CHAPTER 9

ACCOUNTING FOR RECEIVABLES

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	9.	3	C	17.	3	C	25.	5	K	[sg]33.	3	K
2.	1	C	10.	3	C	18.	3	K	26.	5	AP	[sg]34.	4	C
3.	1	C	11.	3	C	19.	3	K	27.	5	K	[sg]35.	5	K
4.	2	K	12.	3	K	20.	4	K	28.	5	K	[sg]36.	8	K
5.	2	K	13.	3	K	21.	4	K	29.	9	K	[sg]37.	9	K
6.	2	K	14.	3	K	22.	4	K	30.	9	K			
7.	2	K	15.	3	C	23.	4	C	[sg]31.	1	K			
8.	3	C	16.	3	C	24.	4	K	[sg]32.	3	K			
Multiple Choice Questions														
38.	1	K	67.	3	K	96.	3	AP	125.	5	AP	154.	9	AP
39.	1	K	68.	3	C	97.	3	AP	126.	5	K	155.	9	AP
40.	1	K	69.	3	K	98.	3	AP	127.	5	K	[sg]156.	1	K
41.	1	C	70.	3	C	99.	3	AP	128.	5	K	[sg]157.	2	K
42.	1	K	71.	3	K	100.	3	AP	129.	5	C	[st]158.	3	K
43.	1	K	72.	3	K	101.	3	AP	130.	5	AP	[sg]159.	3	K
44.	2	K	73.	3	K	102.	3	AP	131.	5	AP	[st]160.	3	K
45.	2	K	74.	3	K	103.	3	AP	132.	5	AP	[sg]161.	3	AP
46.	2	K	75.	3	C	104.	3	AP	133.	5	AP	[st]162.	4	K
47.	2	K	76.	3	C	105.	3	AP	134.	5	AP	[sg]163.	4	AP
48.	2	C	77.	3	C	106.	3	AP	135.	5	AP	[st]164.	5	K
49.	2	C	78.	3	K	107.	4	AP	136.	6	AP	[sg]165.	5	AP
50.	2	AP	79.	3	C	108.	4	AP	137.	8	AP	[st]166.	8	K
51.	2	C	80.	3	C	109.	4	C	138.	6	K	[sg]167.	9	C
52.	2	C	81.	3	C	110.	4	AP	139.	6	K	[st]168.	9	K
53.	2	AN	82.	3	K	111.	4	C	140.	6	C	169.	10	K
54.	3	C	83.	3	K	112.	4	K	141.	6	K	170.	10	K
55.	2	K	84.	3	AN	113.	4	K	142.	6	AP	171.	10	K
56.	3	AN	85.	3	K	114.	4	K	143.	6	K	172.	10	K
57.	2	C	86.	3	K	115.	4	K	144.	7	K	173.	10	K
58.	2	AP	87.	3	C	116.	4	K	145.	7	C	174.	10	K
59.	3	C	88.	3	C	117.	4	C	146.	8	C	175.	10	K
60.	3	C	89.	3	C	118.	4	AP	147.	8	AN	176.	10	K
61.	3	C	90.	3	C	119.	4	K	148.	8	C	177.	10	K
62.	3	C	91.	3	C	120.	4	K	149.	9	AP	178.	10	K
63.	3	K	92.	3	C	121.	5	K	150.	9	K	179.	10	K
64.	3	AP	93.	3	C	122.	5	AP	151.	9	K			
65.	3	C	94.	3	C	123.	5	AP	152.	9	AP			
66.	3	C	95.	3	C	124.	5	AP	153.	9	AP			

[sg] This question also appears in the Study Guide.
[st] This question also appears in a self-test at the student companion website.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Brief Exercises														
180.	2	AN	183.	3	AN	186.	5,6	AN	189.	8	AN			
181.	3	AN	184.	4	AP	187.	5,8	AP	190.	8	AN			
182.	3	AN	185.	5	AP	188.	6	AP	191.	9	AN			
Exercises														
192.	1	C	198.	3	AN	204.	3,8	AN	210.	5	AP	216.	8	AP
193.	1,8	AN	199.	3	AN	205.	4	AN	211.	5	AN	217.	9	AN
194.	2	AN	200.	3	AN	206.	4	AP	212.	5,6	AN	218.	9	AN
195.	2	AP	201.	3	AN	207.	4	AP	213.	5,6,8	AP			
196.	3	AN	202.	3	AP	208.	4	AP	214.	6,8	AN			
197.	3	AN	203.	3	AN	209.	5	AP	215.	6,8	AP			
Completion Statements														
219.	1	K	222.	3	K	225.	3	K	228.	4	K	231.	8	K
220.	2	K	223.	3	K	226.	3	K	229.	4	K	232.	8	K
221.	2	K	224.	3	K	227.	3	K	230.	5	AP			
Matching Statements														
233.	1	K												
Short-Answer Essay														
234.	3	K	236.	3	K	238.	4	K	240.	3	K			
235.	1	K	237.	1	K	239.	1	K	241.	3	K			

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	31.	TF	40.	MC	43.	MC	193.	Ex	235.	SA		
2.	TF	38.	MC	41.	MC	156.	MC	219.	C	237.	SA		
3.	TF	39.	MC	42.	MC	192.	Ex	233.	MA	239.	SA		
Learning Objective 2													
4.	TF	44.	MC	48.	MC	52.	MC	58.	MC	195.	Ex		
5.	TF	45.	MC	49.	MC	53.	MC	157.	MC	220.	C		
6.	TF	46.	MC	50.	MC	55.	MC	180.	BE	221.	C		
7.	TF	47.	MC	51.	MC	57.	MC	194.	Ex				
Learning Objective 3													
8.	TF	33.	TF	69.	MC	82.	MC	95.	MC	159.	MC	203.	Ex
9.	TF	54.	MC	70.	MC	83.	MC	96.	MC	160.	MC	204.	Ex
10.	TF	56.	MC	71.	MC	84.	MC	97.	MC	161.	MC	222.	C
11.	TF	59.	MC	72.	MC	85.	MC	98.	MC	181.	BE	223.	C
12.	TF	60.	MC	73.	MC	86.	MC	99.	MC	182.	BE	224.	C
13.	TF	61.	MC	74.	MC	87.	MC	100.	MC	183.	BE	225.	C
14.	TF	62.	MC	75.	MC	88.	MC	101.	MC	196.	Ex	226.	C
15.	TF	63.	MC	76.	MC	89.	MC	102.	MC	197.	Ex	227.	C
16.	TF	64.	MC	77.	MC	90.	MC	103.	MC	198.	Ex	234.	SA
17.	TF	65.	MC	78.	MC	91.	MC	104.	MC	199.	Ex	236.	SA
18.	TF	66.	MC	79.	MC	92.	MC	105.	MC	200.	Ex	240.	SA
19.	TF	67.	MC	80.	MC	93.	MC	106.	MC	201.	Ex	241.	SA
32.	TF	68.	MC	81.	MC	94.	MC	158.	MC	202.	Ex		

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 4													
20.	TF	34.	TF	111.	MC	116.	MC	162.	MC	207.	Ex		
21.	TF	107.	MC	112.	MC	117.	MC	163.	MC	208.	Ex		
22.	TF	108.	MC	113.	MC	118.	MC	184.	BE	228.	C		
23.	TF	109.	MC	114.	MC	119.	MC	205.	Ex	229.	C		
24.	TF	110.	MC	115.	MC	120.	MC	206.	Ex	238.	SA		
Learning Objective 5													
25.	TF	121.	MC	126.	MC	131.	MC	164.	MC	209.	Ex	230.	C
26.	TF	122.	MC	127.	MC	132.	MC	165.	MC	210.	Ex		
27.	TF	123.	MC	128.	MC	133.	MC	185.	BE	211.	Ex		
28.	TF	124.	MC	129.	MC	134.	MC	186.	BE	212.	Ex		
35.	TF	125.	MC	130.	MC	135.	MC	187.	BE	213.	Ex		
Learning Objective 6													
136.	MC	139.	MC	141.	MC	143.	MC	188.	BE	215.	Ex		
138.	MC	140.	MC	142.	MC	186.	BE	214.	Ex				
Learning Objective 7													
144.	MC	145.	MC										
Learning Objective 8													
36.	TF	147.	MC	187.	BE	193.	Ex	214.	Ex	231.	C		
137.	MC	148.	MC	189.	BE	204.	Ex	215.	Ex	232.	C		
146.	MC	166.	MC	190.	BE	213.	Ex	216.	Ex				
Learning Objective 9													
29.	TF	150.	MC	154.	MC	191.	BE						
30.	TF	151.	MC	155.	MC	217.	Ex						
37.	TF	152.	MC	167.	MC	218.	Ex						
149.	MC	153.	MC	168.	MC								
Learning Objective 10													
169.	MC	171.	MC	173.	MC	175.	MC	177.	MC	179.	MC		
170.	MC	172.	MC	174.	MC	176.	MC	178.	MC				

Note: TF = True-False BE = Brief Exercise C = Completion
MC = Multiple Choice Ex = Exercise MA = Matching
SA = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

1. ***Identify the different types of receivables.*** Receivables are frequently classified as (1) accounts, (2) notes, and (3) other. Accounts receivable are amounts customers owe on account. Notes receivable are claims for which lenders issue formal instruments of credit as proof of debt. Other receivables include nontrade receivables such as interest receivable, loans to company officers, advances to employees, and income taxes refundable.
2. ***Explain how companies recognize accounts receivable.*** Companies record accounts receivable when they provide a service on account or at the point of sale of merchandise on account. Account receivable are reduced by sales returns and allowances. Cash discounts reduce the amount received on accounts receivable. When interest is charged on a past due receivable, the company adds this interest to the accounts receivable balance and recognizes it as interest revenue.

3. ***Distinguish between the methods and bases companies use to value accounts receivable.*** There are two methods of accounting for uncollectible accounts: the allowance method and the direct write-off method. Companies may use either the percentage-of-sales or the percentage-of-receivables basis to estimate uncollectible accounts using the allowance method. The percentage-of-sales basis emphasizes the expense recognition principle. The percentage-of-receivables basis emphasizes the cash realizable value of the accounts receivable. An aging schedule is often used with this basis.
4. ***Describe the entries to record the disposition of accounts receivable.*** When a company collects an account receivable, it credits Accounts Receivable. When a company sells (factors) an account receivable, a service charge expense reduces the amount collected.
5. ***Compute the maturity date of and interest on notes receivable.*** For a note stated in months, the maturity date is found by counting the months from the date of issue. For a note stated in days, the number of days is counted, omitting the issue date and counting the due date. The formula for computing interest is Face value × Interest rate × Time.
6. ***Explain how companies recognize notes receivable.*** Companies record notes receivable at face value. In some cases, it is necessary to accrue interest prior to maturity. In this case, companies debit Interest Receivable and credit Interest Revenue.
7. ***Describe how companies value notes receivable.*** As with accounts receivable, companies report notes receivable at their cash (net) realizable value. The notes receivable allowance account is the Allowance for Doubtful Accounts. The computation and estimations involved in valuing notes receivable at cash realizable value, and in recording the proper amount of bad debt expense and related allowance, are similar to those for accounts receivable.
8. ***Describe the entries to record the disposition of notes receivable.*** Notes can be held to maturity. At that time the face value plus accrued interest is due, and the note is removed from the accounts. In many cases, the holder of the note speeds up the conversion by selling the receivable to another party (a factor). In some situations, the maker of the note dishonors the note (defaults), in which case the company transfers the note and accrued interest to an accounts receivable or writes off the note.
9. ***Explain the statement presentation and analysis of receivables.*** Companies should identify in the balance sheet or in the notes to the financial statements each major type of receivable. Short-term receivables are considered current assets. Companies report the gross amount of receivables and the allowance for doubtful accounts. They report bad debts and service charge expenses in the multiple-step income statement as operating (selling) expenses: Interest revenue appears under other revenues and gains in the nonoperating activities section of the statement. Managers and investors evaluate accounts receivable for liquidity by computing a turnover ratio and an average collection period.

TRUE-FALSE STATEMENTS

1. Trade receivables occur when two companies trade or exchange notes receivables.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

2. Other receivables include nontrade receivables such as loans to company officers.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

3. Both accounts receivable and notes receivable represent claims that are expected to be collected in cash.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

4. Receivables are valued and reported in the balance sheet at their gross amount less any sales returns and allowances and less any cash discounts.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. The three primary accounting problems with accounts receivable are: (1) recognizing, (2) depreciating, and (3) disposing.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

6. Accounts receivable are the result of cash and credit sales.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

7. If a retailer assesses a finance charge on the amount owed by a customer, Accounts Receivable is debited for the amount of the interest.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

8. If a company uses the allowance method to account for uncollectible accounts, the entry to write off an uncollectible account only involves balance sheet accounts.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

9. The percentage of receivables basis of estimating expected uncollectible accounts emphasizes income statement relationships.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

10. Under the direct write-off method, no attempt is made to match bad debts expense to sales revenues in the same accounting period.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

11. Allowance for Doubtful Accounts is debited under the direct write-off method when an account is determined to be uncollectible.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

12. Allowance for Doubtful Accounts is a contra asset account.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

13. Cash realizable value is determined by subtracting Allowance for Doubtful Accounts from Net Sales.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

14. Generally accepted accounting principles require that the direct write-off method be used for financial reporting purposes if it is also used for tax purposes.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. Under the allowance method, Bad Debts Expense is debited when an account is deemed uncollectible and must be written off.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

16. Under the allowance method, the cash realizable value of receivables is the same both before and after an account has been written off.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

17. The percentage of sales basis for estimating uncollectible accounts always results in more Bad Debt Expense being recognized than the percentage of receivables basis.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

18. An aging schedule is prepared only for old accounts receivables that have been past due for more than one year.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

19. An aging of accounts receivable schedule is based on the premise that the longer the period an account remains unpaid, the greater the probability that it will eventually be collected.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

20. Sales resulting from the use of Visa and MasterCard are considered credit sales by the retailer.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

21. A factor purchases receivables from businesses for a fee and collects the remittances directly from customers.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

22. A major advantage of national credit cards to retailers is that there is no charge to the retailer by the credit card companies for their services.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

23. Receivables may be sold because they may be the only reasonable source of cash.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

24. If a retailer accepts a national credit card such as Visa, the retailer must maintain detailed records of customer accounts.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

25. A note receivable is a written promise by the maker to the payee to pay a specified amount of money at a definite time.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26. The maturity date of a 1-month note receivable dated June 30 is July 30.

