Ch5

Student: ____

1. Credit sales transfer products and services to a customer today while bearing the risk of collecting payment from that customer in the future.

   True False

2. At the time of a credit sale, a company would record an increase in assets and an increase in revenues.

   True False

3. A sale on account is recorded as a debit to Service Revenue and a credit to Accounts Receivable.

   True False

4. Accounts receivable represent the amount of cash owed to the company by its customers from the sale of products or services on account.

   True False

5. Trade discounts represent a discount offered to the purchasers for quick payment.

   True False

6. When a company sells a $100 service with a 20% trade discount, $80 of revenue is recognized.

   True False

7. A sales discount represents a reduction, not in the selling price of a product or service, but in the amount to be paid by a credit customer if payment is made within a specified period of time.

   True False

8. A sale on account for $1,000 offered with terms 2/10, n/30 means that the customers will get a $2 discount if payment is made within 10 days; otherwise, full payment is due within 30 days.

   True False

9. The Sales Discounts account is an example of a contra revenue account.

   True False

10. The Sales Discounts account is an expense account.

    True False

11. Sales returns and allowances occur when the buyer returns the goods or the seller reduces the customer's balance owed.

    True False

12. A sales allowance is recorded as a debit to Accounts Receivable and a credit to Sales Allowances.

    True False

13. The Sales Returns account is an expense account.

    True False

14. If a company has total revenues of $100,000, sales discounts of $3,000, sales returns of $4,000, and sales allowances of $2,000, the income statement will report net revenues of $91,000.

    True False

15. Accounts receivable are reported at their net realizable value.

    True False

16. The net realizable value of accounts receivable is the full amount owed by customers.

    True False

17. Customers' accounts that we no longer consider collectible are referred to as uncollectible accounts (or bad debts).

    True False

18. The direct write-off method involves recording an adjustment at the end of each period to account for the possibility of future uncollectible accounts.

    True False

19. The adjustment to account for future bad debts has the effect of (1) reducing assets and (2) increasing liabilities.

    True False

20. The adjustment for uncollectible accounts involves a debit to Bad Debt Expense and a credit to the Allowance for Uncollectible Accounts.

    True False

21. The Allowance for Uncollectible Accounts is a contra asset account representing the amount of accounts receivable that we do not expect to collect.

    True False

22. Bad debt expense is the amount of the adjustment to the allowance for uncollectible accounts that represents the cost of the estimated future bad debts.

    True False

23. One disadvantage of the allowance method (over the direct write-off method) for recording uncollectible accounts is that it generally matches bad debt expense with the revenue it helped to generate.

    True False

24. If a company is owed $10,000 by its customers, but it expects that $1,000 will not be collected, accounts receivable in the balance sheet are reported at the net amount of $9,000.

    True False

25. Under the allowance method, when a company writes off an account receivable as an actual bad debt, it reduces total assets.

    True False

26. Under the allowance method, when a company writes off an account receivable as an actual bad debt, it records an expense.

    True False

27. Under the allowance method, the write-off of an actual bad debt is recorded with a debit to the Allowance for Uncollectible Accounts and a credit to Accounts Receivable.

    True False

28. Under the allowance method, when a company collects cash from an account previously written off, total assets increase.

    True False

29. A credit balance in the Allowance for Uncollectible Accounts before adjustment indicates that last year's estimate of uncollectible accounts may have been too high.

    True False

30. A debit balance in the Allowance for Uncollectible Accounts before adjustment indicates that last year's estimate of uncollectible accounts was too low.

    True False

31. The aging method for estimating uncollectible accounts considers that a higher percentage of "older" accounts will not be collected compared to "newer" accounts.

    True False

32. A company expects 5% of its newer accounts receivable to be uncollectible and 20% of its older accounts to be uncollectible. If the company has $40,000 of newer accounts and $5,000 of older accounts, the total estimate of uncollectible accounts is $2,000.

    True False

33. Under the direct write-off method, bad debt expense is recorded at the time accounts are known to be uncollectible.

    True False

34. The direct write-off method is used for tax purposes but is generally not permitted for financial reporting.

    True False

35. The direct write-off method violates the matching principle.

True False

36. Under the direct write-off method, recording an estimate of future uncollectible accounts includes a debit to Bad Debt Expense and a credit to the Allowance for Uncollectible Accounts.

True False

37. Notes receivable are similar to accounts receivable but are more formal credit arrangements evidenced by a written debt instrument, or note.

True False

38. Notes receivable typically arise from sales to customers.

True False

39. Notes receivable are assets and are reported in the balance sheet.

True False

40. Interest on a note receivable is calculated as the face value of the note times the annual interest rate stated on the note times the fraction of the year the note is outstanding.

True False

41. A $10,000 note that has a stated interest rate of 10% and is due in six months would have interest of $1,000.

True False

42. Accrued interest on a note receivable is interest earned by the end of the year but not yet received.

True False

43. Accrued interest on a note receivable has the effects of increasing assets and increasing liabilities.

True False

44. Two important ratios that help in understanding the company's effectiveness in managing receivables are the receivables turnover ratio and the average collection period.

True False

45. The receivables turnover ratio shows the number of times during a year that the average accounts receivable balance is collected (or "turns over").

True False

46. The receivables turnover ratio equals average accounts receivable divided by net credit sales.

True False

47. A lower receivables turnover ratio generally indicates more favorable management of accounts receivable by company managers.

True False

48. The average collection period shows the approximate number of days the average accounts receivable balance is outstanding.

True False

49. The percentage-of-receivables method for estimating uncollectible accounts is commonly referred to as the balance sheet method, because the estimate of bad debts is based on a balance sheet amount—accounts receivable.

True False

50. The percentage-of-credit-sales method for estimating uncollectible accounts is commonly referred to as the income statement method, because it always results in a higher amount of net income being reported in the income statement.

True False

51. Even though the percentage-of-receivables method and the percentage-of-credit-sales method use different accounts to estimate future uncollectible accounts, the amount of bad debt expense reported in the income statement will always be the same under the two methods.

True False

52. From an income statement perspective, the percentage-of-credit-sales method is typically preferable because it better matches the revenues (credit sales) with their related expenses (bad debts).

True False

53. From a balance sheet perspective, the percentage-of-receivables method is typically preferable because assets (net accounts receivable) are reported closer to their net realizable value.

True False

54. The percentage-of-credit-sales method (income statement method) is allowed only if amounts do not differ significantly from estimates using the percentage-of-receivables method.

True False

55. Which of the following best describes credit sales?

A. Cash sales to customers that are new to the company.
B. Sales to customers using credit cards.
C. Sales to customers on account.
D. Sales with a high risk that the customer will return the product.

56. Credits sales are recorded as:

A. Debit Cash; credit Unearned Revenue.
B. Debit Service Revenue, credit Accounts Receivable.
C. Debit Cash; credit Service Revenue.
D. Debit Accounts Receivable, credit Service Revenue.

