1. EXPLAIN HOW SEPARATION OF DUTIES HELPS TO STRENGTHEN INTERNAL CONTROL.

   It helps to strengthen internal control so one person isn't recording cash movement and dealing with cash movement. If the two duties are separated, there is no chance to steal from the company. If you have one person recording cash out and another actually sending cash, then you have a check on yourself. In separate jobs, you can also separate invoice jobs, from checking inventories, so you know inventory is accurate and not mixed.

2. WHAT IS INVENTORY PROFIT?

   Inventory profit is the difference between gross margin in FIFO to the gross margin in LIFO. You get the inventory profit through the FIFO method.

3. EXPLAIN LIFO LIQUIDATION.

   LIFO liquidation is when inventory quantity is less than the previous period of the LIFO method. Which in turn means there will have to be a full liquidation of inventory and which will result in a high income (which means high taxes).

4. NAME THE THREE THINGS NECESSARY FOR FRAUD.

   1. Opportunity
      (The chance to commit fraud)

   2. Control
      (You have enough control that you can cover up if you steal money, this wouldn't happen if there was separation of duties)

   3. Ethics (Lack of Integrity)
      (You don't think it is wrong to steal, so you think it would be better to steal money so you can have a high lifestyle than living with a lower lifestyle and not steal).
The following data have been gathered for Ryan & Associates:

- The April 30 bank balance was $5,025.
- Checks #571, #574, and #578 for $300, $550 and $295, respectively, were not among the canceled checks returned with the bank statement.
- The bank statement included an NSF check written by Lemco, Inc. for a $680 payment on account.
- There was an EFT collection of a note receivable by $1,500, plus interest of $75.
- The bank statement included $130 in services charges.
- Included with the canceled checks was a check written by J.V. Ryan, Inc. for $345 which was deducted from Ryan & Associates account.
- The April 30 deposit of $1,100 did not appear on the bank statement.
- The bookkeeper had erroneously recorded a $600 check disbursement as $60. The check was written for the monthly rent.
- The cash account showed a balance of $5,100 on April 30.

Required:
1. Prepare the April 30 bank reconciliation for Ryan & Associates.
2. Prepare any required entries to bring the book balance up-to-date.

TRIVIA- WHAT IS THE MOST CORRUPT COUNTRY? India.

THIS TEST WAS:

[Signature]

NOT FUN
Sprouse Stores uses the retail method to estimate its ending inventory and has accumulated the following information at June 30, 1998:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Inventory</td>
<td>$74,000</td>
<td>$105,000</td>
</tr>
<tr>
<td>Net purchases</td>
<td>266,000</td>
<td>375,000</td>
</tr>
<tr>
<td>Net sales</td>
<td>$390,000</td>
<td></td>
</tr>
</tbody>
</table>

Required: Use the retail method to estimate the September 30, 1998 inventory.

\[
\frac{\text{Cost}}{\text{Retail}} = \frac{74,000}{105,000} = \frac{340,000}{410,000} = 71\% \\
\frac{340,000}{410,000} - \frac{390,000}{490,000} = 90,000 - 71\% = 63,900 \\
\text{Estimated Inventory} = 63,900
\]

Adjusting Journal Entries for 7-107

\[\begin{array}{ccc}
\text{Cash} & \text{Note Receivable} & \text{Cash} \\
\text{Cash} & \text{Interest Revenue} & \text{Cash} \\
\text{Accounts Receivable, NSF check} & \text{Cash} & \text{Service Charge} \\
\text{Cash} & \text{A Bank Error} & \text{Cash} \\
\text{Check, JV Dunn Inc} & \text{Cash} & \end{array}\]

\[\begin{array}{c}
1500 \\
1500 \\
75 \\
75 \\
680 \\
680 \\
120 \\
130 \\
-510 \\
610 \\
345 \text{ (in red)} \end{array}\]

\[\begin{array}{c}
88/10 \text{ (in red)} \\
\frac{31}{29} \text{ (in red)} \end{array}\]
9-102. The Rogue Company sells baseball bats. It began 19X6 with a beginning inventory of 1,000 bats at a cost of $10 each, and made the following purchases during the year. 

February 7  Purchased 3,500 bats @ $11.50 each  40,250
May  19 Purchased 4,700 bats @ $12.00 each   56,400
September 3 Purchased 2,300 bats @ $13.00 each  29,900

Ending inventory consisted of 750 bats, 500 of which were purchased on May 19, and 250 which were purchased September 3. 11,500 Ending Inventory

Required: Assuming Rogue uses the periodic inventory system, calculate ending inventory and cost of goods sold under each of the following inventory costing methods:

a. Specific unit cost
b. Weighted-average (Round to two decimal places)
c. FIFO
d. LIFO

\[
\begin{align*}
\text{COGS} &= 127,300 \\
\text{COGS} &= 136,660 \\
\text{COGS} &= 126,800 \\
\text{COGS} &= 129,080
\end{align*}
\]

10-103. Sam & Sons purchased machinery on January 4, 1995 at a total cost of $46,500. Sam estimated the useful life of the machinery to be 8 years or 860,000 hours, with an estimated residual value of $3,500. The machinery was used for 85,000 hours in 1995 and 112,000 hours in 1996.

