Part II Quiz

I. Match each term with the appropriate description.

1) _____ Cash equivalents	(A) Beginning inventory + purchases
2) _____ Aging receivables	(B) Values inventory closer to replacement cost during rising prices
3) _____ Goods available for sale	(C) Maximum allowable depreciation
4) _____ LIFO	(D) All reasonable cost to put into condition and position for use
5) _____ FIFO	(E) U.S. treasury bills
6) _____ Book value	(F) Cost - accumulated depreciation
7) _____ Double-declining balance method	(G) Writing off natural resources
8) _____ Depreciable base	(H) Percentage of current receivables
9) _____ Cost of plant and equipment	(I) No longer allowed for tax purposes
10) _____ Depletion	(J) Lowers taxes during rising prices

II. Answer the following true or false and fill in the blank questions.

A. T F Short-term investments last 6 to 12 months.

B. T F Cash equivalents carry little risk.

C. T F The balance of allowance for bad debts should never affect bad debt expense.

D. T F If prices rise continually, the average cost method will value inventory between LIFO and FIFO.

E. T F The IRS only allows for proportional depreciation of assets.

F. _____ _____ mature within 90 days.

G. Accrual accounting allows for the direct write-off of bad debts provided the expense is _____ .

H. Retailers buy goods from a _____ or _____ and store them as inventory.

I. Write-off of a natural resource is charged to accumulated _____ .

J. _____ is the term used to describe the write-off of an intangible asset.

III. On December 31, 1996, before adjustments, the allowance for doubtful accounts had a negative balance of $4,000. Calculate the bad debt expense taken under each of these independent situations.

A. Aging was used to estimate that $84,000 of accounts receivable would be uncollectible.

B. The company estimates that 1.65% of its 1996 credit sales of $5,500,000 will not be collected.

IV. Estimate bad debt expense by aging receivables.

Time Past Due	Percent Uncollectible	Receivable Amount
1 - 30	2.50	$225,000
31 - 60	2.75	155,000
61 - 90	4.00	90,000
Over 90	4.50	50,000
	Total	$520,000

V. Calculate ending inventory in both units and dollars given the following information and using the Last-In, First-Out method of inventory valuation.

A. Problem information

1. The January 1, 1997, beginning inventory consisted of two purchases. The first was on November 14, 1996. It consisted of 100 units costing $5 each. The second purchase was on December 18, 1996. It consisted of 50 units costing a total of $300.
2. The company purchased 200 units on January 10, 1997, paying $1,300.
3. On January 12, 225 units were sold.
4. The company purchased 150 units on January 20, 1997, paying $1,050.
5. On February 12, 150 units were sold.

		Purchases			Cost of Goods Sold			Inventory		
Date	Explanation	Units	Unit Cost	Total Cost	Units	Unit Cost	Total Cost	Units	Unit Cost	Total Cost

B. Cost of goods available for sale during the period were _____ .

C. What was the highest unit cost of goods purchased during 1997? _____

VI. Use the following data and the average cost method of periodic inventory valuation to calculate the value of a 500-unit inventory. State the advantages and disadvantages of this method over other inventory valuation methods using this data.

	Units	Total Cost of Purchase
Beginning balance	150	$ 300
Purchase of April 7	275	600
Purchase of June 27	325	750
Purchase of October 5	450	1,050
Purchase of December 11	200	480

VII. A $55,000 machine has a useful life of five years and a residual value of $5,000. Calculate the book value for this machine after two years using two different methods. Show all work.

A. Name of method #1 _____

B. Name of method #2 _____

VIII. Why would a company choose the methods described in problem VII?

IX. On October 1, 1998, Your OK Corporation purchased a $68,000 machine. Its useful life was 10 years with a residual value of $8,000. Using the straight-line method, calculate depreciation taken each year of the machine's useful life.

X. The XYZ Company has a $96,000 machine with a 10-year useful life and a residual value of $6,000. After five years of straight-line depreciation, the machine is not wearing well and is expected to last a total of eight years and have half its original residual value. Calculate the new annual depreciation.