57. Barton Health Services provided care to a patient worth $1,200. Because the patient was over the age of 65, Barton granted the patient a 20% discount and the customer paid the correct amount in cash. How would Barton record the service transaction?

a. Cash	960	
Service Revenue		960
b. Cash	960	
Trade Discount	240	
Service Revenue		1,200
c. Cash	1,200	
Service Revenue		1,200
d. Cash	1,200	
Trade Discount		240
Service Revenue		960

A. Option a
B. Option b
C. Option c
D. Option d

58. Gershwin Wallcovering Inc. shipped the wrong shade of paint to a customer. The customer agreed to keep the paint upon being offered a 15% price reduction. Gershwin would record this reduction by crediting Accounts Receivable and debiting:

A. Sales Revenue.
B. Sales Discounts.
C. Sales Returns.
D. Sales Allowances.

59. Tom's Textiles shipped the wrong material to a customer, who refused to accept the order. Upon receipt of the material, Tom's would credit Accounts Receivable and debit:

A. Sales Revenue.
B. Sales Discounts.
C. Sales Returns.
D. Sales Allowances.

60. When customers purchase products on account, Spitz Manufacturing offers them a 2% reduction in the amount owed if they pay within 10 days. This is an example of a:

A. Bad debt.
B. Sales discount.
C. Sales return.
D. Sales allowances.

61. On November 10 of the current year, Flores Mills sold carpet to a customer for $8,000 with credit terms 2/10, n/30. How would Flores record the sale on November 10?

a. Accounts Receivable	7,840	
Sales Revenue		7,840
b. Accounts Receivable	8,000	
Sales Revenue		8,000
c. Accounts Receivable	7,840	
Cash Discounts	160	
Sales Revenue		8,000
d. Accounts Receivable	8,000	
Cash Discounts		160
Sales Revenue		7,840

A. Option a
B. Option b
C. Option c
D. Option d

62. On November 10 of the current year, Flores Mills provides services to a customer for $8,000 with credit terms 2/10, n/30. The customer made the correct payment on November 17. How would Flores record the collection of cash on November 17?

a. Cash	7,840	
Accounts Receivable		7,840
b. Cash	7,840	
Sales Discounts	160	
Accounts Receivable		8,000
c. Cash	7,840	
Sales Revenue	160	
Accounts Receivable		8,000
d. Cash	8,000	
Accounts Receivable		8,000

A. Option a
B. Option b
C. Option c
D. Option d

63. On November 10 of the current year, Flores Mills provides services to a customer for $8,000 with credit terms 2/10, n/30. The customer made the correct payment on December 5. How would Flores record the collection of cash on December 5?

a. Cash	7,840	
Accounts Receivable		7,840

b. Cash	7,840	
Sales Discounts	160	
Accounts Receivable		8,000

c. Cash	7,840	
Sales Revenue	160	
Accounts Receivable		8,000

d. Cash	8,000	
Accounts Receivable		8,000

A. Option a
B. Option b
C. Option c
D. Option d

64. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on April 12?

a. Accounts Receivable	46,000	
Sales Revenue		46,000

b. Accounts Receivable	46,000	
Sales Revenue		45,540
Sales Discounts		460

c. Accounts Receivable	45,540	
Sales Revenue		45,540

d. Accounts Receivable	45,540	
Sales Discounts	460	
Sales Revenue		46,000

A. Option a
B. Option b
C. Option c
D. Option d

65. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on April 23, assuming the customer made the correct payment on that date?

a.	Cash	45,540	
	Sales Revenue	460	
	Accounts Receivable		46,000
b.	Cash	46,000	
	Sales Discounts	460	
	Accounts Receivable		46,000
	Interest Revenue		460
c.	Cash	45,540	
	Sales Discounts	460	
	Accounts Receivable		46,000
d.	Cash	46,000	
	Accounts Receivable		45,540
	Sales Revenue		460

A. Option a
B. Option b
C. Option c
D. Option d

66. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on June 10, assuming the customer made the correct payment on that date?

a.	Cash	46,000	
	Accounts Receivable		45,540
	Discounts Receivable		460
b.	Cash	46,000	
	Accounts Receivable		45,540
	Interest Revenue		460
c.	Cash	46,000	
	Accounts Receivable		46,000
d.	Cash	46,460	
	Accounts Receivable		46,000
	Interest Revenue		460

A. Option a
B. Option b
C. Option c
D. Option d

67. Which of the following is recorded upon receipt of a payment on April 7, 2012, by a customer who pays a $900 invoice dated March 3, 2012, with terms 2/10, n/60?

A. Debit Sales Discounts $18.
B. Credit Purchase Discounts $18.
C. Credit Accounts Receivable $882.
D. Debit Cash $900.

68. Accounts receivable are normally reported at the:

A. Present value of future cash receipts.
B. Current value plus accrued interest.
C. Expected amount to be received.
D. Current value less expected collection costs.

69. Shupe Inc. estimates uncollectible accounts based on the percentage of accounts receivable. What effect will recording the estimate of uncollectible accounts have on the accounting equation?

A. Increase liabilities and decrease stockholders' equity
B. Decrease assets and decrease liabilities
C. Decrease assets and decrease stockholders' equity
D. Increase assets and decrease stockholders' equity

70. Under the allowance method, which of the following does not change the balance in the Accounts Receivable account?

A. Returns on credit sales.
B. Collections on customer accounts.
C. Bad debt expense adjustment.
D. Write-offs.

71. At December 31, Gill Co. reported accounts receivable of $238,000 and an allowance for uncollectible accounts of $600 (credit). An analysis of accounts receivable suggests that the allowance for uncollectible accounts should be 3% of accounts receivable. The amount of the adjustment for uncollectible accounts would be:

A. $6,540.
B. $7,800.
C. $7,140.
D. $7,740.

72. At December 31, Gill Co. reported accounts receivable of $238,000 and an allowance for uncollectible accounts of $600 (debit). An analysis of accounts receivable suggests that the allowance for uncollectible accounts should be 3% of accounts receivable. The amount of the adjustment for uncollectible accounts would be:

A. $6,540.
B. $7,800.
C. $7,140.
D. $7,740.

73. At December 31, Amy Jo's Appliances had account balances in Accounts Receivable of $311,000 and $970 (credit) in Allowance for Uncollectible Accounts. An analysis of Amy Jo's December 31 accounts receivable suggests that the allowance for uncollectible accounts should be 2% of accounts receivable. Bad debt expense for the year should be:

A. $6,220.
B. $6,450.
C. $5,250.
D. $7,190.

74. At December 31, Amy Jo's Appliances had account balances in Accounts Receivable of $311,000 and $970 (debit) in Allowance for Uncollectible Accounts. An analysis of Amy Jo's December 31 accounts receivable suggests that the allowance for uncollectible accounts should be 2% of accounts receivable. Bad debt expense for the year should be:

A. $6,220.
B. $6,450.
C. $5,250.
D. $7,190.

75. A company's adjustment for uncollectible accounts at year-end would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Debit to Accounts Receivable.
D. Debit to Allowance for Uncollectible Accounts.

76. Allowance for Uncollectible Accounts is:

A. An expense account.
B. A contra asset account.
C. A contra revenue account.
D. A liability account.

77. Which of the following is recorded by a credit to Accounts Receivable?

A. Sale of inventory on account.
B. Estimating the annual allowance for uncollectible accounts.
C. Estimating annual sales returns.
D. Write-offs of bad debts.

78. Collections of accounts receivable that previously have been written off are credited to:

A. A Gain account.
B. Accounts Receivable.
C. Bad Debt Expense.
D. Retained Earnings.

79. Lail Inc. accounts for bad debts using the allowance method. On June 1, Lail Inc. wrote off Andrew Green's $2,500 account. Based on Lail's estimation, Andrew Green will never pay any portion of the balance in his account. What effect will this write-off have on Lail Inc.'s balance sheet at the time of the write-off?

A. An increase to stockholders' equity and a decrease to liabilities.
B. No effect.
C. An increase to assets and an increase to stockholders' equity.
D. A decrease to assets and a decrease to stockholders' equity.

80. When $2,500 of accounts receivable are determined to be uncollectible, which of the following should the company record to write off the accounts using the allowance method?

A. A debit to Bad Debt Expense and a credit to Allowance for Uncollectible Accounts.
B. A debit to Allowance for Uncollectible Accounts and a credit to Bad Debt Expense.
C. A debit to Bad Debt Expense and a credit to Accounts Receivable.
D. A debit to Allowance for Uncollectible Accounts and a credit to Accounts Receivable.

81. Using the allowance method, writing off an actual bad debts would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Debit to Accounts Receivable.
D. Credit to Allowance for Uncollectible Accounts.