Ans: T, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

27. The two key parties to a note are the maker and the payee.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

28. When the due date of a note is stated in months, the time factor in computing interest is the number of months divided by 360 days.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

29. The accounts receivable turnover is computed by dividing total sales by the average net receivables during the year.

Ans: F, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

30. Both the gross amount of receivables and the allowance for doubtful accounts should be reported in the financial statements.

Ans: T, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

31. Notes receivable represent claims for which formal instruments of credit are issued as evidence of debt.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

32. The two methods of accounting for uncollectible accounts are (a) percentage of sales and (b) percentage of receivables.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

33. The account Allowance for Doubtful Accounts is closed out at the end of the year.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

34. In order to accelerate the receipt of cash from receivables, owners may sell the receivables to another company for cash.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

35. When counting the exact number of days to determine the maturity date of a note, the date of issue is included but the due date is omitted.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

36. A note is dishonored when it is not fully paid at maturity.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

37. Short-term receivables are reported in the current assets section before temporary investments.

Ans: F, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	T	13.	F	19.	F	25.	T	31.	T	37.	F
2.	T	8.	T	14.	F	20.	F	26.	T	32.	F		
3.	T	9.	F	15.	F	21.	T	27.	T	33.	F		
4.	F	10.	T	16.	T	22.	F	28.	F	34.	T		
5.	F	11.	F	17.	F	23.	T	29.	F	35.	F		
6.	F	12.	T	18.	F	24.	F	30.	T	36.	T		

MULTIPLE CHOICE QUESTIONS

38. Claims for which formal instruments of credit are issued as proof of the debt are
    a. accounts receivable.
    b. interest receivable.
    c. notes receivable.
    d. other receivables.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

39. Interest is usually associated with
    a. accounts receivable.
    b. notes receivable.
    c. doubtful accounts.
    d. bad debts.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

40. The receivable that is usually evidenced by a formal instrument of credit is a(n)
    a. trade receivable.
    b. note receivable.
    c. accounts receivable.
    d. income tax receivable.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

41. Which of the following receivables would **not** be classified as an "other receivable"?
    a. Advance to an employee
    b. Refundable income tax
    c. Notes receivable
    d. Interest receivable

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

42. Notes or accounts receivables that result from sales transactions are often called
    a. sales receivables.
    b. non-trade receivables.
    c. trade receivables.
    d. merchandise receivables.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

43. The term "receivables" refers to
    a. amounts due from individuals or companies.
    b. merchandise to be collected from individuals or companies.
    c. cash to be paid to creditors.
    d. cash to be paid to debtors.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

44. A cash discount is usually granted to all of the following **except**
    a. retail customers.
    b. retailers.
    c. wholesalers.
    d. All of these are granted discounts.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

45. Which one of the following is **not** a primary problem associated with accounts receivable?
    a. Depreciating accounts receivable
    b. Recognizing accounts receivable
    c. Valuing accounts receivable
    d. Disposing of accounts receivable

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

46. Trade accounts receivable are valued and reported on the balance sheet
    a. in the investment section.
    b. at gross amounts less sales returns and allowances.
    c. at net realizable value.
    d. only if they are not past due.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

47. Three accounting issues associated with accounts receivable are
    a. depreciating, returns, and valuing.
    b. depreciating, valuing, and collecting.
    c. recognizing, valuing, and disposing.
    d. accrual, bad debts, and disposing.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

48. Which of the following would require a compound journal entry?
    a. To record merchandise returned that was previously purchased on account.
    b. To record sales on account.
    c. To record purchases of inventory when a discount is offered for prompt payment.
    d. To record collection of accounts receivable when a cash discount is taken.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

49. Which of the following would be considered as an unlikely occurrence?
    a. Manufacturer offers a cash discount to a wholesaler.
    b. Wholesaler offers a cash discount to a retailer.
    c. Retailer offers a cash discount to a customer.
    d. All of these are standard practices.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

50. A customer charges a treadmill at Annie's Sport Shop. The price is $4,000 and the financing charge is 6% per annum if the bill is not paid in 30 days. The customer fails to pay the bill within 30 days and a finance charge is added to the customer's account.

    What is the amount of the finance charge?
    a. $8
    b. $20
    c. $80
    d. $240

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $4,000 × .06 × 30/360 = $20

51. A customer charges a treadmill at Annie's Sport Shop. The price is $4,000 and the financing charge is 9% per annum if the bill is not paid in 30 days. The customer fails to pay the bill within 30 days and a finance charge is added to the customer's account.

    The accounts affected by the journal entry made by Annie's Sport Shop to record the finance charge are
    a. Accounts Receivable
            Cash
    b. Cash
            Finance Receivable
    c. Accounts Receivable
            Interest Payable
    d. Accounts Receivable
            Interest Revenue

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

52. Which of the following practices by a credit card company results in lower interest charges to the cardholder?
    a. The card company states interest as a monthly percentage rather than an annual percentage.
    b. The card company allows a grace period before interest is accrued.
    c. The card company allows cardholders to skip payments on their cards.
    d. The card company calculates finance charges from the date of purchase to the date the amount is paid.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

53. If a department store fails to make the entry to accrue the finance charges due from customers,
    a. accounts receivable will be overstated.
    b. interest revenue will be understated.
    c. interest expense will be overstated.
    d. interest expense will be understated.

Ans: B, LO: 2, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

54. Under the allowance method, writing off an uncollectible account
    a. affects only balance sheet accounts.
    b. affects both balance sheet and income statement accounts.
    c. affects only income statement accounts.
    d. is not acceptable practice.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

55. The net amount expected to be received in cash from receivables is termed the
    a. cash realizable value.
    b. cash-good value.
    c. gross cash value.
    d. cash-equivalent value.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

56. If a company fails to record estimated bad debts expense,
    a. cash realizable value is understated.
    b. expenses are understated.
    c. revenues are understated.
    d. receivables are understated.

Ans: B, LO: 3, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

57. Lifetime sells softball equipment. On November 14, they shipped $3,000 worth of softball uniforms to Palos Middle School, terms 2/10, n/30. On November 21, they received an order from Tinley High School for $1,800 worth of custom printed bats to be produced in December. On November 30, Palos Middle School returned $300 of defective merchandise. Lifetime has received no payments from either school as of month end. What amount will be recognized as net accounts receivable on the balance sheet as of November 30?
    a. $2,700
    b. $3,000
    c. $4,500
    d. $4,800

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $3,000 – $300 = $2,700

58. Syfy Company on July 15 sells merchandise on account to Eureka Co. for $5,000, terms 2/10, n/30. On July 20 Eureka Co. returns merchandise worth $2,000 to Syfy Company. On July 24 payment is received from Eureka Co. for the balance due. What is the amount of cash received?
    a. $2,900
    b. $2,940
    c. $3,000
    d. $5,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($5,000 – $2,000) × .98 = $2,940

59. The existing balance in Allowance for Doubtful Accounts is considered in computing bad debt expense in the
    a. direct write-off method.
    b. percentage of receivables basis.
    c. percentage of sales basis.
    d. percentage of receivables and percentage of sales basis.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

60. When the allowance method is used to account for uncollectible accounts, Bad Debt Expense is debited when
    a. a sale is made.
    b. an account becomes bad and is written off.
    c. management estimates the amount of uncollectibles.
    d. a customer's account becomes past-due.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

61. When an account becomes uncollectible and must be written off,
    a. Allowance for Doubtful Accounts should be credited.
    b. Accounts Receivable should be credited.
    c. Bad Debt Expense should be credited.
    d. Sales Revenue should be debited.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

62. The collection of an account that had been previously written off under the allowance method of accounting for uncollectibles
    a. will increase income in the period it is collected.
    b. will decrease income in the period it is collected.
    c. requires a correcting entry for the period in which the account was written off.
    d. does not affect income in the period it is collected.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

63. The percentage of sales basis of estimating expected uncollectibles
    a. emphasizes the matching of expenses with revenues.
    b. emphasizes balance sheet relationships.
    c. emphasizes cash realizable value.
    d. is not generally accepted as a basis for estimating bad debts.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

64. An aging of a company's accounts receivable indicates that $14,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $1,100 credit balance, the adjustment to record bad debts for the period will require a
    a. debit to Bad Debt Expense for $14,000.
    b. debit to Allowance for Doubtful Accounts for $12,900.
    c. debit to Bad Debt Expense for $12,900.
    d. credit to Allowance for Doubtful Accounts for $14,000.

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $14,000 – $1,100 = $12,900

65. A debit balance in the Allowance for Doubtful Accounts
    a. is the normal balance for that account.
    b. indicates that actual bad debt write-offs have exceeded previous provisions for bad debts.
    c. indicates that actual bad debt write-offs have been less than what was estimated.
    d. cannot occur if the percentage of sales method of estimating bad debts is used.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

66. Under the direct write-off method of accounting for uncollectible accounts, Bad Debt Expense is debited
    a. when a credit sale is past due.
    b. at the end of each accounting period.
    c. whenever a pre-determined amount of credit sales have been made.
    d. when an account is determined to be uncollectible.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

67. An alternative name for Bad Debt Expense is
    a. Deadbeat Expense.
    b. Uncollectible Accounts Expense.
    c. Collection Expense.
    d. Credit Loss Expense.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

68. A reasonable amount of uncollectible accounts is evidence
    a. that the credit policy is too strict.
    b. that the credit policy is too lenient.
    c. of a sound credit policy.
    d. of poor judgments on the part of the credit manager.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

69. Bad Debt Expense is considered
    a. an avoidable cost in doing business on a credit basis.
    b. an internal control weakness.
    c. a necessary risk of doing business on a credit basis.
    d. avoidable unless there is a recession.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

70. The best managed companies will have
    a. no uncollectible accounts.
    b. a very strict credit policy.
    c. a very lenient credit policy.
    d. some accounts that will prove to be uncollectible.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

71. Two methods of accounting for uncollectible accounts are the
    a. allowance method and the accrual method.
    b. allowance method and the net realizable method.
    c. direct write-off method and the accrual method.
    d. direct write-off method and the allowance method.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

72. The allowance method of accounting for uncollectible accounts is required if
    a. the company makes any credit sales.
    b. bad debts are significant in amount.
    c. the company is a retailer.
    d. the company charges interest on accounts receivable.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

73. Bad Debt Expense is reported on the income statement as
    a. part of cost of goods sold.
    b. reducing gross profit.
    c. an operating expense.
    d. a contra-revenue account.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

74. When the allowance method of accounting for uncollectible accounts is used, Bad Debt Expense is recorded
    a. in the year after the credit sale is made.
    b. in the same year as the credit sale.
    c. as each credit sale is made.
    d. when an account is written off as uncollectible.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

75. The method of accounting for uncollectible accounts that results in a better matching of expenses with revenues is the
    a. aging accounts receivable method.
    b. direct write-off method.
    c. percentage of receivables method.
    d. percentage of sales method.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

76. To record estimated uncollectible accounts using the allowance method, the adjusting entry would be a
    a. debit to Accounts Receivable and a credit to Allowance for Doubtful Accounts.
    b. debit to Bad Debt Expense and a credit to Allowance for Doubtful Accounts.
    c. debit to Allowance for Doubtful Accounts and a credit to Accounts Receivable.
    d. debit to Loss on Credit Sales Revenue and a credit to Accounts Receivable.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

77. Under the allowance method of accounting for uncollectible accounts,
    a. the cash realizable value of accounts receivable is greater before an account is written off than after it is written off.
    b. Bad Debt Expense is debited when a specific account is written off as uncollectible.
    c. the cash realizable value of accounts receivable in the balance sheet is the same before and after an account is written off.
    d. Allowance for Doubtful Accounts is closed each year to Income Summary.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

78. Allowance for Doubtful Accounts on the balance sheet
    a. is offset against total current assets.
    b. increases the cash realizable value of accounts receivable.
    c. appears under the heading "Other Assets."
    d. is offset against accounts receivable.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

79. When an account is written off using the allowance method, the
    a. cash realizable value of total accounts receivable will increase.
    b. cash realizable value of total accounts receivable will decrease.
    c. allowance account will increase.
    d. cash realizable value of total accounts receivable will stay the same.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

80. If an account is collected after having been previously written off,
    a. the allowance account should be debited.
    b. only the control account needs to be credited.
    c. both income statement and balance sheet accounts will be affected.
    d. there will be both a debit and a credit to accounts receivable.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

