1,500 units of the opening inventory quantity. This would leave 600 units of the oldest inventory. Step 2 is to identify the LIFO liquidation value, which is calculated by taking the selling price of $50 per unit and subtracting $10 from the original value per unit (calculated by $45,000/4,500). This is then multiplied by 600 as follows: LIFO Liquidation = 600 x ($50 - $10) = $24,000.

QUESTION 3

Ultra Energy Corp. finds that in the ending inventory, five-year-old cost is being carried as the LIFO cash flow assumption is being applied. What will be the impact on financial statements in the year in which the old costs are expensed?

**CORRECT ANSWER**

(A) Ultra Energy Corp. needs to add the value of old inventory in the cost of goods sold in the year it is expensed.

**EXPLANATION**

In the year of expense, Ultra Energy Corp. needs to add the value of old inventory in the cost of goods sold in the year it is expensed.

QUESTION 4

Which of the following is true about the moving average system?

**CORRECT ANSWER**

(A) In this system, moving average is applied to ending inventory.

**EXPLANATION**

In the moving average system, moving average is applied to ending inventory.

Select a feature of the LIFO cash flow assumption.

**CORRECT ANSWER**

(D) LIFO reports low profit in inflationary times in comparison to other methods of cash flow assumption.

**EXPLANATION**

LIFO reports low profit in inflationary times in comparison to other methods of cash flow assumption as the expensive recent inventory is taken to the cost of goods sold.

QUESTION 2

Jupiter Inc. follows the LIFO cash flow assumption. It has 440 units of floor panels valued at $5,280 in inventory for the last 6 years. From Figure 1-C.7, what is the amount of LIFO liquidation assuming that each unit was sold for $40 each?

**CORRECT ANSWER**

(A) $4,200.00

**EXPLANATION**

4,200 units sold consist of 2,550 units of $66,300, 1,500 units of $37,500, and 150 units of the oldest inventory of $1,800. So, the LIFO Liquidation = 150 x ($40 - $12) = $4,200.

QUESTION 3

Homegoods Inc. finds that in the ending inventory of the flooring tiles, six-year-old cost is being carried as the LIFO cash flow assumption is being applied. What will be the impact on financial statements in the year in which the old costs are expensed?

YOU ANSWERED: **CONFIDENT**

you gave the correct answer

(B) Homegoods Inc.'s ending inventory will have inventory items from the earlier period of the year.

QUESTION 4

Identify a feature of the moving average system.

**CORRECT ANSWER**

(C) It reclassifies costs from inventory to cost of goods sold at the time of sale until the next purchase is made.

**EXPLANATION**

The moving average system reclassifies costs from inventory to cost of goods sold at the time of sale until the next purchase is made.

Which of the following is true about the LIFO cash flow assumption?

**CORRECT ANSWER**

(C) The ending inventory reported in LIFO in inflationary times is not realistic.

**EXPLANATION**

The ending inventory reported in LIFO in inflationary times is not realistic as the real value of the ending inventory will be higher as compared to the value as per the LIFO cash flow assumption.

QUESTION 2

Universe Inc. follows the LIFO cash flow assumption. It has 1,450 units of gears valued at $11,600 in inventory for the last 3 years. From Figure 2-C.7, what is the amount of LIFO liquidation, assuming that each unit was sold for $18 each?

YOU ANSWERED: **CONFIDENT**

you gave the correct answer

(C) $1,000.00

QUESTION 3

Which of the following is true of the moving average inventory system?

**CORRECT ANSWER**

(D) A moving average cost is applied to the cost of goods sold for the entire period.

**EXPLANATION**

The moving average inventory system uses a moving average cost to the cost of goods sold for the entire period.

Identify a feature of the moving average system.

**CORRECT ANSWER**

(C) It reclassifies costs from inventory to cost of goods sold at the time of sale until the next purchase is made.

**EXPLANATION**

The moving average system reclassifies costs from inventory to cost of goods sold at the time of sale until the next purchase is made.

(C) It reclassifies costs from inventory to cost of goods sold at the time of sale until the next purchase

QUESTION 4

Charles Tech Corp. has acquired 700 shares of Melia Computers for $7.5 each. Melia computers has 50,000,000 shares outstanding at the time of purchase by Charles Tech Corp. It has no intention of selling these shares in the foreseeable future. Using which accounting method will the shares be reported in the financial statements?