82. On December 31, 2012, Coolwear Inc. had balances in Accounts Receivable and Allowance for Uncollectible Accounts of $48,400 and $940, respectively. During 2013, Coolwear wrote off $820 in accounts receivable and determined that there should be an allowance for uncollectible accounts of $1,140 at December 31, 2013. Bad debt expense for 2013 would be:

A. $320.
B. $1,140.
C. $820.
D. $1,020.

83. On December 31, 2012, Larry's Used Cars had balances in Accounts Receivable and Allowance for Uncollectible Accounts of $53,600 and $1,325, respectively. During 2013, Larry's wrote off $1,465 in accounts receivable and determined that there should be an allowance for uncollectible accounts of $1,280 at December 31, 2013. Bad debt expense for 2013 would be:

A. $1,280.
B. $1,465.
C. $1,420.
D. $1,140.

84. When using an aging method for estimating uncollectible accounts:

A. Older accounts are considered less likely to be collected.
B. The number of days the account is past due is not considered.
C. Older accounts are considered more likely to be collected.
D. No estimate of uncollectible accounts is made.

85. Crimson Inc. recorded credit sales of $750,000, of which $600,000 is not yet due, $100,000 is past due for up to 180 days, and $50,000 is past due for more than 180 days. Under the aging of receivables approach, Crimson Inc. expects it will not collect 1% of the amount not yet due, 10% of the amount past due for up to 180 days, and 20% of the amount past due for more than 180 days. The allowance account had a debit balance of $1,000 before adjustment. After adjusting for bad debt expense, what is the ending balance of the allowance account?

A. $29,000.
B. $28,000.
C. $27,000.
D. $26,000.

86. During 2012, Bears Inc. recorded credit sales of $500,000. Before adjustments at year-end, Bears has accounts receivable of $300,000, of which $50,000 is past due, and the allowance account had a credit balance of $2,500. Using the aging of receivables approach, what would be the adjustment assuming Bears expects it will not to collect 5% of the amount not yet past due and 20% of the amount past due?

a. Bad Debt Expense	22,500	
Allowance for Uncollectible Accounts		22,500
b. Bad Debt Expense	25,000	
Allowance for Uncollectible Accounts		25,000
c. Bad Debt Expense	20,000	
Allowance for Uncollectible Accounts		20,000
d. Allowance for Uncollectible Accounts	20,000	
Bad Debt Expense		20,000

A. Option a
B. Option b
C. Option c
D. Option d

87. The following information pertains to Lightning, Inc. at the end of December:

Credit Sales	$60,000	
Accounts Payable	10,000	
Accounts Receivable	7,000	
Allowance for Uncollectible Accounts	$400	credit
Cash Sales	20,000	

Lightning uses the aging method and estimates it will not collect 2% of accounts receivable not yet due, 10% of receivables less than 30 days past due, and 40% of receivables greater than 30 days past due. The accounts receivable balance of $7,000 consists of $3,500 not yet due, $2,000 less than 30 days past due, and $1,500 greater than 30 days past due. What is the appropriate amount of Bad Debt Expense?

A. $400.
B. $470.
C. $870.
D. $1,270.

88. Under the direct write-off method, what adjustment is made at the end of the year to account for possible future bad debts?

A. Debit Bad Debt Expense.
B. Debit Allowance for Uncollectible Accounts.
C. Credit Accounts Receivable.
D. No adjustment is made.

89. Under the direct write-off method, what adjustment is made at the time an actual bad debt occurs?

A. Debit Bad Debt Expense, credit Allowance for Uncollectible Accounts.
B. Debit Allowance for Uncollectible Accounts, credit Accounts Receivable.
C. Debit Bad Debt Expense, credit Accounts Receivable.
D. No adjustment is made.

90. Which accounting principle does the direct write-off method violate?

A. Cost.
B. Realization.
C. Revenue recognition.
D. Matching.

91. If the direct write-off method is used to account for uncollectible accounts, which of the following statements is false?

A. An allowance account is not used.
B. No adjustment is made at the end of the year to estimate future uncollectible accounts.
C. Accounts receivable will be reported at its net realizable value.
D. Bad debt expense is recorded at the time an actual bad debt is written-off.

92. Which method is not allowed under Generally Accepted Accounting Principles for the purpose of accounting for uncollectible accounts?

A. Allowance method.
B. Direct write-off method.
C. Aging method.
D. Percentage-of-receivables method.

93. The primary difference between a note receivable and an account receivable is:

A. A note receivable cannot be classified as a current asset.
B. Borrowers have the option of not paying a note receivable.
C. An account receivable is more likely to be collected.
D. A note receivable is evidenced by a written debt instrument.

94. Hughes Aircraft sold a four-passenger airplane for $380,000, receiving a $50,000 down payment and a 12% note for the balance. This transaction would include a:

A. Credit to Cash.
B. Debit to Sales Discount.
C. Debit to Notes Receivable.
D. Credit to Notes Receivable.

95. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2012?

A. $120.
B. $240.
C. $100.
D. $60.

96. On February 1, 2012, Middelton Corp. lends cash and accepts a $2,000 note receivable that offers 10% interest and is due in six months. What would Sango record on August 1, 2012, when the borrower pays Sanger the correct amount owed?

a. Cash	1,000	
Interest Revenue	100	
Notes Receivable		1,100

b. Cash	1,100	
Notes Receivable		1,100

c. Cash	1,100	
Interest Revenue		100
Notes Receivable		1,000

d. Cash	1,200	
Notes Receivable		1,200

A. Option a
B. Option b
C. Option c
D. Option d

97. On February 1, 2012, Sanger Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2012?

A. $20.
B. $40.
C. $30.
D. $60.

98. On September 1, 2012, Middelton Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How would Turner record the year-end adjustment to accrue interest in 2012?

a. Interest Revenue	360	
Interest Receivable		360

b. Interest Receivable	480	
Interest Revenue		480
c. Interest Receivable	360	
Interest Revenue		360

d. Interest Receivable	200	
Interest Revenue		200

A. Option a
B. Option b
C. Option c
D. Option d

99. On August 1, 2012, Turner Manufacturing lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2013?

A. $20.
B. $40.
C. $30.
D. $60.

100. On September 1, 2012, Middelton Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How would Herzog record the transaction on April 1, 2013, when the borrower pays Herzog the correct amount owed?

a. Cash	9,675	
Notes Receivable		9,000
Interest Revenue		675

b. Cash	9,675	
Notes Receivable		9,000
Interest Revenue		225
Interest Receivable		450

a. Cash	9,675	
Notes Receivable		9,000
Interest Receivable		675

d. Cash	9,675	
Notes Receivable		9,675

A. Option a
B. Option b
C. Option c
D. Option d

101. Sandburg Veterinarian reports the following information for the year:

Net credit sales	$120,000
Average accounts receivable	20,000
Cash collections on credit sales	100,000

What is Sandburg's receivables turnover ratio?

A. 6.0.
B. 5.0.
C. 1.2.
D. 0.2.

102. Beverage International reports net credit sales for the year of $240,000. The company's accounts receivable balance at the beginning of the year equaled $20,000 and the balance at the end of the year equaled $30,000. What is Beverage International's receivables turnover ratio?

A. 12.0.
B. 9.6.
C. 8.0.
D. 1.5.

103. The amount of a company's receivables is influenced by several variables, including all of the following except:

A. The level of sales.
B. The nature of the product or service sold.
C. The credit and collection policies.
D. Dividend payments to stockholders.

104. Toppleson Manufacturing reports a receivables turnover ratio of 14.5. The industry average is 10.7. What most likely is causing this difference?

A. Toppleson is selling to high-risk customers.
B. Toppleson has effective procedures related to selling goods on account.
C. Toppleson provides superior products and services.
D. Toppleson allows customers too long to pay.

105. The percentage-of-credit-sales method for estimating uncollectible accounts is sometimes described as:

A. The balance sheet method.
B. The method most used by companies.
C. The income statement method.
D. The percentage-of-receivables method.

106. Which of the following statements is true with respect to the percentage-of-credit-sales method for estimating uncollectible accounts?

A. The amount recorded for bad debt expense does not depend on the balance of the allowance for uncollectible accounts.
B. This method is referred to as the balance sheet approach.
C. This method does not allow for future uncollectible accounts.
D. Under this method, bad debt expense is recorded at the time of an actual bad debt.