81. When an account is written off using the allowance method, accounts receivable
    a. is unchanged and the allowance account increases.
    b. increases and the allowance account increases.
    c. decreases and the allowance account decreases.
    d. decreases and the allowance account increases.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

82. Two bases for estimating uncollectible accounts are:
   a. percentage of assets and percentage of sales.
   b. percentage of receivables and percentage of total revenue.
   c. percentage of current assets and percentage of sales.
   d. percentage of receivables and percentage of sales.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

83. The percentage of receivables basis for estimating uncollectible accounts emphasizes
   a. cash realizable value.
   b. the relationship between accounts receivable and bad debts expense.
   c. income statement relationships.
   d. the relationship between sales and accounts receivable.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

84. Haven Company uses the percentage of sales method for recording bad debts expense. For the year, cash sales are $600,000 and credit sales are $2,700,000. Management estimates that 1% is the sales percentage to use. What adjusting entry will Haven Company make to record the bad debts expense?

a.	Bad Debt Expense	33,000	
	Allowance for Doubtful Accounts		33,000
b.	Bad Debt Expense	27,000	
	Allowance for Doubtful Accounts		27,000
c.	Bad Debt Expense	27,000	
	Accounts Receivable		27,000
d.	Bad Debt Expense	33,000	
	Accounts Receivable		33,000

Ans: B, LO: 3, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $2,700,000 × .01 = $27,000

85. The balance of Allowance for Doubtful Accounts prior to making the adjusting entry to record estimated uncollectible accounts
   a. is relevant when using the percentage of receivables basis.
   b. is relevant when using the percentage of sales basis.
   c. is relevant to both bases of adjusting for uncollectible accounts.
   d. will never show a debit balance at this stage in the accounting cycle.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

86. The direct write-off method of accounting for bad debts
   a. uses an allowance account.
   b. uses a contra-asset account.
   c. does not require estimates of bad debt losses.
   d. is the preferred method under generally accepted accounting principles.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

87. Under the direct write-off method of accounting for uncollectible accounts
    a. the allowance account is increased for the actual amount of bad debt at the time of write-off.
    b. a specific account receivable is decreased for the actual amount of bad debt at the time of write-off.
    c. balance sheet relationships are emphasized.
    d. bad debt expense is always recorded in the period in which the revenue was recorded.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

88. An aging of a company's accounts receivable indicates that $5,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $900 credit balance, the adjustment to record bad debts for the period will require a
    a. debit to Bad Debt Expense for $5,000.
    b. debit to Allowance for Doubtful Accounts for $4,100.
    c. debit to Bad Debt Expense for $4,100.
    d. credit to Allowance for Doubtful Accounts for $5,000.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $5,000 − $900 = $4,100

89. An aging of a company's accounts receivable indicates that $3,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $800 debit balance, the adjustment to record bad debts for the period will require a
    a. debit to Bad Debt Expense for $2,200.
    b. debit to Bad Debt Expense for $3,000.
    c. debit to Bad Debt Expense for $3,800.
    d. credit to Allowance for Doubtful Accounts for $800.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $3,000 + $800 = $3,800

90. Using the percentage-of-receivables method for recording bad debts expense, estimated uncollectible accounts are $32,000. If the balance of the Allowance for Doubtful Accounts is $8,000 debit before adjustment, what is the amount of bad debt expense for that period?
    a. $8,000
    b. $24,000
    c. $32,000
    d. $40,000

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $32,000 + $8,000 = $40,000

91. Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are $15,000. If the balance of the Allowance for Doubtful Accounts is $2,000 credit before adjustment, what is the amount of bad debt expense for that period?
    a. $2,000
    b. $13,000
    c. $15,000
    d. $17,000

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $15,000 – $2,000 = $13,000

92. Using the percentage of receivables method for recording bad debt expense, estimated uncollectible accounts are $14,000. If the balance of the Allowance for Doubtful Accounts is $2,000 debit before adjustment, what is the balance after adjustment?
    a. $2,000
    b. $12,000
    c. $14,000
    d. $16,000

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $14,000 + $2,000 = $16,000

93. Using the percentage-of-receivables basis, the uncollectible accounts for the year is estimated to be $38,000. If the balance for the Allowance for Doubtful Accounts is a $7,000 credit before adjustment, what is the amount of bad debt expense for the period?
    a. $7,000
    b. $31,000
    c. $38,000
    d. $45,000

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $38,000 – $7,000 = $31,000

94. Using the percentage-of-receivables basis, the uncollectible accounts for the year is estimated to be $38,000. If the balance for the Allowance for Doubtful Accounts is a $7,000 debit before adjustment, what is the amount of bad debt expense for the period?
    a. $7,000
    b. $31,000
    c. $38,000
    d. $45,000

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $38,000 + $7,000 = $45,000

95. In reviewing the accounts receivable, the cash realizable value is $16,000 before the write-off of a $1,500 account. What is the cash realizable value after the write-off?
    a. $1,500
    b. $14,500
    c. $16,000
    d. $17,500

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

96. In 2014, Warehouse 13 had net credit sales of $750,000. On January 1, 2014, Allowance for Doubtful Accounts had a credit balance of $16,000. During 2014, $29,000 of uncollectible accounts receivable were written off. Past experience indicates that the allowance should be 10% of the balance in receivables (percentage of receivable basis). If the accounts receivable balance at December 31 was $150,000, what is the required adjustment to the Allowance for Doubtful Accounts at December 31, 2014?
   a. $150,000
   b. $29,000
   c. $28,000
   d. $31,000

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($150,000 × .10) + ($29,000 − $16,000) = $28,000

97. A company has net credit sales of $750,000 for the year and it estimates that uncollectible accounts will be 2% of sales. If Allowance for Doubtful Accounts has a credit balance of $2,000 prior to adjustment, its balance after adjustment will be a credit of
   a. $13,000.
   b. $15,000.
   c. $15,040.
   d. $17,000.

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($750,000 × .02) + $2,000 = $17,000

98. In 2014, Chandler Company had net credit sales of $1,125,000. On January 1, 2014, Allowance for Doubtful Accounts had a credit balance of $27,000. During 2014, $42,000 of uncollectible accounts receivable were written off. Past experience indicates that the allowance should be 10% of the balance in receivables (percentage of receivables basis). If the accounts receivable balance at December 31 was $380,000, what is the required adjustment to the Allowance for Doubtful Accounts at December 31, 2014?
   a. $23,000
   b. $38,000
   c. $53,000
   d. $97,500

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: ($380,000 × .10) + ($42,000 − $27,000) = $53,000

99. Using the following information:

	12/31/13
Accounts receivable	$525,000
Allowance	(35,000)
Cash realizable value	$490,000

During 2014, sales on account were $145,000 and collections on account were $100,000. Also during 2014, the company wrote off $4,000 in uncollectible accounts. An analysis of outstanding receivable accounts at year end indicated that uncollectible accounts should be estimated at $40,000.

The change in the cash realizable value from the balance at 12/31/13 to 12/31/14 was a
a. $36,000 increase.
b. $41,000 increase.
c. $44,000 increase.
d. $45,000 increase.

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $40,000 – $4,000 = $36,000

100. Using the following information:

	12/31/13
Accounts receivable	$525,000
Allowance	(35,000)
Cash realizable value	$490,000

During 2014, sales on account were $145,000 and collections on account were $100,000. Also during 2014, the company wrote off $4,000 in uncollectible accounts. An analysis of outstanding receivable accounts at year end indicated that uncollectible accounts should be estimated at $40,000.

Bad debt expense for 2014 is
a. $4,000.
b. $5,000.
c. $9,000
d. $40,000.

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $40,000 – ($35,000 – $4,000) = $9,000

101. During 2014, Alfred Inc. had sales on account of $198,000, cash sales of $81,000, and collections on account of $126,000. In addition, they collected $2,175 which had been written off as uncollectible in 2013. As a result of these transactions, the change in the accounts receivable balance indicates a
a. $69,825 increase.
b. $72,000 increase.
c. $150,825 increase.
d. $153,000 increase.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $198,000 – $126,000 = $72,000

102. Kill Corporation's unadjusted trial balance includes the following balances (assume normal balances):

Accounts Receivable	$850,000
Allowance for Doubtful Accounts	15,000

Bad debts are estimated to be 6% of outstanding receivables. What amount of bad debt expense will the company record?

a. $15,000
b. $36,000
c. $50,100
d. $51,000

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($850,000 × .06) − $15,000 = $36,000

103. Jack Company provides for bad debt expense at the rate of 2% of credit sales. The following data are available for 2014:

Allowance for doubtful accounts, 1/1/14 (Cr.)	$ 12,000
Accounts written off as uncollectible during 2014	9,000
Credit sales in 2014..	1,200,000

The Allowance for Doubtful Accounts balance at December 31, 2014, should be

a. $3,000.
b. $21,000.
c. $24,000.
d. $27,000.

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($1,200,000 × .02) + ($12,000 − $9,000) = $27,000

104. In 2014, Boyle Company had credit sales of $1,080,000 and granted sales discounts of $24,000. On January 1, 2014, Allowance for Doubtful Accounts had a credit balance of $26,400. During 2014, $45,000 of uncollectible accounts receivable were written off. Past experience indicates that 3% of net credit sales become uncollectible. What should be the adjusted balance of Allowance for Doubtful Accounts at December 31, 2014?

a. $13,080
b. $13,800
c. $31,680
d. $39,720

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $26,400 − $45,000 + [($1,080,000 − $24,000) × .03] = $13,080

105. An analysis and aging of the accounts receivable of Hugh Company at December 31 revealed the following data:

Accounts Receivable	$900,000
Allowance for Doubtful Accounts per books	
before adjustment (Cr.)	50,000
Amounts expected to become uncollectible	56,000

The cash realizable value of the accounts receivable at December 31, after adjustment, is:
a. $794,000.
b. $844,000.
c. $850,000.
d. $894,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $900,000 − $56,000 = $844,000

106. Herman Company has a debit balance of $5,000 in its Allowance for Doubtful Accounts before any adjustments are made at the end of the year. Based on review and aging of its accounts receivable at the end of the year, Herman estimates that $70,000 of its receivables are uncollectible. The amount of bad debt expense which should be reported for the year is:
a. $5,000.
b. $65,000.
c. $70,000.
d. $75,000.

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $70,000 + $5,000 = $75,000

107. On October 1, 2014, Milago Company sells (factors) $700,000 of receivables to Beanfield Factors, Inc. Beanfield assesses a service charge of 3% of the amount of receivables sold. The journal entry to record the sale by Milago will include
a. a debit of $700,000 to Accounts Receivable.
b. a credit of $721,000 to Cash.
c. a debit of $721,000 to Cash.
d. a debit of $21,000 to Service Charge Expense.

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $700,000 × .03 = $21,000

108. On March 1, 2014, Dick Miles purchased a suit at Kenny's Fine Apparel Store. The suit cost $600 and Dick used his Kenny credit card. Kenny charges 2% per month interest if payment on credit charges is not made within 30 days. On April 30, 2014, Dick had not yet made his payment. What entry should Kenny make on April 30th?

a.	Uncollectible Account	600	
	Accounts Receivable..		600
b.	Bad Debt Expense..	588	
	Interest Expense..	12	
	Accounts Receivable..		600
c.	Accounts Receivable	612	
	Interest Revenue..		12
	Sales Revenue..		600
d.	Accounts Receivable	12	
	Interest Revenue..		12

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $600 × .02 = $12

109. Jeff Retailers accepted $75,000 of Citibank Visa credit card charges for merchandise sold on July 1. Citibank charges 2% for its credit card use. The entry to record this transaction by Jeff Retailers will include a credit to Sales Revenue of $75,000 and a debit(s) to

a. Cash $73,500 and Service Charge Expense $1,500.
b. Accounts Receivable $73,500 and Service Charge Expense $1,500.
c. Cash $73,500 and Interest Expense $1,500.
d. Accounts Receivable $75,000.