Required: Calculate depreciation expense for 1995 and 1996 under each of the following methods:

- Straight-line
- Units-of-production
- Sum-of-years'-digits
- Double-declining-balance

\[
\begin{align*}
\text{Rate} &= 100\% - \frac{\text{Residual Value}}{\text{Total Cost}} = 87\% \\
\text{Depreciation Expense} &= \text{Cost} \times \text{Rate} \\
\text{1995} &= 46,500 \times 87\% = 40,050 \\
\text{1996} &= 46,500 \times 87\% = 40,050
\end{align*}
\]

\[
\begin{align*}
\text{Depreciation Expense} &= \frac{\text{Cost} - \text{Residual Value}}{\text{Total Life}} \\
\text{1995} &= \frac{46,500 - 3,500}{850,000} = 4250 \\
\text{1996} &= \frac{46,500 - 3,500}{112,000} = 3600 \\
\text{Sum-of-years'-digits} &= \frac{850,000 \times 860,000}{56} = 8361.11
\end{align*}
\]
The accountant for Spruce Company is trying to decide which method to use for estimating bad debts. An aging of accounts receivable revealed $14,725 in uncollectible accounts. Under the percentage of sales method, bad-debt expense was estimated at $14,780. The balance in Allowance for Uncollectible Accounts prior to adjustment was $1,760 (Dr.) and the balance in Accounts Receivable was $234,500.

Required: 1. Determine the amount of the adjusting entry under each method.
2. What will be the amount reported on the balance sheet as uncollectible under each method?
3. Calculate the expected realizable value for accounts receivable reported on the balance sheet under each method.

\[
\begin{align*}
\text{Percentage} & \quad \text{Bad Debt Expense} \\
1,760 \quad 1,725 & \quad 14,780 \\
1,760 \quad 1,725 & \quad 14,780 \\
\text{Percentage} & \quad \text{Allowance for Bad Debt} \\
1,760 \quad 1,725 & \quad 14,780 \\
1,760 \quad 1,725 & \quad 14,780 \\
\end{align*}
\]

\[\text{Percentage} \quad \text{Accounts Receivable} \quad 270,175\]

\[\text{Percentage} \quad \text{Accounts Receivable} \quad 271,480\]

The EZ-DUZIT Company recently had all its inventory destroyed by a fire. Because the company uses a periodic inventory system, it has no records indicating exactly how much inventory it lost. The following data are available:

- Beginning inventory: $150,000
- Net purchases (year-to-date): $500,000
- Net sales revenue (year-to-date): $850,000
- Normal gross margin rate: 40%

\[\begin{align*}
\text{Net Sales Revenue} & \quad 850,000 \\
\text{Less: Gross Margin} & \quad 340,000 \\
\text{Cost Available for Sale} & \quad 510,000 \\
\end{align*}\]

\[\text{Ending Inventory} \quad 140,000\]
5-104. Wong Company had the following transactions during the month of January:

Jan. 6  Sold $5,000 of merchandise on account, terms 2/10, n/30, FOB destination. The cost of this merchandise was $3,000.

9    Paid the transportation costs for the sale on January 6, $450.

12   The customer from January 6, returned $800 of defective merchandise. The cost of this merchandise was $480.

15   Received payment from the January 6 customer, less the return and the discount.

Required:
Assuming a perpetual inventory system is used, prepare the journal entries for Wong Company for the month of January:

Jan. 6.    Accounts Receivable 5,000
           Inventory Sales Rev 5,000

            Cost of Goods Sold 3,000
           Sales Inventory 3,000

9    Transportation Expense 450
     Cash 450

12   Sales Returns & Allowances 800
     Accounts Receivable 800

15   Cash 4,116
     Accounts Receivable 4,116

6-111. Bill & Bob's Company uses special journals along with the general journal to record its daily transactions. Given the following abbreviations, identify the appropriate journal in which to record each transaction.

Sales Journal  S
Purchases Journal  P
Cash Receipts Journal  CR
Cash Disbursements Journal  CD
General Journal  G

Collected $3,600 from cash sales
Paid the telephone bill for the month, $230
A customer who had previously purchased merchandise on account, returned defective merchandise for credit
Sold merchandise on account, $5,800
Closed the income summary account to capital, net income was $65,000
Purchased a used copy machine paying $3,200 cash
Purchased inventory on account, $4,680
Received a check for $3,210 from a customer who was paying off his account in full
A customer purchased additional inventory on account, credit terms 2/10, n/30, $3,500
Purchased office furniture, no money down, with 60 days to pay, $1,850
4. In preparing its August 31, 1996 bank reconciliation, Apex Corp. has available the following information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement, 8/31/96</td>
<td>$18,050</td>
</tr>
<tr>
<td>Deposit in transit, 8/31/96</td>
<td>3,250</td>
</tr>
<tr>
<td>Return of customer's check for insufficient funds, 8/31/96</td>
<td>600</td>
</tr>
<tr>
<td>Outstanding checks, 8/31/96</td>
<td>2,750</td>
</tr>
<tr>
<td>Bank service charges for August</td>
<td>100</td>
</tr>
</tbody>
</table>

At August 31, 1996, Apex’s correct cash balance is
a. $18,550  
b. $17,950  
c. $17,850  
d. $17,550

17. The following information pertains to Tara Co.’s accounts receivable at December 31, 1996:

<table>
<thead>
<tr>
<th>Days outstanding</th>
<th>Amount</th>
<th>Estimated % uncollectible</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 60</td>
<td>$120,000</td>
<td>1%</td>
</tr>
<tr>
<td>61 - 120</td>
<td>90,000</td>
<td>2%</td>
</tr>
<tr>
<td>Over 120</td>
<td>100,000</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$310,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

During 1996, Tara wrote off $7,000 in receivables and recovered $4,000 that had been written off in prior years. Tara’s December 31, 1995, allowance for uncollectible accounts was $22,000. Under the aging method, what amount of allowance for uncollectible accounts should Tara report at December 31, 1996?

a. $ 9,000  
b. $10,000  
c. $13,000  
d. $19,000