107. The following information pertains to Lindsey Corp. at the at the end of the year:

Credit Sales	$150,000	
Accounts Payable	20,000	
Accounts Receivable	30,000	
Allowance for Uncollectible Accounts	800	debit
Cash Sales	5,500	

Lindsey Corp. uses the percentage-of-credit-sales method and estimates that 2% of the credit sales are uncollectible. After the year-end adjustment, what amount of bad debt expense would Lindsey report for the year?

A. $1,200.
B. $2,200.
C. $3,000.
D. $3,800.

108. The following information pertains to Lightning, Inc. at the end of the year:

Credit Sales	$60,000	
Accounts Payable	10,000	
Accounts Receivable	7,000	
Allowance for Uncollectible Accounts	400	credit
Cash Sales	20,000	

Lightning uses the percentage-of-credit-sales method and estimates 1% of sales are uncollectible. What is the ending balance of the allowance account after the year-end adjustment?

A. $600.
B. $1,000.
C. $200.
D. $1,200.

109. A company offers a 20% trade discount when providing services of $5,000 or more to its customers. Record the transaction when the company provides services of $8,000 (not including the trade discount) on account.

110. On February 23, a company provides services on account to a customer for $4,500. The customer pays in full for those services on March 4. Record the transactions for the company when the services are provided on February 23 and when the cash is collected on March 4.

111. Suppose Casey Title Company normally charges $500 for services related to selling a house. As part of a summer special, Casey offers customer's a trade discount of 20%. On July 9, Linda Holmes uses the services of Casey and pays cash equal to the discounted price. Record the revenue earned by Casey on July 9.

112. A company reports the following amounts at the end of the year: Total sales = $500,000; sales discounts = $10,000; sales returns = $30,000; sales allowances = $20,000. Compute net sales.

113. A company reports the following amounts at the end of the year: Total sales = $400,000; cash = $35,000; sales discounts = $10,000; accounts receivable = $20,000; sales returns = $15,000; operating expenses = $70,000; sales allowances = $25,000. Compute net sales.

114. On September 8, a company provides services on account to a customer for $1,500, terms 2/10, n/30. The customer pays for those services on September 15. Record the transactions for the company when the services are provided on September 8 and when the cash is collected on September 15.

115. On October 22, a company provides services on account to a customer for $1,800, terms 3/15, n/30. The customer pays for those services on December 19. Record the transactions for the company when the services are provided on October 22 and when cash is collected on December 19.

116. On August 12, a company provides services on account to a customer for $3,000. However, on August 16, the customer is not completely satisfied with the service and the company grants an allowance on the amount owed of $400. On August 20, the customer makes full payment of the balance owed, excluding the allowance. Record the services provided on August 12, the sales allowance on August 16, and the cash collection on August 20.

117. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $200 *(credit*) before any year-end adjustment. The balance of Accounts Receivable is $15,000. The company estimates that 10% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

118. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $2,000 *(credit*) before any year-end adjustment. The balance of Accounts Receivable is $180,000. The company estimates that 5% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

119. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $2,000 (*debit*) before any year-end adjustment. The balance of Accounts Receivable is $180,000. The company estimates that 5% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

120. During 2012, its first year of operations, a company provides services on account of $250,000. By the end of 2012, cash collections on these accounts total $130,000. The company estimates that 10% of accounts receivable will be uncollectible. Record the adjustment for uncollectible accounts on December 31, 2012.

121. A company has the following balances on December 31, 2012, after year-end adjustments: Accounts Receivable = $62,000; Allowance for Uncollectible Accounts = $6,000. Calculate the net realizable value of accounts receivable.

122. A company has the following balances on December 31, 2012, after year-end adjustments: Accounts Receivable = $75,000; Service Revenue = $400,000; Allowance for Uncollectible Accounts = $5,000; Cash = $20,000. Calculate the net realizable value of accounts receivable.

123. A company uses the allowance method to account for uncollectible accounts. During the year, the company has actual bad debts of $25,000. Record the write-off of the uncollectible accounts.

124. At the beginning of the year, a company had an Allowance for Uncollectible Accounts of $22,000. By the end of the year, actual bad debts total $24,000. What is the balance of the Allowance for Uncollectible Accounts after the write-offs (before any year-end adjustment)?

125. On March 13, a company writes off a customer's account of $3,800. On June 3, the customer unexpectedly pays the $3,800 balance. Using the allowance method, record the write-off on March 13 and the cash collection on June 3.

126. A company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $60,000; estimated uncollectible = 3%.
2. Accounts 1–30 days past due = $20,000; estimated uncollectible = 20%.
3. Accounts more than 30 days past due = $10,000; estimated uncollectible = 50%.

Compute the total estimated uncollectible accounts.

127. At the end of the year, a company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $80,000; estimated uncollectible = 2%.
2. Accounts 1–30 days past due = $20,000; estimated uncollectible = 25%.
3. Accounts more than 30 days past due = $4,000; estimated uncollectible = 60%.

Record the year-end adjustment for uncollectible accounts, assuming the current balance of the Allowance for Uncollectible Accounts is $900 (credit).

128. At the end of the year, a company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $70,000; estimated uncollectible = 4%.
2. Accounts 1–30 days past due = $30,000; estimated uncollectible = 15%.
3. Accounts more than 30 days past due = $5,000; estimated uncollectible = 40%.

Record the year-end adjustment for uncollectible accounts, assuming the current balance of the Allowance for Uncollectible Accounts is $1,200 (debit).

129. A company has the following balances on December 31, 2012, before any year-end adjustments: Accounts Receivable = $80,000; Allowance for Uncollectible Accounts = $1,100 (credit). The company estimates uncollectible accounts based on an aging of accounts receivable as shown below:

Age Group	Amount Receivable	Estimated Percent Uncollectible
Not yet due	$48,000	5%
0–30 days past due	18,000	15%
31–90 days past due	10,000	40%
More than 90 days past due	4,000	80%
Total	$80,000	

Record the adjustment for uncollectible accounts on December 31, 2012.

130. Calculate the missing amount for each of the following notes receivable.

Face Value	Annual Interest rate	Fraction of the Year	Interest
$15,000	4%	8 months	(a)
$25,000	8%	(b)	$500
$30,000	(c)	4 months	$500
(d)	6%	6 months	$600

131. On February 1, 2012, a company loans one of its employees $20,000 and accepts a nine-month, 8% note receivable. Calculate the amount of interest revenue the company will recognize in 2012.

132. On July 1, 2012, a company loans one of its employees $20,000 and accepts a nine-month, 8% note receivable. Calculate the amount of interest revenue the company will recognize in 2012 and 2013.

133. On April 1, 2012, a company loans one of its suppliers $50,000 and accepts a 24-month, 12% note receivable. Calculate the amount of interest revenue the company will recognize in 2012, 2013, and 2014.

134. On April 14, a company lends $10,000 cash to one of its employees and accepts a six-month, 12% note in return. Record the acceptance of the note receivable.

135. On April 1, a company provides services to one of its customers for $12,000. As payment for the services, the company accepts a six-month, 10% note from the customer. Record the acceptance of the note receivable on April 1 and the cash collection on October 1.

136. On May 1, 2012, a company lends $100,000 to one of its main suppliers and accepts a 12-month, 6% note. Record the acceptance of the note on May 1, 2012, the adjustment on December 31, 2012, and the cash collection on May 1, 2013.

137. Below are amounts for two companies:

	Beginning Accounts Receivable (net)	Ending Accounts Receivable (net)	Net Sales
Company 1	$1,500	$1,200	$29,700
Company 2	3,100	3,300	80,000

For each company, calculate the receivables turnover ratio. Which company appears more efficient in collecting cash from sales?

138. At the end of the year, a company reports a balance in its Allowance for Uncollectible Accounts of $1,400 (*credit*) before any year-end adjustment. The company estimates future uncollectible accounts to be 3% of credit sales for the year. Credit sales for the year total $280,000. Record the adjustment for the allowance for uncollectible accounts using the percentage-of-credit-sales method.