Ans: A, LO: 4, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $75,000 – ($75,000 × .02) = $73,500

110. XYZ Company accepted a national credit card for a $4,000 purchase. The cost of the goods sold is $2,400. The credit card company charges a 3% fee. What is the impact of this transaction on net operating income?

a. Increase by $1,480
b. Increase by $1,552
c. Increase by $1,600
d. Increase by $3,880

Ans: A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($4,000 – $2,400) – ($4,000 × .03) = $1,480

111. Major advantages of credit cards to the retailer include all of the following *except* the

a. issuer does the credit investigation of customers.
b. issuer undertakes the collection process.
c. retailer receives more cash from the credit card issuer.
d. All of these are advantages.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

112. The sale of receivables by a business
    a. indicates that the business is in financial difficulty.
    b. is generally the major revenue item on its income statement.
    c. is an indication that the business is owned by a factor.
    d. can be a quick way to generate cash for operating needs.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

113. If a retailer regularly sells its receivables to a factor, the service charge of the factor should be classified as a(n)
    a. selling expense.
    b. interest expense.
    c. other expense.
    d. contra asset.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

114. If a company sells its accounts receivables to a factor,
    a. the seller pays a commission to the factor.
    b. the factor pays a commission to the seller.
    c. there is a gain on the sale of the receivables.
    d. the seller defers recognition of sales revenue until the account is collected.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

115. Retailers generally consider sales from the use of national credit card sales as a
    a. credit sale.
    b. collection of an accounts receivable.
    c. cash sale.
    d. collection of a note receivable.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

116. Receivables might be sold to
    a. lengthen the cash-to-cash operating cycle.
    b. take advantage of deep discounts on the cash realizable value of receivables.
    c. generate cash quickly.
    d. finance companies at an amount greater than cash realizable value.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

117. A company regularly sells its receivables to a factor who assesses a 2% service charge on the amount of receivables purchased. Which of the following statements is true for the seller of the receivables?
    a. The loss section of the income statement will increase each time receivables are sold.
    b. The credit to Accounts Receivable is less than the debit to Cash when the accounts are sold.
    c. Selling expenses will increase each time accounts are sold.
    d. The other expense section of the income statement will increase each time accounts are sold.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

118. T'Pol Furniture factors $900,000 of receivables to Trip Factors, Inc. Trip Factors assesses a 2% service charge on the amount of receivables sold. T'Pol Furniture factors its receivables regularly with Trip Factors. What journal entry does T'Pol make when factoring these receivables?

a. Cash	882,000	
Loss on Sale of Receivables	18,000	
Accounts Receivable		900,000
b. Cash	882,000	
Accounts Receivable		882,000
c. Cash	900,000	
Accounts Receivable		882,000
Gain on Sale of Receivables		18,000
d. Cash	882,000	
Service Charge Expense	18,000	
Accounts Receivable		900,000

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $900,000 − ($900,000 × .02) = $882,000

119. When customers make purchases with a national credit card, the retailer
  a. is responsible for maintaining customer accounts.
  b. is not involved in the collection process.
  c. absorbs any losses from uncollectible accounts.
  d. receives cash equal to the full price of the merchandise sold from the credit card company.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

120. The retailer considers Visa and MasterCard sales as
  a. cash sales.
  b. promissory sales.
  c. credit sales.
  d. contingent sales.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

121. The basic issues in accounting for notes receivable include each of the following *except*
  a. analyzing notes receivable.
  b. disposing of notes receivable.
  c. recognizing notes receivable.
  d. valuing notes receivable.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

122. A 60-day note receivable dated July 13 has a maturity date of
  a. September 12.
  b. September 11.
  c. September 10.
  d. September 13.

Ans: B, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: 60 − (31 − 13) − 31 = 11

123. The maturity value of a $50,000, 9%, 60-day note receivable dated July 3 is
   a. $50,000.
   b. $50,750.
   c. $54,500.
   d. $59,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $50,000 + ($50,000 × .09 × 60/360) = $50,750

124. A 90-day note dated May 14 has a maturity date of
   a. August 14.
   b. August 12.
   c. August 13.
   d. August 15.

Ans: B, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: 90 – (31 – 14) – 30 – 31 = 12

125. A 30-day note dated June 18 has a maturity date of
   a. July 19.
   b. July 18.
   c. July 17.
   d. July 16.

Ans: B, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: 30 – (30 – 18) = 18

126. A promissory note
   a. is not a formal credit instrument.
   b. may be used to settle an accounts receivable.
   c. has the party to whom the money is due as the maker.
   d. cannot be factored to another party.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

127. Which of the following is **not** true regarding a promissory note?
   a. Promissory notes may not be transferred to another party by endorsement.
   b. Promissory notes may be sold to another party.
   c. Promissory notes give a stronger legal claim to the holder than accounts receivable.
   d. Promissory notes may be bearer notes and not specifically identify the payee by name.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

128. The two key parties to a promissory note are the
   a. maker and a bank.
   b. debtor and the payee.
   c. maker and the payee.
   d. sender and the receiver.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

129. When calculating interest on a promissory note with the maturity date stated in terms of days, the
    a. maker pays more interest if 365 days are used instead of 360.
    b. maker pays the same interest regardless if 365 or 360 days are used.
    c. payee receives more interest if 360 days are used instead of 365.
    d. payee receives less interest if 360 days are used instead of 365.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

130. The maturity value of a $5,000, 9%, 60-day note receivable dated February 10th is
    a. $5,000.
    b. $5,038.
    c. $5,075.
    d. $5,450.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $5,000 + ($5,000 × .09 × 60/360) = $5,075

131. The interest on a $10,000, 8%, 1-year note receivable is
    a. $800.
    b. $10,000.
    c. $10,080.
    d. $10,800.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $10,000 × .08 = $800

132. The maturity value of a $70,000, 8%, 3-month note receivable is
    a. $70,467.
    b. $70,560.
    c. $71,400.
    d. $75,600.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $70,000 + ($70,000 × .08 × 3/12) = $71,400

133. The interest on a $6,000, 6%, 60-day note receivable is
    a. $60.
    b. $120.
    c. $180.
    d. $360.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $6,000 × .06 × 60/360 = $60

134. The interest on a $9,000, 6%, 90-day note receivable is
    a. $135.
    b. $270.
    c. $405.
    d. $540.

Ans: A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $9,000 × .06 × 90/360 = $135

135. On November 1, Gentle Company received a $3,000, 6%, three-month note receivable. The cash to be received by Gentle Company when the note becomes due is:
a. $3,000.
b. $3,030.
c. $3,045.
d. $3,180.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $3,000 + ($3,000 × .06 × 3/12) = $3,045

136. On January 15, 2014, Craig Company received a two-month, 9%, $9,000 note from William Pentel for the settlement of his open account. The entry by Craig Company on January 15, 2014 would include a:
a. debit of $9,135 to Notes Receivable.
b. debit of $9,000 to Notes Receivable.
c. credit of $9,135 to Accounts Receivable.
d. credit of $9,000 to Notes Receivable.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

137. On January 15, 2014, Craig Company received a two-month, 9%, $9,000 note from William Pentel for the settlement of his open account. The entry by Craig Company on March 15, 2014 if Pentel dishonors the note and collection is expected is:

a.	Accounts Receivable—W. Pentel	9,000	
	Notes Receivable		9,000
b.	Accounts Receivable—W. Pentel	9,135	
	Notes Receivable		9,000
	Interest Revenue		135
c.	Accounts Receivable—W. Pentel	8,865	
	Interest Lost	135	
	Notes Receivable		9,000
d.	Bad Debts Expense	9,135	
	Notes Receivable		9,135

Ans: B, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $9,000 + ($9,000 × .09 × 2/12) = $9,135

138. Notes receivable are recognized in the accounts at
a. cash (net) realizable value.
b. face value.
c. gross realizable value.
d. maturity value.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

139. A note receivable is a negotiable instrument which
a. eliminates the need for a bad debts allowance.
b. can be transferred to another party by endorsement.
c. takes the place of checks in a business firm.
d. can only be collected by a bank.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

140. A company that receives an interest bearing note receivable will
   a. debit Notes Receivable for the maturity value of the note.
   b. credit Notes Receivable for the maturity value of the note.
   c. debit Notes Receivable for the face value of the note.
   d. credit Notes Receivable for the face value of the note.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

141. The face value of a note refers to the amount
   a. that can be received if sold to a factor.
   b. borrowed plus interest received at maturity from the maker.
   c. that is identified on the formal instrument of credit.
   d. remaining after a service charge has been deducted.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

142. Reck Company receives a $15,000, 3-month, 8% promissory note from Fey Company in settlement of an open accounts receivable. What entry will Reck Company make upon receiving the note?

a.	Notes Receivable	15,300	
	Accounts Receivable—Fey Company		15,300
b.	Notes Receivable	15,300	
	Accounts Receivable—Fey Company		15,000
	Interest Revenue		300
c.	Notes Receivable	15,000	
	Interest Receivable	300	
	Accounts Receivable—Fey Company		15,000
	Interest Revenue		300
d.	Notes Receivable	15,000	
	Accounts Receivable—Fey Company		15,000

Ans: D, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

143. When a note is accepted to settle an open account, Notes Receivable is debited for the note's
   a. net realizable value.
   b. maturity value.
   c. face value.
   d. face value plus interest.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

144. Short-term notes receivable are reported at
   a. cash (net) realizable value.
   b. face value.
   c. gross realizable value.
   d. maturity value.

Ans: A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

145. Short-term notes receivables
    a. have a related allowance account called Allowance for Doubtful Notes Receivable.
    b. are reported at their gross realizable value.
    c. use the same estimations and computations as accounts receivable to determine cash realizable value.
    d. present the same valuation problems as long-term notes receivables.

Ans: C, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

146. When a note receivable is dishonored,
    a. interest revenue is never recorded.
    b. bad debts expense is recorded.
    c. the maturity value of the note is written off.
    d. Accounts Receivable is debited if eventual collection is expected.

Ans: D, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

147. Randie Company lends Luann Company $10,000 on April 1, accepting a four-month, 6% interest note. Randie Company prepares financial statements on April 30. What adjusting entry should be made before the financial statements can be prepared?

a.	Note Receivable	10,000	
	Cash		10,000
b.	Interest Receivable	50	
	Interest Revenue		50
c.	Cash	50	
	Interest Revenue		50
d.	Interest Receivable	200	
	Interest Revenue		200

Ans: B, LO: 8, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$10,000 \times .06 \times 1/12 = \$50$

148. When a note receivable is honored, Cash is debited for the note's
    a. net realizable value.
    b. maturity value.
    c. gross realizable value.
    d. face value.

Ans: B, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

149. Magneto Company had net credit sales during the year of $1,350,000 and cost of goods sold of $810,000. The balance in accounts receivable at the beginning of the year was $180,000, and the end of the year it was $120,000. What was the accounts receivable turnover?
    a. 5.6
    b. 7.5
    c. 9.0
    d. 11.3

Ans: C, LO: 9, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$1,350,000 \div [(\$180,000 + \$120,000) \div 2] = 9$

150. The average collection period for accounts receivable is computed by dividing 365 days by
   a. net credit sales.
   b. average accounts receivable.
   c. ending accounts receivable.
   d. accounts receivable turnover.

Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. The average collection period is computed by dividing
   a. net credit sales by average gross accounts receivable.
   b. net credit sales by ending gross accounts receivable.
   c. the accounts receivable turnover by 365 days.
   d. 365 days by the accounts receivable turnover.

Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. The financial statements of Danielle Manufacturing Company report net sales of $750,000 and accounts receivable of $60,000 and $90,000 at the beginning and end of the year, respectively. What is the accounts receivable turnover for Danielle?
   a. 5 times
   b. 8.3 times
   c. 10 times
   d. 12.5 times

Ans: C, LO: 9, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $750,000 ÷ [($60,000 + $90,000) ÷ 2] = 10

153. The financial statements of Danielle Manufacturing Company report net sales of $750,000 and accounts receivable of $60,000 and $90,000 at the beginning and end of the year, respectively. What is the average collection period for accounts receivable in days?
   a. 29.2
   b. 36.5
   c. 43.8
   d. 73

Ans: B, LO: 9, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $750,000 ÷ $75,000 = 10; 365 ÷ 10 = 36.5

154. The financial statements of Gervais Manufacturing Company report net sales of $500,000 and accounts receivable of $80,000 and $40,000 at the beginning and end of the year, respectively. What is the accounts receivable turnover for Gervais?
   a. 6.3 times
   b. 8.3 times
   c. 10 times
   d. 12.5 times

Ans: B, LO: 9, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $500,000 ÷ [($80,000 + $40,000) ÷ 2] = 8.3

155. The financial statements of Gervais Manufacturing Company report net sales of $500,000 and accounts receivable of $80,000 and $40,000 at the beginning and end of the year, respectively. What is the average collection period for accounts receivable in days?
   a. 29.2 days
   b. 36.5 days
   c. 43.8 days
   d. 57.9 days

Ans: C, LO: 9, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $500,000 ÷ $60,000 = 8.33; 365 ÷ 8.33 = 43.8

156. Which of the following are also called trade receivables?
   a. Accounts receivable
   b. Other receivables
   c. Advances to employees
   d. Income taxes refundable

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

157. On February 1, 2014, Fugit Company sells merchandise on account to Armen Company for $6,500. The entry to record this transaction by Fugit Company is

a. Sales Revenue	6,500	
Accounts Payable		6,500
b. Cash	6,500	
Sales Revenue		6,500
c. Accounts Receivable	6,500	
Sales Revenue		6,500
d. Notes Receivable	6,500	
Accounts Receivable		6,500

Ans: C, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

158. Writing off an uncollectible account under the allowance method requires a debit to
   a. Accounts Receivable.
   b. Allowance for Doubtful Accounts.
   c. Bad Debt Expense.
   d. Uncollectible Accounts Expense.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

159. When the allowance method of recognizing bad debts expense is used, the entry to recognize that expense
   a. increases net income.
   b. decreases current assets.
   c. has no effect on current assets.
   d. has no effect on net income.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

160. The direct write-off method
   a. is acceptable for financial reporting purposes.
   b. debits Allowance for Doubtful Accounts to record write-offs of accounts.
   c. shows only actual losses from uncollectible accounts receivable.
   d. estimates bad debt losses.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

161. Deborah Company's account balances at December 31 for Accounts Receivable and Allowance for Doubtful Accounts were $2,100,000 and $50,000 (Cr.), respectively. An aging of accounts receivable indicated that $180,000 are expected to become uncollectible. The amount of the adjusting entry for bad debts at December 31 is
   a. $130,000.
   b. $180,000.
   c. $210,000.
   d. $230,000.

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $180,000 − $50,000 = $130,000

162. In recording the sale of accounts receivable, the commission charged by a factor is recorded as
   a. Bad Debt Expense.
   b. Commission Expense.
   c. Loss on Sale of Receivables.
   d. Service Charge Expense.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

163. Schwartzman Co., makes a credit card sale to a customer for $800. The credit card sale has a grace period of 30 days and then an interest charge of 1.5% per month is added to the balance. If the unpaid balance on the above sale is $640 at the end of the grace period, the interest charge is
   a. $6.40.
   b. $9.60.
   c. $11.00.
   d. $16.00.

