

Unit #2 Exam Review (Chapters 5-7)

Chapter 5

Objective 1: Merchandising Operations and Inventory Systems

Cost of Goods Sold

Define:

Type of Account	Normal Balance	Financial Statement

Inventory

Define:

Type of Account	Normal Balance	Financial Statement

Merchandising Measurement Process (income statement) Illustration 5.1:

_____ - _____ = _____ - _____ = _____

Flow of Costs:

1) _____ + _____ = Cost of Goods Available for Sale

2) Cost of Goods Available for Sale - _____ =

OR

3) Cost of Goods Available for Sale - _____ =

Define

Periodic:

Perpetual:

Objective 2: Recording a Purchase

Freight Costs:

FOB Shipping Point:

Who pays for shipping	
Who owns the inventory in transit	
What account does shipping charges go to	

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Example: The company purchases inventory FOB shipping point from the Seller. The shipping were \$400. Record the entry for shipping chargers for the company.

FOB Destination:

Who pays for shipping	
Who owns the inventory in transit	
What account does shipping charges go to	

Example: The company purchases inventory FOB destination from the Seller. The shipping were \$400. Record the entry for shipping chargers for the seller.

Purchase Returns and Allowances:

Define Purchase Return:

Define Purchase Discount:

Identify each number in 2/10, n/30

2 =	N =
10 =	30 =

The Buyer purchases inventory of \$2,000 on account with the terms 2/10, n/30.

Record the Purchase:

Record the Payment within discount period:

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Record the Payment after discount period:

Objective 3: Recording a Sale
Sales Returns and Allowances

Define:

Type of Account	Normal Balance	Financial Statement

Sales Discount

Define:

Type of Account	Normal Balance	Financial Statement

The Seller sells inventory of \$2,000 on account with the terms 2/10, n/30. The cost of the inventory was \$800.

Record the Sale:

Record the receipt of payment within discount period:

Record the receipt of payment after discount period:

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Sales Return and Allowance:

The Seller receives a return with an initial selling price of \$1,250. The cost of the goods is \$500. Record the entry:

Objective 4: Apply the Accounting Cycle

Adjusting Entry to reduce Inventory if physical count is lower than balance in account:

	Debit	
		Credit

Closing Entries:

Account	Normal Balance	Closed with a Debit or Credit
Sales Revenue		
Sales Returns and Allowance		
Sales Discount		
Cost of Goods Sold		
Freight Out		

Objective 5: Multi-step Income Statement

Section 1: Net Sales

_____ - _____ - _____ = Net Sales

Section 2: Gross Profit

_____ - _____ = Gross Profit

Section 3: Income from Operation

_____ - _____ = Income from Operations

Section 4: Nonoperating Activities

_____ + _____ - _____ = Net Income

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Chapter 6

Objective 1: Classify and Determine Inventory

Define

Raw Materials:

Work in Process:

Finished Goods:

Determine Ownership: Fill in the blank options: Buyer, Seller, Ownership

In transit, FOB Shipping Point, ownership belongs to _____.

In transit, FOB Destination, ownership belongs to _____.

Consigned goods do not transfer _____.

Objective 2: Inventory Cost Flow Methods

Define:

Specific Identification:

First-in, First-out (FIFO):

Last-in, First-out (LIFO):

Average Cost:

Cost of goods sold formula:

_____ + _____ - _____ = _____

The accounting records of a company show the following data:

Date	Transaction	Total cost
March 1 beginning inventory	100 units @ \$2.50 each	\$250
March 15 Purchase	60 units @ \$3.50 each	\$210
March 28 Purchase	80 units @ \$4.00 each	\$320
Total	240 units	\$780

During the month of March, 110 units were sold for \$10 each.

Ending inventory = _____ units - _____ units = _____ units

Determine the cost of goods sold and ending inventory under FIFO, LIFO, and average cost methods:

FIFO Ending Inventory

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Date	Units	Unit Cost	Total Cost

Ending Inventory = _____ + _____ = _____

COGS = _____ - _____ = _____

LIFO Ending Inventory

Date	Units	Unit Cost	Total Cost

Ending Inventory = _____ + _____ = _____

COGS = _____ - _____ = _____

Weighted average unit cost formula:

Total Cost Available / _____ = _____

_____ / _____ = _____

Ending Inventory _____ x _____ = _____

COGS = _____ x _____ = _____

Objective 3: Effects on financial statements

Assuming that costs are rising during the year:

LIFO will give you a _____ COGS, and a _____ Net Income.

FIFO will give you a _____ COGS, and a _____ Net Income.

Average cost will give you a _____ COGS, and a _____ Net Income in comparison to LIFO and FIFO.

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Income Statement Effects

Inventory Error	COGS is: (overstated or understated)	Net Income is: (overstated or understated)
Beginning Inventory is understated		
Beginning Inventory is overstated		
Ending Inventory is understated		
Ending Inventory is overstated		

An error in the ending inventory of the current period, will have a _____ on the net income of the next accounting period.

Balance Sheet Effects

Inventory Error	Assets are:	Stockholder's Equity is:
Overstated		
Understated		

Objective 4: Inventory Analysis

Lower of Cost or Net Realizable Value (NRV)

1. Determine whether cost or NRV is lower for each inventory type.
2. Sum the lowers value of each inventory type.

Example

Inventory Item	Cost	NRV
headphones	40	80
chargers	100	120
Phone cases	50	30

The inventory should be valued at _____.

Chapter 7

Objective 1: Define Fraud and Principles of Internal Control

1. Define:
 1. Fraud:
 2. Opportunity:

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3. Pressure:

4. Rationalization:

5. SOX:

2. Name and Define the 5 Internal Control Components

Name	Define

3. Name and Define the 6 Principles of Internal Control

Name	DEFINE

What are some limitations of internal control?

Objective 2: Cash

1. Define voucher system:

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2. Define Petty Cash:

Practice:

1. Establish a Petty Cash account for \$200.

2. Reimburse the Petty Cash account. Current fund contains \$15 cash and receipts for supplies of \$23, Postage for \$52, Telephone costs of \$11, and Miscellaneous expenses of \$100.

Objective 3: Bank Accounts

Difference	Define	+ or -	Bank or Book
Deposit In Transit			
Outstanding Check			
Bank Service Fee			
NSF Check			
Interest Earned			
Collection of EFT			
Error			

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Practice:

ABC Clinic deposits all cash receipts on the day when they are received and it makes all payments by check. At the close of business on June 30, its cash account shows a \$15,141 debit balance. ABC Clinic's June 30th bank statement shows a \$14,275 balance. Prepare a bank reconciliation and required journal entries using the following information:

1. Outstanding checks as of June 30th total \$2,500.
2. The June 30 bank statements includes a \$125 charge for services.
3. Check number 921, listed with canceled checks was correctly drawn for \$645 in payment of a utility bill on June 15th. ABC Clinic mistakenly recorded it with a debit to Utilities Expense and a credit to cash in the amount of \$654.

4. The June 30th cash receipts of \$3,250 were placed in the bank's night box after banking hours and were not recorded on the June 30th bank statement.

Journal Entries for bank reconciliation:

Objective 4: Reporting of Cash

1. Define:
 - a. Cash equivalents
 - b. Restricted cash