St. Mary's University

College of Open and Distance Learning

Principle of Accounting II

Assignment

(2011 - III)

Student's Name: Eden Zeleke

I. D .Nº: _____

Department: Marketing management

Semester: II

Center: Addis Ababa

Program: Degree

- **This is the only assignment of this course.**
- **This assignment is to be completed and submitted to the office of your center. Do not attempt the assignment until you are certain that you have understood the units it covers and have revised your self-test exercises and learning activities, and other necessary references.**
- **If you have any question about the units and activities, state the item/s clearly on a separate sheet of paper and attach to your assignment paper.**
- **Due Date: This assignment must be submitted to the office of your center ON OR BEFORE THE TUTORIAL**

<u>PROGRAM</u>. Please strictly follow the deadline indicated.

Part I: True or False

Write 'True' if the statement is correct and 'False' if it is statement incorrect in the space provided. (1 pt each)

True 1.Inventory costs are all costs that are necessary to get the goods ready for sale or use.

False 2.LIFO (Last-in-First-out) yields a lower cost of goods sold during inflation

False 3.A company shall not take an inventory counting, if it adopts a perpetual system to value its inventories.

False 4.Revenue expenditures are incurred to extend the useful life of an asset.

True 5.The major objective of consistency principle is to enable the users to take comparison between consecutive periods.

Part II: Multiple Choices

Choose the correct answer among the given alternatives and write the letter of your choice in the space provided. (1 pt each)

D 1.Which one of the following is different from the other?

A. Leasehold improvement
C. Leasehold
B. Copy right
D. Machinery

C 2.In year 2008 ABC Company made an inventory counting and found an obsolete inventory of birr 1,150. If the marketing cost for the inventory is estimated as birr 250. What is the net realizable value if the market value is birr 1,450?

C. Birr 300
C. Birr 1,200

D. Birr 2,300 D. Birr 900

D 3.Revenue expenditure is _____.

A. Increases the useful life of a plant asset

B. added to the book value of an asset

C. reflect their impact on balance sheet

D. affects only one period

D 4.Assume that, Addis company made the following transactions on different dates as follows:

April 3 15 units at birr 35

March 25 10 units at birr 37

May 8 20 units at birr 32

The ending inventories shows 5 units

If Addis registers no beginning inventory, which of the following is its cost of ending inventories, Addis uses LIFO method

E. 185 C. 251

F. 175 D. 160

J 5. Which one of the following accounts is the correctly matched if the beginning inventory is understated?

G. Cost of goods sold will be overstated

H. Net income will remains the same

I. Net income will be understated

J. Ending inventory will be overstated

C 6. Assume Golden Company acquires a truck for birr100, 000. The residual value and its useful life is estimated as birr 20,000 and 5 years respectively. If Golden uses a double declining method, which of

the following is its accumulated depreciation as the end of the third year?

K. birr 40, 000 C. birr 78, 400

L. birr 87, 040 D. birr 48, 000

M 7.Which of the following is contradicts with going concern concept?

M. The financial statement of a company includes the owner's home as a business's plant asset.

N. The firm uses LIFO method to value its inventories. However previous period records shows the firm has been using FIFO method for 3 consecutive periods

O. Inventories are presented in the financial statement at their replacement price

P. None of the above

R 8.Which of the following is an accrued expense?

Q. Prepaid rent C. Prepaid interest

R. Insurance expenses D. Salary expenses

D 9.An example of application that a corporation's financial statement does not report in birr amounts is referred to as _____.

S. Consistency C. Business entity

T. Going concern D. Stable monetary unit

U 10.The characteristics of accounting information does the objective of financial reporting is _____.

U. Reliability C. Comparability

V. Relevance D. Timeliness

Part III: Short answers (2pts. each)

Give a short and precise answer to the following questions in space provided

1. Write down the characteristics of corporation

S**eparate legal entity, Continuous life, limited liability, corporate taxation**

2. What are the principal sources of corporation capital?

   Shares, issuing stocks

3. It what situations are organization recognized gain/loss at the time of disposal of plant assets?

   On exchange of dissimilar assets - is the difference between trade in allowance book value

4. What are the three component that the information is said to be useful for decision making?

   It has to be relevant, reliable and comparable

Part IV: Work Out (7 pts)

1. Assume RINO a merchandising company made the following purchases during 2008.

August 15	500 units at 25 = 12,500
July 31	4, 800 units at 26 = 124,800
October 18	5, 500 units at 23 = 126,500
November 28	6000 units at 21 = 126,000
	16,800 units

389,800

In addition RINO sold all inventories at the end of October and had a zero balance. If RINO's balance sheet shows an ending inventory of 4,000 unit and a zero beginning balance compute the cost of ending inventories using:

a) FIFO method (2 pts.)

Total cost of 16,800 units available for sale……. 389,800

Less: ending inventory under FIFO

4,000 units from Nov 28 at 21$……84,000

CGS ……305,800

b) LIFO method (2 pts.)

Total cost of 16,800 units available for sale……. 389,800

Less: ending inventory under LIFO

500 units from Aug 15 at 25$……12,500

3500 units from July 31 at 26$……91,000

Ending inventory ……103,500

CGS……286,300

c) Weighted average (3 pts.)

Weighted average cost per unit = 389,800/16,800= 23.202

Total cost of 16,800 units available for sale……. 389,800

Less; Ending inventory priced on a weighted average cost basis;

4,000 units at 23.202 $ each……92,808

CGS……296,992