Ans: B, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $640 × .015 = $9.60

164. The interest rate specified on any note is for a
   a. day.
   b. month.
   c. week.
   d. year.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

165. On February 1, Ville Company received a $6,000, 5%, four-month note receivable. The cash to be received by Ville Company when the note becomes due is
   a. $100.
   b. $6,000.
   c. $6,100.
   d. $6,300.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $6,000 + ($6,000 × .05 × 4/12) = $6,100

166. The entry to record the dishonor of a note receivable assuming the payee expects eventual collection includes a debit to
   a. Notes Receivable.
   b. Cash.
   c. Allowance for Doubtful Accounts.
   d. Accounts Receivable.

Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

167. Which of the following statements concerning receivables is **incorrect**?
   a. Notes receivable are often listed last under receivables.
   b. The contingent liability from selling notes receivable should be disclosed.
   c. Both the gross amount of receivables and the allowance for doubtful accounts should be reported.
   d. Interest revenue and gain on sale of notes receivable are shown under other revenues and gains.

Ans: A, LO: 9, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

168. The accounts receivable turnover is computed by dividing
   a. total sales by average net accounts receivable.
   b. net credit sales by average net accounts receivable.
   c. total sales by ending net accounts receivable.
   d. net credit sales by ending net accounts receivable.

Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

169. Which receivables accounting and reporting issue is **not** essentially the same for IFRS and GAAP?
   a. The use of allowance accounts and the allowance method.
   b. How to record discounts.
   c. How to record factoring.
   d. All of these **are** essentially the same for IFRS and GAAP.

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

170. Which receivables accounting and reporting issue is essentially the same for IFRS and GAAP?
   a. The use of allowance accounts and the allowance method.
   b. How to record discounts.
   c. How to record factoring.
   d. All of these are essentially the same for IFRS and GAAP.

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

171. IFRS requires loans and receivables to be recorded at
   a. amortized cost.
   b. amortized cost, adjusted for allowances for doubtful accounts.
   c. unamortized cost.
   d. unamortized cost, adjusted for allowances for doubtful accounts.

IFRS: Ans: B, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

172. IFRS sometimes refers to allowances as
   a. revenues.
   b. discounts.
   c. provisions.
   d. reserves.

IFRS: Ans: C, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

173. IFRS
   a. implies that receivables with different characteristics should be reported separately.
   b. requires that receivables with different characteristics should be reported separately.
   c. implies that receivables with different characteristics should be reported as one unsegregated amount.
   d. requires that receivables with different characteristics should be reported as one unsegregated amount.

IFRS: Ans: A, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

174. Which board(s) has(have) worked to implement fair value measurement for financial instruments?
   a. FASB, but not IASB.
   b. IASB, but not FASB.
   c. both FASB and IASB.
   d. neither FASB nor IASB.

IFRS: Ans: C, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

175. Which board(s) has(have) faced bitter opposition when working to implement fair value measurement for financial instruments?
   a. FASB, but not IASB.
   b. IASB, but not FASB.
   c. both FASB and IASB.
   d. neither FASB nor IASB.

IFRS: Ans: C, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

176. Which is part of IFRS accounting for financial instruments?

	Disclosure of fair value information for receivables in the notes	Optional recording of some financial instruments at fair value
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

IFRS: Ans: A, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

177. Which requires a two-tiered approach to test whether the value of loans and receivables are impaired?

	GAAP	IFRS
a.	yes	no
b.	yes	yes
c.	no	no
d.	no	yes

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

178. What criteria are used to determine how to record a factoring transaction?

	GAAP	IFRS
a.	risks and rewards, and loss of control	risks and rewards, and loss of control
b.	risks and rewards, and loss of control	loss of control
c.	loss of control	loss of control
d.	loss of control	risks and rewards, and loss of control

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

179. Which permits partial derecognition of receivables?

	GAAP	IFRS
a.	yes	no
b.	yes	yes
c.	no	no
d.	no	yes

IFRS: Ans: D, LO: 10, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
38.	c	59.	b	80.	d	101.	b	122.	b	143.	c	164.	d
39.	b	60.	c	81.	c	102.	b	123.	b	144.	a	165.	c
40.	b	61.	b	82.	d	103.	d	124.	b	145.	c	166.	d
41.	c	62.	d	83.	a	104.	a	125.	b	146.	d	167.	a
42.	c	63.	a	84.	b	105.	b	126.	b	147.	b	168.	b
43.	a	64.	c	85.	a	106.	d	127.	a	148.	b	169.	d
44.	a	65.	b	86.	c	107.	d	128.	c	149.	c	170.	d
45.	a	66.	d	87.	b	108.	d	129.	c	150.	d	171.	b
46.	c	67.	b	88.	c	109.	a	130.	c	151.	d	172.	c
47.	c	68.	c	89.	c	110.	a	131.	a	152.	c	173.	a
48.	d	69.	c	90.	d	111.	c	132.	c	153.	b	174.	c
49.	c	70.	d	91.	b	112.	d	133.	a	154.	b	175.	c
50.	b	71.	d	92.	d	113.	a	134.	a	155.	c	176.	a
51.	d	72.	b	93.	b	114.	a	135.	c	156.	a	177.	d
52.	b	73.	c	94.	d	115.	c	136.	b	157.	c	178.	d
53.	b	74.	b	95.	c	116.	c	137.	b	158.	b	179.	d
54.	a	75.	d	96.	c	117.	c	138.	b	159.	b		
55.	a	76.	b	97.	d	118.	d	139.	b	160.	c		
56.	b	77.	c	98.	c	119.	b	140.	c	161.	a		
57.	a	78.	d	99.	a	120.	a	141.	c	162.	d		
58.	b	79.	b	100.	c	121.	a	142.	d	163.	b		

BRIEF EXERCISES

BE 180

Record the following transactions for Lett Company.

1. On August 4, Lett sold merchandise on account to Smiley Company for $610, terms 2/10, n/30.
2. On August 7, Lett granted Smiley a sales allowance and reduced the cost of the merchandise by $60 because some of the goods were slightly damaged.
3. On August 12, Smiley paid the account in full.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 180 (6 min.)

1.	Accounts Receivable	610	
	Sales Revenue		610
2.	Sales Returns and Allowances	60	
	Accounts Receivable		60
3.	Sales Discounts	11	
	Cash	539	
	Accounts Receivable		550

BE 181

At December 31, 2014, Wynne Company reported Accounts Receivable of $45,000 and Allowance for Doubtful Accounts of $3,500. On January 7, 2015, Brown Enterprises declares bankruptcy and it is determined that the receivable of $1,200 from Brown is not collectible.

1. What is the cash realizable value of Accounts Receivable at December 31, 2014?
2. What entry would Wynne make to write off the Brown account?
3. What is the cash realizable value of Accounts Receivable after the Brown account is written off?

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 181 (5 min.)

1. Cash realizable value = $45,000 – $3,500 = $41,500

2. Allowance for Doubtful Accounts	1,200	
Accounts Receivable—Brown		1,200

3. Cash realizable value = ($45,000 – $1,200) – ($3,500 – $1,200) = $41,500

BE 182

Eaton Company's ledger at the end of the current year shows Accounts Receivable of $150,000.

Instructions

a. If Allowance for Doubtful Accounts has a credit balance of $4,400 in the trial balance and bad debts are expected to be 10% of accounts receivable, journalize the adjusting entry for the end of the period.

b. If Allowance for Doubtful Accounts has a debit balance of $4,400 in the trial balance and bad debts are expected to be 10% of accounts receivable, journalize the adjusting entry for the end of the period.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 182 (5 min.)

(a) Bad Debt Expense	10,600	
Allowance for Doubtful Accounts ($15,000 – $4,400)		10,600
(To adjust the allowance account to total estimated uncollectible, $150,000 × .10 = $15,000)		
(b) Bad Debt Expense	19,400	
Allowance for Doubtful Accounts ($15,000 + $4,400)		19,400

BE 183

Stine Co. sells Christmas angels. Patel determines that at the end of December, it has the following aging schedule of Accounts Receivable:

Customer	Total		Not Yet Due		Number of Days Past Due	
			1–30	31–60	61–90	Over 90
DV Gannon	$500		$300	$200		
JJ Joysen	300	100			200	
NJ Bell	150			50		100
JC Werly	200	200				
	?	300	300	250	200	100
% uncollectible		1%	5%	10%	20%	50%
Total Estimated Uncollectible Amounts	?	?	?	?	?	?

Compute the net receivables based on the above information at the end of December. (There was no beginning balance in the Allowance for Doubtful Accounts).

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 183 (5 min.)

Customer	Total		Not Yet Due		Number of Days Past Due	
			1–30	31–60	61–90	Over 90
DV Gannon	$ 500		$300	$200		
JJ Joysen	300	100			200	
NJ Bell	150			50		100
JC Werly	200	200				
	$1,150	300	300	250	200	100
% uncollectible		1%	5%	10%	20%	50%
Total Estimated Uncollectible Amounts	$133	$3	$15	$25	$40	$50

Net Receivables = ($1,150 – $133 = $1,017)

BE 184

Newton Company has the following accounts in its general ledger at July 31: Accounts Receivable $40,000 and Allowance for Doubtful Accounts $2,500. During August, the following transactions occurred.

Oct. 15 Sold $15,000 of accounts receivable to Fast Factors, Inc. who assesses a 3% finance charge.

25 Made sales of $800 on VISA credit cards. The credit card service charge is 2%.

Instructions

Journalize the transactions.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 184 (5 min.)

Oct. 15	Cash	14,550	
	Service Charge Expense ($15,000 × 3%)	450	
	Accounts Receivable		15,000
25	Cash	784	
	Service Charge Expense ($800 × 2%)	16	
	Sales Revenue		800

BE 185

Determine the interest on the following notes:

(a) $2,000 at 6% for 90 days.

(b) $900 at 9% for 5 months.

(c) $3,000 at 8% for 60 days

(d) $1,600 at 7% for 6 months

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 185 (5 min.)

(a) $30.00 ($2,000 × .06 × 90/360)

(b) $33.75 ($900 × .09 × 5/12)

(c) $40.00 ($3,000 × .08 × 60/360)

(d) $56.00 ($1,600 × .07 × 6/12)

BE 186

Ace Distributors has the following transactions related to notes receivable during the last month of the year.

Dec. 1 Loaned $15,000 cash to K. Hogan on a 1-year, 6% note.

16 Sold goods to F. Manning, receiving a $4,800, 60-day, 7% note.

31 Accrued interest revenue on all notes receivable.

BE 186 (Cont.)

Instructions
Journalize the transactions for Ace Distributors.

Ans: N/A, LO: 5,6, Bloom: AN, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 186 (6 min.)

Dec 1	Notes Receivable— K. Hogan	15,000	
	Cash		15,000
	(To record loan made to K. Hogan)		
Dec 16	Notes Receivable— F. Manning	4,800	
	Sales Revenue		4,800
	(To record sale to F. Manning)		
Dec. 31	Interest Receivable	89	
	Interest Revenue*		89
	(To record accrued interest)		

*Calculation of interest revenue

Hogan note: $15,000 × 6% × 30/360 =	$75
Manning note: 4,800 × 7% × 15/360 =	14
Total accrued interest	$89

BE 187

Compute the maturity value for each of the following notes receivable.

1. A $5,000, 6%, 3-month note dated July 20.

   Maturity value $____________.

2. A $12,000, 9%, 150-day note dated August 5.

   Maturity value $____________.

Ans: N/A, LO: 5,8, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 187 (5 min.)

1. Maturity value: $5,075
   $5,000 × 6% × 3/12 = $75 + $5,000 = $5,075

2. Maturity value: $12,450
   $12,000 × 9% × 150/360 = $450 + $12,000 = $12,450

BE 188

On February 7, Jackson Company sold goods on account to Phillips Enterprises for $5,200, terms 2/10, n/30. On March 9, Phillips gave Jackson a 60-day, 12% promissory note in settlement of the account. Record the sale and the acceptance of the promissory note on the books of Jackson Company.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 188 (4 min.)

February 7	Accounts Receivable	5,200	
	Sales Revenue		5,200
March 9	Notes Receivable	5,200	
	Accounts Receivable		5,200

BE 189

On March 9, Phillips gave Jackson Company a 60-day, 12% promissory note for $5,200. Phillips honors the note on May 9. Record the collection of the note and interest by Jackson assuming that no interest has been accrued.

Ans: N/A, LO: 8, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 189 (3 min.)

May 9	Cash	5,304	
	Interest Revenue		104
	Note Receivable		5,200

BE 190

On March 9, Phillips gave Jackson Company a 60-day, 12% promissory note for $5,200. Phillips dishonors the note on May 9. Record the entry that Jackson would make when the note is dishonored, assuming that no interest has been accrued.

Ans: N/A, LO: 8, Bloom: AN, K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 190 (3 min.)

May 9	Accounts Receivable—Phillips	5,304	
	Interest Revenue		104
	Note Receivable		5,200

BE 191

The following data exists for Carley Company.

	2014	2013
Accounts Receivable	$ 50,000	$ 70,000
Net Sales	500,000	410,000

Calculate the accounts receivable turnover and the average collection period for accounts receivable in days for 2014.

Ans: N/A, LO: 9, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 191 (5 min.)