139. At the end of the year, a company reports a balance in its Allowance for Uncollectible Accounts of $1,400 (*debit*) before any year-end adjustment. The company estimates future uncollectible accounts to be 3% of credit sales for the year. Credit sales for the year total $280,000. Record the adjustment for the allowance for uncollectible accounts using the percentage-of-credit-sales method.

140. A company reports the following amounts at the end of the year (before any year-end adjustment).

Credit sales for the year	$120,000	
Accounts receivable	36,000	
Allowance for uncollectible accounts	1,500	(*credit*)

Record the adjustment for uncollectible accounts (1) using the percentage-of-receivables method, assuming the company estimates 10% of receivables will not be collected, and (2) using the percentage-of-credit-sales method, assuming the company estimates 2% of credit sales will not be collected.

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

141. Give three examples of contra revenue accounts and the transactions with which they are associated.

142. Explain how companies account for uncollectible accounts receivable (bad debts).

143. What does it mean to report accounts receivable at their net realizable value.

144. Discuss the differences between the allowance method and the direct write-off method for recording uncollectible accounts. Which of the two is acceptable under financial accounting rules?

145. How is the receivables turnover ratio measured? What does this ratio indicate? Is a higher or lower receivables turnover preferable?

146. Explain why the percentage-of-receivables method is referred to as the *balance sheet method* and the percentage-of-credit-sales method is referred to as the *income statement method.* Which method is typically used in practice? Why?

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term placing the letter designating the term in the space provided.
Terms:
a. Accounts receivable
b. Allowance method
c. No effect
d. Direct write-off method
e. Net realizable value
f. Aging method
g. Bad debt expense
h. Receivables written off
i. Decrease assets and increase expenses
j. Allowance for uncollectible accounts

147. _____ Contra asset that represents the estimated amount of future bad debts.
Answer: j

148. _____ Actual bad debts.
Answer: h

149. _____ The effect of estimating future bad debts.
Answer: i

150. _____ The procedure using an adjustment for future uncollectible accounts.
Answer: b

151. _____ The total amount owed to a company from credit sales to customers.
Answer: a

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term placing the letter designating the term in the space provided.
Terms:
a. Accounts receivable
b. Allowance method
c. No effect
d. Direct write-off method
e. Net realizable value
f. A0ging method
g. Bad debt expense
h. Receivables written off
i. Decrease assets and increase expenses
j. Allowance for uncollectible accounts

152._____ Accounts receivable less allowance for uncollectible accounts.
Answer: e

153._____ Considers that the longer past due the account receivable is, the less likely it is to be collected.
Answer: f

154._____ Recognizes bad debts when accounts become uncollectible.
Answer: d

155._____ The amount of the adjustment to the allowance for uncollectible accounts during the period.
Answer: g

156._____ The effect of writing off an account receivable as a bad debt under the allowance method.
Answer: c

Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term by placing the letter designating the term in the space provided.
Terms:
a. Credit sales
b. Sales returns
c. Sales allowances
d. Sales discounts
e. Trade discounts

157._____ When a customer returns a product.
Answer: b

158._____ Deducted from list price.
Answer: e

159._____ Sale on account to customers.
Answer: a

160._____ Offered to induce prompt payment.
Answer: d

161._____ Refund because of some deficiency in the company's product or service.
Answer: c
Refer To: 05-161

162. On January 1, 2012, Alice & Co. lends $5,000 to an employee and accepts a 24-month, 10% note. At the end of 2012, what effect will the adjustment for accrued interest revenue have on the Alice & Co.'s financial statements?

A. Decreases assets.
B. Decreases revenue.
C. Increases expense.
D. Increases stockholders' equity.

163. On July 8, Ray Inc. sold 100 printers to Office Rental Company at $600 each and offered a 2% discount for payment within 10 days. On July 15, Office Rental Company paid the full amount in cash. What should Ray Inc. record on July 15?

a. Cash	60,000	
Accounts Receivable		60,000

b. Cash	58,800	
Accounts Receivable		58,800

c. Cash	58,800	
Sales Discounts	1,200	
Accounts Receivable		60,000

d. Cash	60,000	
Sales Discounts		1,200
Sales Revenue		58,800

A. Option a
B. Option b
C. Option c
D. Option d

164. On December 31, 2012, Andy Inc. has a <u>debit</u> balance of $1,500 for the Allowance for Uncollectible Accounts before any year-end adjustment. Andy Inc. also has the following information for its accounts receivable and the estimated percentages of bad debts for different past-due amounts:

Age Group (days past due)	Accounts Receivable	Estimated Percent Uncollectible
0-30	$50,000	5%
31-60	$20,000	10%
61-90	$10,000	20%

What is the amount of bad debt expense to be reported on Andy Inc.'s financial statements for 2012?

A. $6,500
B. $1,500
C. $5,000
D. $8,000

165. Eric Company has the following information:

Total revenues	$860,000
Sales returns and allowances	$50,000
Sales discounts	$30,000
Ending inventory	$100,000

What is the amount of net revenues for Eric Company?

A. $330,000.
B. $230,000.
C. $680,000.
D. $780,000.

166. Richard LLC accounts for possible bad debts using the allowance method. When an actual bad debt occurs, what effect does it have on the accounting equation?

A. Increases assets and increases stockholders' equity.
B. Decreases assets and decreases stockholders' equity.
C. Decreases assets and decreases liabilities.
D. No effect on the accounting equation.

167. On December 31, 2012, Mark Inc. estimates future bad debts to be $6,500. The Allowance for Uncollectible Accounts has a credit balance of $2,500 before any year-end adjustment. What adjustment should Mark Inc. record for the estimated bad debts on December 31, 2012?

A. Debit Bad Debt Expense, $6,500; credit Allowance for Uncollectible Accounts, $6,500.
B. Debit Bad Debt Expense, $4,000; credit Allowance for Uncollectible Accounts $4,000.
C. Debit Allowance for Uncollectible Accounts, $9,000; credit Bad Debt Expense, $6,500.
D. Debit Bad Debt Expense, $9,000; credit Allowance for Uncollectible Accounts, $9,000.

168. On March 17, Jackal Lumber sold building materials to Fredo Limited for $15,000 with terms of 3/10, net 20. What amount did Jackal record as revenue on March 25 when Fredo paid for the building materials?

A. $15,000.
B. $14,550.
C. $15,450.
D. $0.

169. The direct write-off method is generally not permitted for financial reporting purposes because:

A. Compared to the allowance method, it would allow greater flexibility to managers in manipulating reported net income?
B. This method is primarily used for tax purposes.
C. It is too difficult to accurately estimate future bad debts.
D. Expenses (bad debts) are not properly matched with the revenues (credit sales) that they help to generate.

170. At the beginning of the year, Vici Ventures had accounts receivable of $220,000. At the end of the year, the company had accounts receivable of $340,000. During the year, Vici had total sales of $1,000,000, 70% of which were credit sales What was Vici's receivables turnover ratio for the year?

A. 2.50
B. 3.57
C. 2.94
D. 146 days

171. Suppose that the balance of a company's Allowance for Uncollectible Accounts was $6,200 (credit) at the end of 2012, prior to any adjustments. The company estimated that the total of uncollectible accounts in its accounts receivable was $44,300 at the end of 2012. Total accounts receivable were $150,000 on December 31, 2012, and total credit sales for 2012 were $330,000. What amount of bad debt expense would appear in the company's 2012 income statement, assuming the company uses the percentage-of-receivables method?

A. $38,100.
B. $105,700.
C. $33,000.
D. $50,500.

172. Garber Plumbers offers a 20% trade discount when providing $2,000 or more of plumbing services to its customers. In March 2012, Garber provided $4,000 of plumbing services to Red Oak, Inc. and $1,500 of services to Cyril, Inc. Each of these customers was granted credit terms of 2/10, net 30. If both customers paid for the plumbing services within the discount period, what was the net sales figure for these two transactions?