**CORRECT ANSWER**

(B) Accounting for available-for-sale securities

**EXPLANATION**

Since the shares do not provide any control over Melia computers, accounting for mergers and acquisitions and accounting for investments by means of the equity method cannot be used. Also since, shares are not intended to be sold in the foreseeable future, accounting for trading securities cannot be used. The shares will be reported in the financial statements using accounting for available-for-sale securities method.

QUESTION 5

A company has acquired certain investments which are to be accounted using equity method. At what value would the investment be reported in the balance sheet?

**CORRECT ANSWER**

(C) Cost plus portion of income

**EXPLANATION**

Investments accounted using equity method are reported at cash plus the portion of income value in the balance sheet.

QUESTION 6

Zhong Car Company received dividends worth $1,500 from its investment in shares of Yu Motors and $1,000 as dividends from Zi Motor Company. It reported both these dividends as income for the year. The company has recorded the appreciation from Zi Motor Company as income for the year. Which of the following statements is most likely to be true?

**CORRECT ANSWER**

(D) The management of Zhong Car intends to sell shares of Zi Motor Company in the near term.

**EXPLANATION**

Since appreciation from Zi Motor Company was accounted for as income for the year, they are classified as investments in trading securities. Investments are classified as such only when they are intended to be sold in the near future.

QUESTION 7

Harry Musicals pays its annual rent of $12,000 in advance for the year on the first day of January. On the last day of March, Harry Musicals passes the following entry in its books.
Prepaid Rent $9,000
Rent Expense $9,000
What can be concluded from the information provided?

**CORRECT ANSWER**

(A) It recorded rent premium paid on January 1st as an expense.

**EXPLANATION**

The given journal entry is passed as an adjustment entry when the original entry recorded is rent expense.

QUESTION 2

Nigel Corp had paid annual insurance on its premises in advance in the previous year. Out of this, insurance for three months had been expensed in the previous year. In the current year, it also paid its annual insurance expense in advance and expensed three months out of it. What can be inferred from the information above if the company pays monthly rent for all the remaining months in the current year?

**CORRECT ANSWER**

(C) Its ending prepaid insurance account balance will neither increase nor decrease as compared to the opening balance.

**EXPLANATION**

The opening prepaid rent account will have a balance of nine months and its closing prepaid rent account will also have a balance of nine months. Hence, there will be no change in the closing balance of prepaid rent as compared to the opening balance.

QUESTION 3

Charles Tech Corp. has acquired 700 shares of Melia Computers for $7.5 each. Melia computers has 65,000,000 shares outstanding at the time of purchase by Charles Tech Corp. It has no intention of selling these shares in the foreseeable future. Using which accounting method will the shares be reported in the financial statements?

YOU ANSWERED: **CONFIDENT**

you gave the correct answer

(B) Accounting for available-for-sale securities

QUESTION 4

Gigantic Corporation has acquired shares of Julian Inc. at market price. It has no intention of selling these shares in the foreseeable future. Using which accounting method will the shares be reported in the financial statements?

**CORRECT ANSWER**

(B) Accounting for available-for-sale securities

**EXPLANATION**

Since the shares do not provide any control over Julian Inc. computers, accounting for mergers and acquisitions and accounting for investments by means of the equity method cannot be used. Also, since shares are not intended to be sold in the foreseeable future, accounting for trading securities cannot be used. The shares will be reported in the financial statements using accounting for available-for-sale securities method.

QUESTION 5

Claude Car Company received dividend worth $1,500 from its investment in shares of Chantal Motors and $1,000 as dividends from Louis Motor Company. It reported both these dividends as income of the year. Both the shares had appreciated in value; however, only appreciation from Louis Motor Company was accounted for as income of the year. Which of the following statements is most likely to be true?

**CORRECT ANSWER**

(D) The management of Claude Car intends to sell shares of Louis Motor Company in the near term.

**EXPLANATION**

Since appreciation from Louis Motor Company was accounted for as income for the year, they are classified as investments in trading securities. Investments are classified as such only when they are intended to be sold in the near future.