Accounts receivables turnover = $\frac{\$500,000}{(\$50,000+\$70,000/2)}$ = 8.3 times

Average collection period = $\frac{365 \text{ days}}{8.3}$ = 44 days

EXERCISES

Ex. 192

Presented below are various receivable transactions entered into by Beran Tool Company. Indicate whether the receivables are reported as accounts receivable, notes receivable, or other receivables on the balance sheet.

a. Loaned a company officer $5,000.
b. Accepted a $3,000 promissory note from a customer as payment on account.
c. Determined that a $10,000 income tax refund is due from the IRS.
d. Sold goods to a customer on account for $4,000.
e. Recorded $500 accrued interest on a note receivable due next year.
f. Advanced $1,400 to a trusted employee.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Medium, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 192 (10 min.)

a. Other Receivables
b. Note Receivable
c. Other Receivables
d. Accounts Receivable
e. Other Receivables
f. Other Receivables

Ex. 193

Prepare journal entries to record the following transactions entered into by Valente Company:

2014	
June 1	Received a $10,000, 12%, 1-year note from Andrea Foley as full payment on her account.
Nov. 1	Sold merchandise on account to Patton, Inc. for $12,000, terms 2/10, n/30.
Nov. 5	Patton, Inc. returned merchandise worth $500.
Nov. 9	Received payment in full from Patton, Inc.
Dec. 31	Accrued interest on Foley's note.

Ex. 193 (Cont.)

2015		
June	1	Andrea Foley honored her promissory note by sending the face amount plus interest. No interest has been accrued in 2015.

Ans: N/A, LO: 1,8, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 193 (15 min.)

2014				
June	1	Notes Receivable	10,000	
		Accounts Receivable—A. Foley		10,000
Nov.	1	Accounts Receivable—Patton, Inc.	12,000	
		Sales Revenue		12,000
Nov.	5	Sales Returns and Allowances	500	
		Accounts Receivable—Patton, Inc.		500
Nov.	9	Cash	11,270	
		Sales Discounts ($11,500 × .02)	230	
		Accounts Receivable—Patton, Inc.		11,500
Dec.	31	Interest Receivable	700	
		Interest Revenue		700
		($10,000 × 12% × 7 ÷ 12 = $700)		
2015				
June	1	Cash	11,200	
		Notes Receivable		10,000
		Interest Receivable		700
		Interest Revenue		500
		($10,000 × 12% × 5/12 = $500)		

Ex. 194

Record the following transactions for Adcock Company.
1. On April 12, sold $11,000 of merchandise to Milton Inc., terms 2/10, n/30.
2. On April 15, Milton returned $2,000 of merchandise.
3. On April 22, Milton paid for the merchandise.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 194 (7 min.)

1.	Accounts Receivable	11,000	
	Sales Revenue		11,000
2.	Sales Returns and Allowances	2,000	
	Accounts Receivable		2,000
3.	Cash ($9,000 – $180)	8,820	
	Sales Discounts ($9,000 × 2%)	180	
	Accounts Receivable ($11,000 – $2,000)		9,000

Ex. 195

(a) On January 6, Whitson Co. sells merchandise on account to Garcia Inc. for $7,000, terms 2/10, n/30. On January 16, Garcia Inc. pays the amount due. Prepare the entries on Whitson's books to record the sale and related collection.

(b) On January 10, Jill Hoyle uses her Berkman Co. credit card to purchase merchandise from Berkman Co. for $9,000. On February 10, Hoyle is billed for the amount due of $9,000. On February 12, Hoyle pays $4,000 on the balance due. On March 10, Hoyle is billed for the amount due, including interest at 2% per month on the unpaid balance as of February 12. Prepare the entries on Berkman Co.'s books related to the transactions that occurred on January 10, February 12, and March 10.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 9, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 195 (12 min.)

(a)	Jan.	6	Accounts Receivable—Garcia	7,000	
			Sales Revenue		7,000
		16	Cash ($7,000 – $140)	6,860	
			Sales Discounts (2% × $7,000)	140	
			Accounts Receivable—Garcia		7,000
(b)	Jan.	10	Accounts Receivable—Hoyle	9,000	
			Sales Revenue		9,000
	Feb.	12	Cash	4,000	
			Accounts Receivable—Hoyle		4,000
	Mar.	10	Accounts Receivable—Hoyle	100	
			Interest Revenue		100
			[2% × ($9,000 – $4,000)]		

Ex. 196

Fleming Sign Company uses the allowance method in accounting for uncollectible accounts. Past experience indicates that 1% of net credit sales will eventually be uncollectible. Selected account balances at December 31, 2013, and December 31, 2014, appear below:

	12/31/13	12/31/14
Net Credit Sales	$400,000	$500,000
Accounts Receivable	60,000	80,000
Allowance for Doubtful Accounts	5,200	?

Instructions

(a) Record the following events in 2014.

Aug.	10	Determined that the account of Sue King for $800 is uncollectible.
Sept.	12	Determined that the account of Tom Young for $3,700 is uncollectible.
Oct.	10	Received a check for $500 as payment on account from Sue King, whose account had previously been written off as uncollectible. She indicated the remainder of her account would be paid in November.
Nov.	15	Received a check for $300 from Sue King as payment on her account.

Ex. 196 (Cont.)

(b) Prepare the adjusting journal entry to record the bad debt provision for the year ended December 31, 2014.

(c) What is the balance of Allowance for Doubtful Accounts at December 31, 2014?

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 196 (20 min.)

(a)	Aug. 10	Allowance for Doubtful Accounts	800	
		Accounts Receivable—Sue King		800
		(To write off Sue King account)		
	Sept. 12	Allowance for Doubtful Accounts	3,700	
		Accounts Receivable—Tom Young		3,700
		(To write off Tom Young account)		
	Oct. 10	Accounts Receivable— Sue King	800	
		Allowance for Doubtful Accounts		800
		(To reinstate Sue King account previously written off)		
		Cash	500	
		Accounts Receivable— Sue King		500
		(To record collection on account)		
	Nov. 15	Cash	300	
		Accounts Receivable— Sue King		300
		(To record collection on account)		
(b)	Dec. 31	Bad Debt Expense ($500,000 × 1%)	5,000	
		Allowance for Doubtful Accounts		5,000
		(To record estimate of uncollectible accounts)		

(c) Balance of Allowance for Doubtful Accounts at December 31, 2014, is $6,500 ($5,200 – $800 – $3,700 + $800 + $5,000).

Ex. 197

Molina Company had a $700 credit balance in Allowance for Doubtful Accounts at December 31, 2014, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

		Estimated Percentage Uncollectible
Current Accounts	$120,000	1%
1–30 days past due	20,000	3%
31–60 days past due	10,000	6%
61–90 days past due	10,000	12%
Over 90 days past due	8,000	30%
Total Accounts Receivable	$168,000	

Ex. 197 (Cont.)

Instructions

(a) Prepare the adjusting entry on December 31, 2014, to recognize bad debt expense.

(b) Assume the same facts as above except that the Allowance for Doubtful Accounts account had a $500 debit balance before the current year's provision for uncollectible accounts. Prepare the adjusting entry for the current year's provision for uncollectible accounts.

(c) Assume that the company has a policy of providing for bad debts at the rate of 1% of sales, that sales for 2014 were $550,000, and that Allowance for Doubtful Accounts had a $650 credit balance before adjustment. Prepare the adjusting entry for the current year's provision for bad debts.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 197 (20 min.)

(a)	Bad Debt Expense	5,300	
	Allowance for Doubtful Accounts ($6,000 – $700)		5,300
	(To adjust the allowance account to total estimated uncollectible)		
(b)	Bad Debt Expense	6,500	
	Allowance for Doubtful Accounts ($6,000 + $500)		6,500
	(To adjust the allowance account to total estimated uncollectible)		
(c)	Bad Debt Expense ($550,000 × 1%)	5,500	
	Allowance for Doubtful Accounts		5,500
	(To record estimated bad debts for year)		

Ex. 198

Compute bad debt expense based on the following information:

(a) RLF Company estimates that 2% of net credit sales will become uncollectible. Sales revenue are $600,000, sales returns and allowances are $30,000, and the allowance for doubtful accounts has a $6,000 credit balance.

(b) RLF Company estimates that 10% of accounts receivable will become uncollectible. Accounts receivable are $100,000 at the end of the year, and the allowance for doubtful accounts has a $500 debit balance.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 198 (4 min.)

(a) Bad debt expense = $11,400 [($600,000 – $30,000) × .02]
(b) Bad debt expense = $10,500 [($100,000 × .10) + $500]

Ex. 199

The December 31, 2013 balance sheet of Barone Company had Accounts Receivable of $400,000 and a credit balance in Allowance for Doubtful Accounts of $32,000. During 2014, the following transactions occurred: sales on account $1,500,000; sales returns and allowances, $50,000; collections from customers, $1,250,000; accounts written off $36,000; previously written off accounts of $6,000 were collected.

Instructions

(a) Journalize the 2014 transactions.

(b) If the company uses the percentage-of-sales basis to estimate bad debt expense and anticipates 3% of net sales to be uncollectible, what is the adjusting entry at December 31, 2014?

(c) If the company uses the percentage of receivables basis to estimate bad debt expense and determines that uncollectible accounts are expected to be 8% of accounts receivable, what is the adjusting entry at December 31, 2014?

(d) Which basis would produce a higher net income for 2014 and by how much?

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 199 (20–30 min.)

(a)	Accounts Receivable	1,500,000	
	Sales Revenue		1,500,000
	(To record credit sales)		
	Sales Returns and Allowances	50,000	
	Accounts Receivable		50,000
	(To record credits to customers)		
	Cash	1,250,000	
	Accounts Receivable		1,250,000
	(To record collection of receivables)		
	Allowance for Doubtful Accounts	36,000	
	Accounts Receivable		36,000
	(To write off specific accounts)		
	Accounts Receivable	6,000	
	Allowance for Doubtful Accounts		6,000
	(To reverse write-off of account)		
	Cash	6,000	
	Accounts Receivable		6,000
	(To record collection of account)		

Solution 199 (cont.)

(b) Percentage-of-sales basis:

Sales revenue		$1,500,000
Less: Sales Returns and Allowances		50,000
Net Sales		1,450,000
Bad debt percentage		.03
Bad debt provision		$ 43,500

Dec. 31	Bad Debt Expense	43,500	
	Allowance for Doubtful Accounts		43,500

(c) Percentage-of-receivables basis:

ACCOUNTS RECEIVABLE

	Debit	Credit
	400,000	50,000
	1,500,000	1,250,000
	6,000	36,000
		6,000
Bal.	564,000	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Debit		Credit
36,000		32,000
		6,000
	Bal.	2,000

Required balance ($564,000 × .08)	$45,120
Balance before adjustment	2,000
Adjustment required	$43,120

Dec. 31	Bad Debt Expense	43,120	
	Allowance for Doubtful Accounts		43,120

(d)

Percentage-of-sales basis	$43,500
Percentage-of-receivables basis	43,120
Net income higher with percentage of receivables basis by	$ 380

Ex. 200

Megan’s Products is undecided about which base to use in estimating uncollectible accounts. On December 31, 2014, the balance in Accounts Receivable was $680,000 and net credit sales amounted to $3,800,000 during 2014. An aging analysis of the accounts receivable indicated that $40,000 in accounts are expected to be uncollectible. Past experience has shown that about 1% of net credit sales eventually are uncollectible.

Instructions

Prepare the adjusting entries to record estimated bad debt expense using the (1) percentage of sales basis and (2) the percentage of receivables basis under each of the following independent assumptions:

(a) Allowance for Doubtful Accounts has a credit balance of $3,200 before adjustment.

(b) Allowance for Doubtful Accounts has a debit balance of $730 before adjustment.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 200 (15 min.)

(1) Percentage-of-sales basis:

The following adjusting entry would be the same regardless of the balance in the Allowance for Doubtful Accounts.

Bad Debt Expense ($3,800,000 × .01)	38,000	
Allowance for Doubtful Accounts		38,000

(2) Percentage-of-receivables basis:

(a) Bad Debt Expense ($40,000 – $3,200)	36,800	
Allowance for Doubtful Accounts		36,800
(b) Bad Debt Expense ($40,000 + $730)	40,730	
Allowance for Doubtful Accounts		40,730

Ex. 201

The income statement approach to estimating uncollectible accounts expense is used by Kerley Company. On February 28, the firm had accounts receivable in the amount of $437,000 and Allowance for Doubtful Accounts had a credit balance of $2,140 before adjustment. Net credit sales for February amounted to $3,000,000. The credit manager estimated that uncollectible accounts expense would amount to 1% of net credit sales made during February. On March 10, an accounts receivable from Kathy Black for $6,100 was determined to be uncollectible and written off. However, on March 31, Black received an inheritance and immediately paid her past due account in full.

Instructions

(a) Prepare the journal entries made by Kerley Company on the following dates:
1. February 28
2. March 10
3. March 31

(b) Assume no other transactions occurred that affected the allowance account during March. Determine the balance of Allowance for Doubtful Accounts at March 31.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 201 (15 min.)

(a) 1.	Feb. 28	Bad Debt Expense ($3,000,000 × .01)	30,000	
		Allowance for Doubtful Accounts		30,000
		(To record the bad debt expense for February)		
2.	Mar. 10	Allowance for Doubtful Accounts	6,100	
		Accounts Receivable—K. Black		6,100
		(To write off K. Black account deemed uncollectible)		
3.	Mar. 31	Accounts Receivable—K. Black	6,100	
		Allowance for Doubtful Accounts		6,100
		(To reinstate an account previously written off)		

Solution 201 (cont.)