A. $5,500.
B. $4,312.
C. $4,486.
D. $4,606.

173. Boynton Jewelers reported the following amounts at the end of the year: total sales = $550,000; sales discounts = $12,000; sales returns = $44,000; sales allowances = $17,000. What was the company's net sales for the year?

A. $489,000.
B. $485,000.
C. $477,000.
D. $499,000.

174. At the end of 2012, Murray State Lenders had a balance in its Allowance for Uncollectible Accounts of $4,500 (credit) before any adjustment. The company estimated its future uncollectible accounts to be $12,000 using the percentage-of-receivables method. Murray State's adjustment on December 31, 2012, to record its estimated uncollectible accounts included a:

A. Credit to Allowance for Uncollectible Accounts of $12,000.
B. Debit to Bad Debt Expense of $7,500.
C. Credit to Allowance for Uncollectible Accounts of $7,500.
D. Both b and c.

175. At the end of 2012, Murray State Lenders had a balance in its Allowance for Uncollectible Accounts of $4,500 (debit) before any adjustment. The company estimated its future uncollectible accounts to be $12,000 using the percentage-of-receivables method. Murray State's adjustment on December 31, 2012, to record its estimated uncollectible accounts included a:

A. Credit to Allowance for Uncollectible Accounts of $12,000.
B. Debit to Bad Debt Expense of $16,500.
C. Credit to Allowance for Uncollectible Accounts of $16,500.
D. Both b and c.

176. McConnell's Bakeries had the following balances on December 31, 2012, before any adjustment: Accounts Receivable = $100,000; Allowance for Uncollectible Accounts = $4,100 (credit). McConnell's estimates uncollectible accounts based on an aging of accounts receivable as shown below:

Age Group (days past due)	Accounts Receivable	Estimated Percent Uncollectible
Not yet due	$50,000	4%
0-30	$20,000	8%
31-60	$18,000	10%
More than 60	$12,000	40%

What amount of bad debt expense did McConnell's record in its December 31, 2012, adjustment to the allowance account?

A. $10,200.
B. $12,800.
C. $15,300.
D. $6,100.

177. At the beginning of 2012, the balance in Jackson Enterprises' Allowance for Uncollectible Accounts was $31,800. During 2012, the company wrote off $38,000 of accounts receivable. Writing off the individual bad debts would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Credit to the Allowance for Uncollectible Accounts.
D. Both a and c.

178. A company provides services on account. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Increase	Decrease	Increase	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

179. A company collects an account receivable previously written off. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Increase	Decrease	Increase	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

180. A company collects a customer's account within the discount period. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Decrease	No effect	Decrease	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

181. A company records a sales return from a credit customer. Indicate how this transaction would affect the following five financial statement items.

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Decrease	No effect	Decrease	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	Increase	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

182. Gershwin Wallcovering Inc. shipped the wrong shade of paint to a customer. The customer agreed to keep the paint upon being offered a 15% price reduction. The price reduction is an example of a:

A. Sales revenue.
B. Sales discount.
C. Sales return.
D. Sales allowance.

183. Tom's Textiles shipped the wrong material to a customer, who refused to accept the order. This is an example of a:

A. Sales Revenue.
B. Sales discount.
C. Sales return.
D. Sales allowance.

184. Credit sales transfer products and services to a customer today while bearing the risk of collecting payment from that customer in the future.

True False

185. At the time of a credit sale, a company would record an increase in assets and an increase in revenues.

True False

186. A sale on account is recorded as a debit to Service Revenue and a credit to Accounts Receivable.

True False

187. Accounts receivable represent the amount of cash owed to the company by its customers from the sale of products or services on account.

True False

188. Trade discounts represent a discount offered to the purchasers for quick payment.

True False

189. When a company sells a $100 service with a 20% trade discount, $80 of revenue is recognized.

True False

190. A sales discount represents a reduction, not in the selling price of a product or service, but in the amount to be paid by a credit customer if payment is made within a specified period of time.

True False

191. A sale on account for $1,000 offered with terms 2/10, n/30 means that the customers will get a $2 discount if payment is made within 10 days; otherwise, full payment is due within 30 days.

True False

192. The Sales Discounts account is an example of a contra revenue account.

True False

193. The Sales Discounts account is an expense account.

True False

194. Sales returns and allowances occur when the buyer returns the goods or the seller reduces the customer's balance owed.

True False

195. A sales allowance is recorded as a debit to Accounts Receivable and a credit to Sales Allowances.

True False

196. The Sales Returns account is an expense account.

True False

197. If a company has total revenues of $100,000, sales discounts of $3,000, sales returns of $4,000, and sales allowances of $2,000, the income statement will report net revenues of $91,000.

True False

198. Accounts receivable are reported at their net realizable value.

True False

199. The net realizable value of accounts receivable is the full amount owed by customers.

True False

200. Customers' accounts that we no longer consider collectible are referred to as uncollectible accounts (or bad debts).

True False

201. The direct write-off method involves recording an adjustment at the end of each period to account for the possibility of future uncollectible accounts.

True False

202. The adjustment to account for future bad debts has the effect of (1) reducing assets and (2) increasing liabilities.

True False

203. The adjustment for uncollectible accounts involves a debit to Bad Debt Expense and a credit to the Allowance for Uncollectible Accounts.

True False

204. The Allowance for Uncollectible Accounts is a contra asset account representing the amount of accounts receivable that we do not expect to collect.

True False

205. Bad debt expense is the amount of the adjustment to the allowance for uncollectible accounts that represents the cost of the estimated future bad debts.

True False

206. One disadvantage of the allowance method (over the direct write-off method) for recording uncollectible accounts is that it generally matches bad debt expense with the revenue it helped to generate.

True False

207. If a company is owed $10,000 by its customers, but it expects that $1,000 will not be collected, accounts receivable in the balance sheet are reported at the net amount of $9,000.

True False

208. Under the allowance method, when a company writes off an account receivable as an actual bad debt, it reduces total assets.

True False

209. Under the allowance method, when a company writes off an account receivable as an actual bad debt, it records an expense.

True False

210. Under the allowance method, the write-off of an actual bad debt is recorded with a debit to the Allowance for Uncollectible Accounts and a credit to Accounts Receivable.

True False

211. Under the allowance method, when a company collects cash from an account previously written off, total assets increase.

True False

212. A credit balance in the Allowance for Uncollectible Accounts before adjustment indicates that last year's estimate of uncollectible accounts may have been too high.

True False

213. A debit balance in the Allowance for Uncollectible Accounts before adjustment indicates that last year's estimate of uncollectible accounts was too low.

True False

214. The aging method for estimating uncollectible accounts considers that a higher percentage of "older" accounts will not be collected compared to "newer" accounts.

True False

215. A company expects 5% of its newer accounts receivable to be uncollectible and 20% of its older accounts to be uncollectible. If the company has $40,000 of newer accounts and $5,000 of older accounts, the total estimate of uncollectible accounts is $2,000.

True False

216. Under the direct write-off method, bad debt expense is recorded at the time accounts are known to be uncollectible.

True False

217. The direct write-off method is used for tax purposes but is generally not permitted for financial reporting.

True False

218. The direct write-off method violates the matching principle.

True False

219. Under the direct write-off method, recording an estimate of future uncollectible accounts includes a debit to Bad Debt Expense and a credit to the Allowance for Uncollectible Accounts.

True False

220. Notes receivable are similar to accounts receivable but are more formal credit arrangements evidenced by a written debt instrument, or note.

True False

221. Notes receivable typically arise from sales to customers.

True False

222. Notes receivable are assets and are reported in the balance sheet.

True False

223. Interest on a note receivable is calculated as the face value of the note times the annual interest rate stated on the note times the fraction of the year the note is outstanding.

