**PRINCIPLES OF ACCOUNTING**

**ACCT 101**

**ASSIGNMENT 4**

Last due date for submission 21stNovember 2015

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**Essay Questions**

1. Identify the items that are included in merchandise inventory. (In your answer address the special situations of goods in transit, consigned goods and damaged goods.)

2. Identify and describe the four inventory valuation methods.

3. Discuss how the principles of internal controls apply to cash receipts.

 **Short Answer Questions**

1. A company reported the following data:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Year 1 | Year 2 | Year 3 |
| Cost of goods sold | $347,600 | $379,650 | $443,900 |
| Average inventory | 85,000 | 91,050 | 98,350 |

Required:
1. Calculate the company's merchandise inventory turnover for each year.
2. Comment on the company's efficiency in managing its inventory.

2. A company that uses a perpetual inventory system made the following cash purchases and sales. There was no beginning inventory.

|  |  |
| --- | --- |
| January 1: | Purchased 100 units at $10 per unit |
| February 5:  | Purchased 60 units at $12 per unit |
| March 16: | Sold 40 Units for $16 per unit |

Prepare general journal entries to record the March 16 sale using the FIFO inventory valuation method.

3. Following are seven items a through g that would cause Xavier Company's book balance of cash to differ from its bank statement balance of cash.
a. A service charge imposed by the bank.
b. A check listed as outstanding on the previous period's reconciliation and still outstanding at the end of this month.
c. A customer's check returned by the bank is marked "Not Sufficient Funds. (NSF)"
d.A deposit that was mailed to the bank on the last day of the current month and is unrecorded on this month's bank statement.
e. A check paid by the bank at its correct $190 amount was recorded in error in the company's Check Register at $109.
f. An unrecorded credit memorandum indicated that bank had collected a note receivable for Xavier Company and deposited the proceeds in the company's account.
g. A check was written in the current period that is not yet paid or returned by the bank.

Indicate where each item a through g would appear on Xavier Company's bank reconciliation by placing its identifying letter in the parentheses in the proper section of the form below.

|  |  |  |
| --- | --- | --- |
| Bank statement cash balance |  | Book balance of cash |
| Add: | ( ) |  | Add: | ( ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
| Deduct: | ( ) |  | Deduct: | ( ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
|  |  |  |  |  |
| Reconciled balance |  | Reconciled balance |

**Answering Essay Questions**

A.1. Merchandise inventory consists of goods owned by a company and held for resale. Three special cases involving ownership decisions are goods in transit, consigned goods, and damaged goods.

* **Goods in transit** are included in the inventory of the company that owns the goods.
* **Consigned goods** are included in the inventory of the consignor.
* **Damaged goods** are valued at net realizable value.

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A.2.The four inventory valuation methods are:

* The specific identification method assigns costs to each inventory item based on specific invoice costs.
* The weighted-average method assigns costs by using the total balance in inventory and dividing it by the number of units to arrive at a cost per unit at each sale.
* The first-in, first-out method assigns cost to items sold assuming that the first units purchased are the first to be sold.
* The last-in, first-out method assumes that the last units purchased are the first to be sold.

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A.3. Internal control consists of all of the related methods and measures adopted within a business to:

* Safeguard assets from employee theft, robbery, and unauthorized use.
* Enhance the accuracy and reliability of its accounting records by reducing the risk of errors (unintentional mistakes) and irregularities (intentional mistakes and misrepresentations) in the accounting process.

Sarbanes-Oxley Act of 2002 (SOX) requires all publicly traded U.S. corporations to maintain an adequate system of internal controls. SOX imposes more responsibilities on corporate executives and boards of directors to ensure that companies’ internal controls are reliable and effective

* Companies must develop sound principles of control over financial reporting and continually assess that the controls are working.
* Independent outside auditors must attest to the level of internal controls.

accounting process.

 i. To safeguard assets and enhance the accuracy and reliability of its accounting records, a company follows internal control principles. The following six internal control principles apply to most companies:

1. Establishment of Responsibility: An essential characteristic of internal control is the assignment of responsibility to specific individuals.

a. Control is most effective when only one person is responsible for a given task.

b. Establishing responsibility includes the authorization and approval of transactions.

2. Segregation of Duties: Segregation of duties is indispensable in a system of internal control.

a. The rationale for segregation of duties is that the work of one employee should, without a duplication of effort, provide a reliable basis for evaluating the work of another employee.

i. There are two common applications of this principle:

1. The responsibility for related activities should be assigned to different individuals.

2. The responsibility for record keeping for an asset should be separate from the physical custody of an asset.

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**Answering short Questions**

A.1.1

|  |  |  |  |
| --- | --- | --- | --- |
|  | Year 1 | Year 2 | Year 3 |
| Cost of goods sold | $347,600 | $379,650 | $443,900 |
| Average inventory | 85,000 | 91,050 | 98,350 |
|  | 4.09 | 4.17 | 4.51 |

A.1.2

The company’s efficiency in managing its inventory is increasing as its sales increase. This is a positive reflection on inventory management

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A.2.

|  |  |
| --- | --- |
| March 16: | Cash ($16 x 40) 640 |
|  | Sales 640 |
| March 16: | Cost of Goods Sold ($12 x 40) 480 |
|  | Merchandise Inventory 480 |

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A.3.

|  |  |  |
| --- | --- | --- |
| Bank statement cash balance |  | Book balance of cash |
| Add: | ( **D** ) |  | Add: | ( **F** ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
|  | ( ) |  |  | ( ) |
| Deduct: | ( **B** ) |  | Deduct: | ( **A** ) |
|  | ( **G** ) |  |  | ( **C** ) |
|  | ( ) |  |  | ( **E** ) |
|  | ( ) |  |  | ( ) |
|  |  |  |  |  |
| Reconciled balance |  | Reconciled balance |