Mar. 31	Cash	6,100	
	Accounts Receivable—K. Black.....................		6,100
	(To record payment on account in full)		

(b) $2,140 + $30,000 – $6,100 + $6,100 = $32,140.

Ex. 202

Handel Company uses the allowance method for estimating uncollectible accounts. Prepare journal entries to record the following transactions:

January 5 Sold merchandise to Terry Richman for $2,000, terms n/15.

April 15 Received $600 from Terry Richman on account.

August 21 Wrote off as uncollectible the balance of the Terry Richman account when she declared bankruptcy.

October 5 Unexpectedly received a check for $300 from Terry Richman. It is not felt any more will be received from Richman

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 202 (10 min.)

January 5	Accounts Receivable—T. Richman.................................	2,000	
	Sales Revenue..		2,000
April 15	Cash..	600	
	Accounts Receivable—T. Richman.........................		600
August 21	Allowance for Doubtful Accounts	1,400	
	Accounts Receivable—T. Richman.........................		1,400
October 5	Accounts Receivable—T. Richman.................................	300	
	Allowance for Doubtful Accounts............................		300
	Cash..	300	
	Accounts Receivable—T. Richman.........................		300

Ex. 203

Avett Furniture Store has credit sales of $400,000 in 2014 and a debit balance of $600 in the Allowance for Doubtful Accounts at year end. As of December 31, 2014, $130,000 of accounts receivable remain uncollected. The credit manager prepared an aging schedule of accounts receivable and estimates that $7,000 will prove to be uncollectible.

On March 4, 2015, the credit manager authorizes a write-off of the $1,200 balance owed by B. Fernitti.

Instructions

(a) Prepare the adjusting entry to record the estimated uncollectible accounts expense in 2014.

(b) Show the balance sheet presentation of accounts receivable on December 31, 2014.

(c) On March 4, before the write-off, assume the balance of Accounts Receivable account is $160,000 and the balance of Allowance for Doubtful Accounts is a credit of $3,000. Make the appropriate entry to record the write-off of the Ferntti account. Also show the balance sheet presentation of accounts receivable before and after the write-off.

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 203 (20 min.)

(a)	Bad Debt Expense ($7,000 + $600)	7,600	
	Allowance for Doubtful Accounts		7,600
(b)	Accounts Receivable	$130,000	
	Less: Allowance for Doubtful Accounts	7,000	$123,000
(c)	Allowance for Doubtful Accounts	1,200	
	Accounts Receivable—B. Ferntti		1,200

	Before Write-off	After Write-off
Accounts Receivable	$160,000	$158,800
Less: Allowance for Doubtful Accounts	3,000	1,800
Cash Realizable Value	$157,000	$157,000

Ex. 204

An inexperienced accountant made the following entries. In each case, the explanation to the entry is correct.

Dec. 17	Cash	2,940	
	Sales Discounts	60	
	Accounts Receivable		3,000
	(To record collection of 12/4 sales, terms 2/10, n/30)		
20	Cash	18,360	
	Notes Receivable		18,000
	Interest Revenue		360
	(Collection of $18,000, 8%, 90 day note dated Sept. 21. Interest had been accrued through Nov. 30.)		

Ex. 204 (Cont.)

27	Cash	1,000	
	Bad Debt Expense		1,000
	(Collection of account previously written off as uncollectible under allowance method)		
31	Bad Debt Expense	600	
	Allowance for Doubtful Accounts		600
	(To recognize estimated bad debts based on 1% of net sales of $600,000)		

Instructions

Prepare the correcting entries.

Ans: N/A, LO: 3,8, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 204 (15 min.)

Dec. 17	Accounts Receivable	60	
	Sales Discounts		60
	(To correct accounts for granting sales discount when discount period had lapsed)		
20	Interest Revenue	280	
	Interest Receivable		280
	[To recognize collection of interest accrued through November 30 ($18,000 × 8% × 70/360 = $280)]		
27	Bad Debt Expense	1,000	
	Allowance for Doubtful Accounts		1,000
	(To correct erroneous collection entry)		
31	Bad Debt Expense	5,400	
	Allowance for Doubtful Accounts		5,400
	[To adjust balance in Bad Debt Expense to $6,000 (1% × $600,000)]		

Ex. 205

Prepare the necessary journal entry for the following transaction. Linton Company sold $270,000 of its accounts receivables to a factor. The factor charges a 3% fee.

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 205 (3 min.)

Cash ($270,000 – $8,100)	261,900	
Service Charge Expense ($270,000 × 3%)	8,100	
Accounts Receivable		270,000

Ex. 206

Norton Company has accounts receivable of $40,000 in its general ledger at July 31: During August, the following transactions occurred.

Aug. 1 Added 1% finance charges to $13,000 of credit card balances for not paying within the 30 day grace period.

15 Sold $21,000 of accounts receivable to Iron Factors Inc. who charge a 4% commission.

28 Collected $8,000 from Norton credit card customers including $400 of finance charges previously billed.

Instructions

(a) Journalize the transactions.

(b) Indicate the statement presentation of finance and service charges.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 206 (12 min.)

(a)	Aug. 1	Accounts Receivable	130	
		Interest Revenue..		130
		(To recognize finance charges—1% × $13,000)		
	15	Cash..	20,160	
		Service Charge Expense ($21,000 × 4%)........................	840	
		Accounts Receivable..		21,000
		(To record sale of receivables to Iron Factors)		
	28	Cash..	8,000	
		Accounts Receivable..		8,000
		(To record collection of Norton receivables)		

(b) Service Charge Expense is a selling expense. Interest Revenue is classified under Other Revenues and Gains.

Ex. 207

Listed below are two independent situations involving the disposition of receivables.

1. Morales Company sells $320,000 of its receivables to Instant Factors, Inc. Instant Factors assesses a finance charge of 3% of the amount of receivables sold.

Instructions

Prepare the journal entry to record the sale of the receivables on Morales Company’s books.

2. A restaurant is the site for a large company party. The bill totals $3,400 and is charged by the patron on a Visa credit card.

Ex. 207 (Cont.)

Instructions

Assume a 3% service fee is charged by Visa. Record the entry for the transaction on the restaurant's books.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 207 (7 min.)

1.	Cash	310,400	
	Service Charge Expense ($320,000 × .03)........	9,600	
	Accounts Receivable		320,000
2.	Cash	3,298	
	Service Charge Expense ($3,400 × .03)........	102	
	Sales Revenue		3,400

Ex. 208

Wainwright Stores accepts both its own and national credit cards. During the year the following selected summary transactions occurred.

Jan. 15	Made Wainwright credit card sales totaling $24,000. (There were no balances prior to January 15.)
20	Made Visa credit card sales (service charge fee 2%) totaling $7,000.
Feb. 10	Collected $14,000 on Wainwright credit card sales.
15	Added finance charges of 1% to Wainwright credit card balance.

Instructions

(a) Journalize the transactions for Wainwright Stores.

(b) Indicate the statement presentation of the financing charges and the credit card service charge expense for Wainwright Stores.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 208 (7 min.)

(a)	Jan. 15	Accounts Receivable..............................	24,000	
		Sales Revenue		24,000
	20	Cash ($7,000 – $140)..............................	6,860	
		Service Charge Expense ($7,000 × 2%)................	140	
		Sales Revenue..............................		7,000
(b)	Feb. 10	Cash..............................	14,000	
		Accounts Receivable		14,000
	15	Accounts Receivable ($10,000 × 1%)..................	100	
		Interest Revenue..............................		100

Solution 208 (Cont.)

(b) Interest Revenue is reported under other revenues and gains.
Service Charge Expense is a selling expense.

Ex. 209

Compute the maturity date and the maturity value associated with each of the following notes receivables.

1. A $15,000, 6%, 3-month note dated April 20.

   Maturity date ___________, Maturity value $____________.

2. A $25,000, 8%, 72-day note dated June 10.

   Maturity date ___________, Maturity value $____________.

3. An $8,000, 9%, 30-day note dated September 20.

   Maturity date ___________, Maturity value $____________.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 209 (10 min.)

1. Maturity date: July 20
   Maturity value: $15,225
   $15,000 × 6% × 3/12 = $225 + $15,000 = $15,225

2. Maturity date:

Term of note		72	days
June (30–10)	20		
July	31	51	
Maturity date, August		21	

   Maturity value: $25,400
   $25,000 × 8% × 72/360 = $400 + $25,000 = $25,400

3. Maturity date:

Term of note	30	days
September (30–20)	10	
Maturity date, October	20	

   Maturity value: $8,060
   $8,000 × 9% × 30/360 = $60 + $8,000 = $8,060

Ex. 210

Compute the maturity date and interest for the following notes.

	Dates of Notes	Terms	Principal	Interest Rate
(a)	April 17	60 days	$60,000	6%
(b)	August 11	3 months	80,000	8%

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 210 (3 min.)

	Maturity Date	Interest
(a)	June 16	$600 ($60,000 × .06 × 60/360)
(b)	November 11	$1,600 ($80,000 × .08 × 3/12)

Ex. 211

Compute the missing amount for each of the following notes:

	Principal	Annual Interest Rate	Time	Total Interest
(a)	$40,000	10%	2.5 years	?
(b)	$120,000	?	9 months	$7,200
(c)	?	10%	90 days	$1,500
(d)	$40,000	9%	?	$1,200

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 211 (10 min.)

(a)	$10,000	($40,000 × .10 × 2.5 years) = $10,000
(b)	8%	($120,000 × ? × 9 ÷ 12 = $7,200; ? = 8%)
(c)	$60,000	(? × .10 × 90 ÷ 360 = $1,500; ? = $60,000)
(d)	4 months	($40,000 × .09 × ? = $1,200; ? = 4 ÷ 12)

Ex. 212

Joe's Supply Co. has the following transactions related to notes receivable during the last 2 months of 2014.

Nov. 1	Loaned $20,000 cash to Sara Rondelli on a 1-year, 12% note.
Dec. 11	Sold goods to Phair, Inc., receiving a $11,700, 90-day, 8% note.
16	Received an $12,000, 6-month, 9% note in exchange for Grace Tanner's outstanding accounts receivable.
31	Accrued interest revenue on all notes receivable.

Instructions

(a) Journalize the transactions for Joe's Supply Co.

(b) Record the collection of the Rondelli note at its maturity in 2015.

Ans: N/A, LO: 5,6, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 212 (10 min.)

(a)

	2014		
Nov. 1	Notes Receivable	20,000	
	Cash		20,000
Dec. 11	Notes Receivable	11,700	
	Sales Revenue		11,700
16	Notes Receivable	12,000	
	Accounts Receivable—Tanner		12,000
31	Interest Receivable	497	
	Interest Revenue*		497

*Calculation of interest revenue:

Rondelli's note:	$20,000 × 12% × 2/12 =	$400
Phair's note:	11,700 × 8% × 20/360 =	52
Tanner's note:	12,000 × 9% × 15/360 =	45
Total accrued interest		$497

(b)

	2015		
Nov. 1	Cash	22,400	
	Interest Receivable		400
	Interest Revenue*		2,000
	Notes Receivable		20,000
	*($20,000 × 12% × 10/12)		

Ex. 213

Morton Company had the following select transactions.

Apr. 1, 2014	Accepted Remington Company's 1-year, 12% note in settlement of a $25,000 account receivable.
July 1, 2014	Loaned $15,000 cash to Jenny Green on a 9-month, 10% note.
Dec. 31, 2014	Accrued interest on all notes receivable.
Apr. 1, 2015	Received principal plus interest on the Remington note.
Apr. 1, 2015	Jenny Green dishonored its note: Morton expects it will eventually collect.

Instructions

Prepare journal entries to record the transactions. Morton prepares adjusting entries once a year on December 31.

Ans: N/A, LO: 5,6,8, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 213 (12 min.)

4/1/14	Notes Receivable	25,000	
	Accounts Receivable—Remington		25,000
7/1/14	Notes Receivable	15,000	
	Cash		15,000
12/31/14	Interest Receivable	2,250	
	Interest Revenue		2,250
	($25,000 × 12% × 9/12)		
	Interest Receivable	750	
	Interest Revenue		750
	($15,000 × 10% × 6/12)		
4/1/15	Cash	28,000	
	Notes Receivable		25,000
	Interest Receivable		2,250
	Interest Revenue		750
	($25,000 × 12% × 3/12 = $750)		
	Accounts Receivable	16,125	
	Notes Receivable		15,000
	Interest Receivable		750
	Interest Revenue		375
	($15,000 × 10% × 3/12 = $375)		

Ex. 214

Prepare the necessary journal entries for the following transactions for Kennedy Co.

May 25 Kennedy Co. received a $30,000, 2-month, 6% note from Holt Company in settlement of an account receivable.

July 25 Kennedy Co. received payment on the Holt note.

Ans: N/A, LO: 6,8, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 214 (5 min.)

May 25	Notes Receivable	30,000	
	Accounts Receivable		30,000
July 25	Cash	30,300	
	Notes Receivable		30,000
	Interest Revenue ($30,000 × .06 × 2/12)		300

Ex. 215

Record the following transactions in general journal form for Karen Heller Company.

July	1	Received a $20,000, 8%, 3-month note, dated July 1, from Nancy Freeman in payment of her open account.
Oct.	1	Received notification from Nancy Freeman that she was unable to honor her note at this time. It is expected that Freeman will pay at a later date.
Nov.	15	Received full payment from Nancy Freeman for her note receivable previously dishonored.