True False

224. A $10,000 note that has a stated interest rate of 10% and is due in six months would have interest of $1,000.

True False

225. Accrued interest on a note receivable is interest earned by the end of the year but not yet received.

True False

226. Accrued interest on a note receivable has the effects of increasing assets and increasing liabilities.

True False

227. Two important ratios that help in understanding the company's effectiveness in managing receivables are the receivables turnover ratio and the average collection period.

True False

228. The receivables turnover ratio shows the number of times during a year that the average accounts receivable balance is collected (or "turns over").

True False

229. The receivables turnover ratio equals average accounts receivable divided by net credit sales.

True False

230. A lower receivables turnover ratio generally indicates more favorable management of accounts receivable by company managers.

True False

231. The average collection period shows the approximate number of days the average accounts receivable balance is outstanding.

True False

232. The percentage-of-receivables method for estimating uncollectible accounts is commonly referred to as the balance sheet method, because the estimate of bad debts is based on a balance sheet amount—accounts receivable.

True False

233. The percentage-of-credit-sales method for estimating uncollectible accounts is commonly referred to as the income statement method, because it always results in a higher amount of net income being reported in the income statement.

True False

234. Even though the percentage-of-receivables method and the percentage-of-credit-sales method use different accounts to estimate future uncollectible accounts, the amount of bad debt expense reported in the income statement will always be the same under the two methods.

True False

235. From an income statement perspective, the percentage-of-credit-sales method is typically preferable because it better matches the revenues (credit sales) with their related expenses (bad debts).

True False

236. From a balance sheet perspective, the percentage-of-receivables method is typically preferable because assets (net accounts receivable) are reported closer to their net realizable value.

True False

237. The percentage-of-credit-sales method (income statement method) is allowed only if amounts do not differ significantly from estimates using the percentage-of-receivables method.

True False

238. Which of the following best describes credit sales?

A. Cash sales to customers that are new to the company.
B. Sales to customers using credit cards.
C. Sales to customers on account.
D. Sales with a high risk that the customer will return the product.

239. Credits sales are recorded as:

A. Debit Cash; credit Unearned Revenue.
B. Debit Service Revenue, credit Accounts Receivable.
C. Debit Cash; credit Service Revenue.
D. Debit Accounts Receivable, credit Service Revenue.

240. Barton Health Services provided care to a patient worth $1,200. Because the patient was over the age of 65, Barton granted the patient a 20% discount and the customer paid the correct amount in cash. How would Barton record the service transaction?

a. Cash	960	
Service Revenue		960
b. Cash	960	
Trade Discount	240	
Service Revenue		1,200
c. Cash	1,200	
Service Revenue		1,200
d. Cash	1,200	
Trade Discount		240
Service Revenue		960

A. Option a
B. Option b
C. Option c
D. Option d

241. Gershwin Wallcovering Inc. shipped the wrong shade of paint to a customer. The customer agreed to keep the paint upon being offered a 15% price reduction. Gershwin would record this reduction by crediting Accounts Receivable and debiting:

A. Sales Revenue.
B. Sales Discounts.
C. Sales Returns.
D. Sales Allowances.

242. Tom's Textiles shipped the wrong material to a customer, who refused to accept the order. Upon receipt of the material, Tom's would credit Accounts Receivable and debit:

A. Sales Revenue.
B. Sales Discounts.
C. Sales Returns.
D. Sales Allowances.

243. When customers purchase products on account, Spitz Manufacturing offers them a 2% reduction in the amount owed if they pay within 10 days. This is an example of a:

A. Bad debt.
B. Sales discount.
C. Sales return.
D. Sales allowances.

244. On November 10 of the current year, Flores Mills sold carpet to a customer for $8,000 with credit terms 2/10, n/30. How would Flores record the sale on November 10?

a. Accounts Receivable	7,840	
Sales Revenue		7,840
b. Accounts Receivable	8,000	
Sales Revenue		8,000
c. Accounts Receivable	7,840	
Cash Discounts	160	
Sales Revenue		8,000
d. Accounts Receivable	8,000	
Cash Discounts		160
Sales Revenue		7,840

A. Option a
B. Option b
C. Option c
D. Option d

245. On November 10 of the current year, Flores Mills provides services to a customer for $8,000 with credit terms 2/10, n/30. The customer made the correct payment on November 17. How would Flores record the collection of cash on November 17?

a. Cash	7,840	
Accounts Receivable		7,840
b. Cash	7,840	
Sales Discounts	160	
Accounts Receivable		8,000
c. Cash	7,840	
Sales Revenue	160	
Accounts Receivable		8,000
d. Cash	8,000	
Accounts Receivable		8,000

A. Option a
B. Option b
C. Option c
D. Option d

246. On November 10 of the current year, Flores Mills provides services to a customer for $8,000 with credit terms 2/10, n/30. The customer made the correct payment on December 5. How would Flores record the collection of cash on December 5?

a. Cash	7,840	
Accounts Receivable		7,840
b. Cash	7,840	
Sales Discounts	160	
Accounts Receivable		8,000
c. Cash	7,840	
Sales Revenue	160	
Accounts Receivable		8,000
d. Cash	8,000	
Accounts Receivable		8,000

A. Option a
B. Option b
C. Option c
D. Option d

247. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on April 12?

a. Accounts Receivable	46,000	
Sales Revenue		46,000
b. Accounts Receivable	46,000	
Sales Revenue		45,540
Sales Discounts		460
c. Accounts Receivable	45,540	
Sales Revenue		45,540
d. Accounts Receivable	45,540	
Sales Discounts	460	
Sales Revenue		46,000

A. Option a
B. Option b
C. Option c
D. Option d

248. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on April 23, assuming the customer made the correct payment on that date?

a.	Cash	45,540	
	Sales Revenue	460	
	Accounts Receivable		46,000
b.	Cash	46,000	
	Sales Discounts	460	
	Accounts Receivable		46,000
	Interest Revenue		460
c.	Cash	45,540	
	Sales Discounts	460	
	Accounts Receivable		46,000
d.	Cash	46,000	
	Accounts Receivable		45,540
	Sales Revenue		460

A. Option a
B. Option b
C. Option c
D. Option d

249. Oswego Clay Pipe Company provides services of $46,000 to Southeast Water District #45 on April 12 of the current year with terms 1/15, n/60. What would Oswego record on June 10, assuming the customer made the correct payment on that date?

a.	Cash	46,000	
	Accounts Receivable		45,540
	Discounts Receivable		460
b.	Cash	46,000	
	Accounts Receivable		45,540
	Interest Revenue		460
c.	Cash	46,000	
	Accounts Receivable		46,000
d.	Cash	46,460	
	Accounts Receivable		46,000
	Interest Revenue		460

A. Option a
B. Option b
C. Option c
D. Option d

250. Which of the following is recorded upon receipt of a payment on April 7, 2012, by a customer who pays a $900 invoice dated March 3, 2012, with terms 2/10, n/60?

A. Debit Sales Discounts $18.
B. Credit Purchase Discounts $18.
C. Credit Accounts Receivable $882.
D. Debit Cash $900.

251. Accounts receivable are normally reported at the:

A. Present value of future cash receipts.
B. Current value plus accrued interest.
C. Expected amount to be received.
D. Current value less expected collection costs.

252. Shupe Inc. estimates uncollectible accounts based on the percentage of accounts receivable. What effect will recording the estimate of uncollectible accounts have on the accounting equation?