Ans: N/A, LO: 6,8, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 215 (15 min.)

July	1	Notes Receivable	20,000	
		Accounts Receivable—Nancy Freeman		20,000
		(To record acceptance of Nancy Freeman note as payment on account)		
Oct.	1	Accounts Receivable— Nancy Freeman	20,400	
		Notes Receivable		20,000
		Interest Revenue ($20,000 × 8% × 3/12)		400
		(To record dishonored note, $20,000, plus interest)		
Nov.	15	Cash	20,400	
		Accounts Receivable—Nancy Freeman		20,400
		(To record payment on account)		

Ex. 216

Fine Boat Company often requires customers to sign promissory notes for major credit purchases. Journalize the following transactions for Fine Boat Company.

Feb.	12	Accepted a $25,000, 6%, 60-day note from Bob Yates for a 24-foot motorboat built to his specifications.
April	14	Received notification from Bob Yates that he was unable to honor his promissory note but that he expects to pay the amount owed in May.
May	26	Received a check from Bob Yates for the total amount owed.
June	10	Received notification by the bank that Bob Yates check was being returned "NSF" and that Mr. Yates had declared personal bankruptcy.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 216 (15 min.)

Feb. 12	Notes Receivable	25,000	
	Sales Revenue		25,000
April 14	Accounts Receivable—B. Yates	25,250	
	Notes Receivable		25,000
	Interest Revenue ($25,000 × 6% × 60/360		250
May 26	Cash	25,250	
	Accounts Receivable—B. Yates		25,250
June 10	Accounts Receivable—B. Yates	25,250	
	Cash		25,250
	Allowance for Doubtful Accounts	25,250	
	Accounts Receivable— B. Yates		25,250

Ex. 217

The following information is available for Edmiston Company.

Beginning accounts receivable	$ 70,000
Ending accounts receivable	110,000
Net sales	990,000

Instructions
Compute the accounts receivable turnover and the average collection period.

Ans: N/A, LO: 9, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 217 (5 min.)

Accounts receivable turnover = 11 times $990,000 ÷ [($70,000 + $110,000) ÷ 2]
Average collection period = 33.2 days (365 ÷ 11)

Ex. 218

Renfro Company had accounts receivable of $100,000 on January 1, 2014. The only transactions that affected accounts receivable during 2014 were net credit sales of $1,200,000, cash collections of $1,000,000, and accounts written off of $30,000.

Instructions
(a) Compute the ending balance of accounts receivable.
(b) Compute the accounts receivable turnover for 2014.
(c) Compute the average collection period in days.

Ans: N/A, LO: 9, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 218 (5 min.)

(a)

Beginning accounts receivable	$ 100,000
Net credit sales..	1,200,000
Cash collections	(1,000,000)
Accounts written off	(30,000)
Ending accounts receivable	$ 270,000

(b) $1,200,000/[($100,000 + $270,000)/2] = 6.49

(c) 365/6.49 = 56.2 days

COMPLETION STATEMENTS

219. Accounts receivable, which are also referred to as ______________ receivables, are amounts owed by customers on account.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

220. The three primary accounting problems associated with accounts receivable are (1) ______________, (2) _______________, and (3) ______________ of accounts receivable.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

221. In order to encourage prompt payment of a trade receivable, companies often offer ______________ to customers.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

222. When credit sales are made, _________________ Expense is considered a normal and necessary risk of doing business on a credit basis.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

223. The two methods of accounting for uncollectible accounts are the ____________ method and the ______________ method.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

224. Allowance for Doubtful Accounts is a _____________ account which is ______________ from Accounts Receivable on the balance sheet.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

225. When the allowance method is used to account for uncollectible accounts, the ______________ is credited when an account is determined to be uncollectible.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

226. The _____________ basis of estimating uncollectibles provides a better _____________ of bad debt expense with sales revenue and therefore emphasizes income statement relationships.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

227. The _________________ basis of estimating uncollectibles normally results in the best approximation of _______________ value and therefore emphasizes balance sheet relationships.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

228. Sales resulting from the use of Visa and MasterCard are considered ______________ by the retailer.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

229. A finance company or bank that purchases receivables from businesses is known as a ______________.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

230. A 75-day note receivable dated June 10 would mature on ______________.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

231. Collection of a note receivable will result in a credit to ______________ for the face value of the note and a credit to ______________.

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

232. A note which is not paid on the maturity date is said to be ______________.

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

219. trade
220. recognizing, valuing, disposing
221. cash discounts
222. Bad Debt
223. allowance, direct write-off
224. contra asset, deducted
225. Accounts Receivable
226. percentage-of-sales, matching
227. percentage-of-receivables, cash realizable
228. cash sales
229. factor
230. August 24
231. Notes Receivable, Interest Revenue
232. dishonored

MATCHING

233. Match the items below by entering the appropriate code letter in the space provided.

A. Aging of receivables	F. Percentage of receivables basis
B. Direct write-off method	G. Factoring
C. Promissory note	H. Dishonored note
D. Trade receivables	I. Average collection period
E. Percentage of sales basis	J. Credit card sales

____ 1. A written promise to pay a specified amount on demand or at a definite time.

____ 2. Sales that involve the customer, the retailer, and the credit card issuer.

____ 3. Emphasizes the matching of costs and revenues in the same period.

____ 4. Amounts owed by customers from the sale of goods and services.

____ 5. A note which is not paid in full at maturity.

____ 6. Analysis of customer account balances by length of time they have been unpaid.

____ 7. Emphasizes expected cash realizable value of accounts receivable.

____ 8. Generally not acceptable for financial reporting purposes.

____ 9. The amount of time that a receivable is outstanding.

____ 10. Sale of accounts receivable to a factor.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

1.	C	6.	A
2.	J	7.	F
3.	E	8.	B
4.	D	9.	I
5.	H	10.	G

SHORT-ANSWER ESSAY QUESTIONS

S-A E 234

Management can choose between two bases in calculating the estimated uncollectible accounts under the allowance method. One basis emphasizes an income statement viewpoint whereas the other emphasizes a balance sheet viewpoint. Identify the two bases and contrast the two approaches. How do the different points of view affect the amount recognized as Bad Debt Expense during the accounting period?

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 234

The two bases available to calculate the estimated uncollectibles under the accrual based allowance method are: (a) percentage of sales basis and (b) percentage of receivables basis. The percentage-of-sales basis emphasizes the income statement while the percentage of receivables basis emphasizes the balance sheet. Under the percentage of sales basis the bad debt expense for the period is calculated directly as a percentage of net credit sales without regard to any balance in the allowance account. Under the percentage of receivables basis, the emphasis is on establishing the proper amount to carry as a balance in the allowance account; bad debt expense is indirectly determined to be the amount necessary to create the proper balance in the allowance account.

S-A E 235

Customer purchases using credit cards are a significant source of revenue for many retailers. From the standpoint of a retailer, briefly discuss some advantages and disadvantages of a retail store having its own credit card as opposed to accepting one of the national credit cards (e.g., Visa, MasterCard).

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

Solution 235

The advantages of a retail store using its own credit card are the avoidance of a 2 to 6 percent charge by the national credit card and the ability to issue credit to the customers of its choice. In addition, with its own credit card operation the retailer earns the interest on the unpaid balances.

The disadvantages of a retail store using its own credit card are the risk of nonpayment (bad debts), the delay in receiving cash from the sales (cash is collected immediately from the national credit card company), and the costs of record keeping and managing (approving credit and collection) its own credit operation.

S-A E 236

Your friend Jenny has opened an office supply store. She will extend open credit to local businesses and is concerned about potential bad debts. What can Jenny do to reduce potential bad debts?

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

Solution 236

1. Establish a reasonable policy for extending credit. The company needs to consider the risks of having either a ‘too tight’ or ‘too loose’ credit policy. Potential credit customers should be screened appropriately.
2. The company should decide upon the required payment period and communicate it to customers and employees. This period should be in line with the ones established by competitors. Also, employees should enforce the collection period but yet exercise judgment in unusual circumstances.
3. The company should evaluate the relationship among sales, accounts receivable, and cash collections to monitor trends and watch for potential problems.
4. The company should prepare an accounts receivable aging schedule on a regular basis. The collection department should follow up on past due accounts in a timely and professional manner. There should be a clear company policy regarding collection efforts and when to write off accounts.

S-A E 237

Banks that issue credit cards generally charge retailers a fee of 2 to 4% of the amount of sale. List reasons why companies are willing to pay these fees.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

Solution 237

1. The use of bank credit cards increases sales. Many people want to use credit cards to make purchases. If a company does not offer this service, customers will buy from a competitor that does offer the services.
2. Bad debts are absorbed by the credit card company.
3. The company receives its cash (less the fees) immediately.
4. The company does not have to hire employees to approve credit and make collections for these sales.

S-A E 238

An article recently appeared in the *Wall Street Journal* indicating that companies are selling their receivables at a record rate. Why are companies selling their receivables?

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

Solution 238

The reasons companies are selling their receivables are:
(1) Receivables may be sold because they may be the only reasonable source of cash.
(2) Billing and collection are often time-consuming and costly. It is often easier for a retailer to sell the receivables to another party with expertise in billing and collection matters.

S-A E 239

Your roommate is uncertain about the advantages of a promissory note. Compare the advantages of a note receivable with those of an account receivable.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

Solution 239

A promissory note gives the holder a stronger legal claim than one on an accounts receivable. As a result, it is easier to sell to another party. Promissory notes are negotiable instruments, which means they can be transferred to another party by endorsement. The holder of a promissory note also can earn interest.

S-A E 240 (Ethics)

Seaver Books, a small book publishing company, wrote off the debt of The Learning Center, and the Academy of Basic Education, both small private schools, after it determined that the schools were facing serious financial difficulty. No notice of the action was sent to the schools; Seaver Books simply stopped sending bills. Nearly a year later, The Learning Center was given a large endowment and a government grant. The resulting publicity brought the school to the attention of Seaver Books, which immediately reinstated the account, and sent a new bill to the school, including interest for the entire time the debt was outstanding. No further action was taken regarding the Academy of Basic Education, which was still operational.

Required:
Did Seaver Books act ethically in reinstating the debt of one client, and not the other? Explain.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: Problem Solving, IMA: Business Economics

Solution 240

Yes, it is ethical to reinstate the debt of The Learning Center, especially since there was no evidence given that The Learning Center attempted to negotiate a reduction or elimination of the debt, or even that it was aware that the debt had been written off by Seaver Books. Seaver Books' discovery that one bad debt may be collectible places the company under no obligation to attempt to collect any or all of its other bad debts, so it need not have reinstated the other account receivable.

The addition of interest to the debt is another question. Whether the interest would be collectible depends upon the laws of the state, and whether the addition of interest was specified as a possibility when the debt was incurred. It is questionable whether Seaver Books can collect also because they apparently did not include interest in earlier bills sent to these clients, and because they stopped sending bills for some period of time.

Note that this solution is different from the case in which a debt is written off because of a bankruptcy. Had The Learning Center become bankrupt, Pierce Books could not have legally reinstated the debt, even if The Learning Center became solvent at some time in the future.

S-A E 241 (Communication)

Petersen Company received a letter from Jane Kimler, a customer. Jane had purchased $425 worth of clothing from Petersen on credit. She has made two payments of $50 each. She has missed the last two payments, and has received a collection letter from Petersen. Her total debt presently, with interest and late fees, is $351.13.

Jane sent a letter to Petersen in which she asked for her debt to be forgiven. She said she had heard that companies make allowances for accounts they are doubtful about collecting, and that Petersen certainly should have been doubtful about her—that as a college student she had changed her major three times. She also said that she could not enjoy a high quality of life when making such high payments, but that she didn't want to be embarrassed by bill collectors, either. She especially didn't want her parents to find out that she had not paid her debts. Having Petersen write off her account seemed to her the best solution in the circumstances. She added that the clothes she bought at Petersen were among the best she had ever owned, and that she "told everybody" that Petersen was definitely the best place to get clothes.

S-A E 241 (Cont.)

Required:
You are the accounting manager for Petersen. Write a short letter to Jane explaining why her debt cannot be written off.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Business Economics

Solution 241

(letterhead)

(Date)

Ms. Jane Kimler
123 College View Apartments, #717
Lakeland University
Lakeland, Michigan 60771

Dear Ms. Kimler:

Thank you for your recent letter explaining your delay in paying your account. We appreciated hearing about your satisfaction with Petersen clothing, and we're glad you tell your friends about us.

As you know, your account is becoming seriously past due. Presently, the total charges, including late payment penalties and interest (detailed on the attached billing form) is $351.13.

Your account cannot be simply "forgiven" as you request in your letter. Our "Allowance for Doubtful Accounts" does not mean that we have certain customers whose debts we are willing to cancel readily. When Petersen extends credit to anyone, it is our expression of confidence in that person's ability and willingness to pay. In other words, we aren't "doubtful" about any of our customers. The allowance account is simply our recognition that a few customers, though very willing to pay, may become unable to do so because of circumstances beyond their control. If we detect some problem that may indicate a present or future unwillingness to pay, we do not extend credit. To do so would not be fair to Petersen or to the customer.

We were sure about your ability and willingness to pay when we granted you credit. We were very pleased to receive your first two payments right on time. Won't you reconsider, and send your next payment today? If you need to renegotiate the size of the payments, you may contact Betty in the Credit Department to discuss the matter.

I look forward to receiving your payment.

Sincerely,

Jill Gates
Accounting Manager