A. Increase liabilities and decrease stockholders' equity
B. Decrease assets and decrease liabilities
C. Decrease assets and decrease stockholders' equity
D. Increase assets and decrease stockholders' equity

253. Under the allowance method, which of the following does not change the balance in the Accounts Receivable account?

A. Returns on credit sales.
B. Collections on customer accounts.
C. Bad debt expense adjustment.
D. Write-offs.

254. At December 31, Gill Co. reported accounts receivable of $238,000 and an allowance for uncollectible accounts of $600 (credit). An analysis of accounts receivable suggests that the allowance for uncollectible accounts should be 3% of accounts receivable. The amount of the adjustment for uncollectible accounts would be:

A. $6,540.
B. $7,800.
C. $7,140.
D. $7,740.

255. At December 31, Gill Co. reported accounts receivable of $238,000 and an allowance for uncollectible accounts of $600 (debit). An analysis of accounts receivable suggests that the allowance for uncollectible accounts should be 3% of accounts receivable. The amount of the adjustment for uncollectible accounts would be:

A. $6,540.
B. $7,800.
C. $7,140.
D. $7,740.

256. At December 31, Amy Jo's Appliances had account balances in Accounts Receivable of $311,000 and $970 (credit) in Allowance for Uncollectible Accounts. An analysis of Amy Jo's December 31 accounts receivable suggests that the allowance for uncollectible accounts should be 2% of accounts receivable. Bad debt expense for the year should be:

A. $6,220.
B. $6,450.
C. $5,250.
D. $7,190.

257. At December 31, Amy Jo's Appliances had account balances in Accounts Receivable of $311,000 and $970 (debit) in Allowance for Uncollectible Accounts. An analysis of Amy Jo's December 31 accounts receivable suggests that the allowance for uncollectible accounts should be 2% of accounts receivable. Bad debt expense for the year should be:

A. $6,220.
B. $6,450.
C. $5,250.
D. $7,190.

258. A company's adjustment for uncollectible accounts at year-end would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Debit to Accounts Receivable.
D. Debit to Allowance for Uncollectible Accounts.

259. Allowance for Uncollectible Accounts is:

A. An expense account.
B. A contra asset account.
C. A contra revenue account.
D. A liability account.

260. Which of the following is recorded by a credit to Accounts Receivable?

A. Sale of inventory on account.
B. Estimating the annual allowance for uncollectible accounts.
C. Estimating annual sales returns.
D. Write-offs of bad debts.

261. Collections of accounts receivable that previously have been written off are credited to:

A. A Gain account.
B. Accounts Receivable.
C. Bad Debt Expense.
D. Retained Earnings.

262. Lail Inc. accounts for bad debts using the allowance method. On June 1, Lail Inc. wrote off Andrew Green's $2,500 account. Based on Lail's estimation, Andrew Green will never pay any portion of the balance in his account. What effect will this write-off have on Lail Inc.'s balance sheet at the time of the write-off?

A. An increase to stockholders' equity and a decrease to liabilities.
B. No effect.
C. An increase to assets and an increase to stockholders' equity.
D. A decrease to assets and a decrease to stockholders' equity.

263. When $2,500 of accounts receivable are determined to be uncollectible, which of the following should the company record to write off the accounts using the allowance method?

A. A debit to Bad Debt Expense and a credit to Allowance for Uncollectible Accounts.
B. A debit to Allowance for Uncollectible Accounts and a credit to Bad Debt Expense.
C. A debit to Bad Debt Expense and a credit to Accounts Receivable.
D. A debit to Allowance for Uncollectible Accounts and a credit to Accounts Receivable.

264. Using the allowance method, writing off an actual bad debts would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Debit to Accounts Receivable.
D. Credit to Allowance for Uncollectible Accounts.

265. On December 31, 2012, Coolwear Inc. had balances in Accounts Receivable and Allowance for Uncollectible Accounts of $48,400 and $940, respectively. During 2013, Coolwear wrote off $820 in accounts receivable and determined that there should be an allowance for uncollectible accounts of $1,140 at December 31, 2013. Bad debt expense for 2013 would be:

A. $320.
B. $1,140.
C. $820.
D. $1,020.

266. On December 31, 2012, Larry's Used Cars had balances in Accounts Receivable and Allowance for Uncollectible Accounts of $53,600 and $1,325, respectively. During 2013, Larry's wrote off $1,465 in accounts receivable and determined that there should be an allowance for uncollectible accounts of $1,280 at December 31, 2013. Bad debt expense for 2013 would be:

A. $1,280.
B. $1,465.
C. $1,420.
D. $1,140.

267. When using an aging method for estimating uncollectible accounts:

A. Older accounts are considered less likely to be collected.
B. The number of days the account is past due is not considered.
C. Older accounts are considered more likely to be collected.
D. No estimate of uncollectible accounts is made.

268. Crimson Inc. recorded credit sales of $750,000, of which $600,000 is not yet due, $100,000 is past due for up to 180 days, and $50,000 is past due for more than 180 days. Under the aging of receivables approach, Crimson Inc. expects it will not collect 1% of the amount not yet due, 10% of the amount past due for up to 180 days, and 20% of the amount past due for more than 180 days. The allowance account had a debit balance of $1,000 before adjustment. After adjusting for bad debt expense, what is the ending balance of the allowance account?

A. $29,000.
B. $28,000.
C. $27,000.
D. $26,000.

269. During 2012, Bears Inc. recorded credit sales of $500,000. Before adjustments at year-end, Bears has accounts receivable of $300,000, of which $50,000 is past due, and the allowance account had a credit balance of $2,500. Using the aging of receivables approach, what would be the adjustment assuming Bears expects it will not to collect 5% of the amount not yet past due and 20% of the amount past due?

a. Bad Debt Expense	22,500	
Allowance for Uncollectible Accounts		22,500
b. Bad Debt Expense	25,000	
Allowance for Uncollectible Accounts		25,000
c. Bad Debt Expense	20,000	
Allowance for Uncollectible Accounts		20,000
d. Allowance for Uncollectible Accounts	20,000	
Bad Debt Expense		20,000

A. Option a
B. Option b
C. Option c
D. Option d

270. The following information pertains to Lightning, Inc. at the end of December:

Credit Sales	$60,000	
Accounts Payable	10,000	
Accounts Receivable	7,000	
Allowance for Uncollectible Accounts	$400	credit
Cash Sales	20,000	

Lightning uses the aging method and estimates it will not collect 2% of accounts receivable not yet due, 10% of receivables less than 30 days past due, and 40% of receivables greater than 30 days past due. The accounts receivable balance of $7,000 consists of $3,500 not yet due, $2,000 less than 30 days past due, and $1,500 greater than 30 days past due. What is the appropriate amount of Bad Debt Expense?

A. $400.
B. $470.
C. $870.
D. $1,270.

271. Under the direct write-off method, what adjustment is made at the end of the year to account for possible future bad debts?

A. Debit Bad Debt Expense.
B. Debit Allowance for Uncollectible Accounts.
C. Credit Accounts Receivable.
D. No adjustment is made.

272. Under the direct write-off method, what adjustment is made at the time an actual bad debt occurs?

A. Debit Bad Debt Expense, credit Allowance for Uncollectible Accounts.
B. Debit Allowance for Uncollectible Accounts, credit Accounts Receivable.
C. Debit Bad Debt Expense, credit Accounts Receivable.
D. No adjustment is made.

273. Which accounting principle does the direct write-off method violate?

A. Cost.
B. Realization.
C. Revenue recognition.
D. Matching.

274. If the direct write-off method is used to account for uncollectible accounts, which of the following statements is false?

A. An allowance account is not used.
B. No adjustment is made at the end of the year to estimate future uncollectible accounts.
C. Accounts receivable will be reported at its net realizable value.
D. Bad debt expense is recorded at the time an actual bad debt is written-off.

275. Which method is not allowed under Generally Accepted Accounting Principles for the purpose of accounting for uncollectible accounts?

A. Allowance method.
B. Direct write-off method.
C. Aging method.
D. Percentage-of-receivables method.

276. The primary difference between a note receivable and an account receivable is:

A. A note receivable cannot be classified as a current asset.
B. Borrowers have the option of not paying a note receivable.
C. An account receivable is more likely to be collected.
D. A note receivable is evidenced by a written debt instrument.

277. Hughes Aircraft sold a four-passenger airplane for $380,000, receiving a $50,000 down payment and a 12% note for the balance. This transaction would include a:

A. Credit to Cash.
B. Debit to Sales Discount.
C. Debit to Notes Receivable.
D. Credit to Notes Receivable.

278. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2012?

A. $120.
B. $240.
C. $100.
D. $60.

279. On February 1, 2012, Middelton Corp. lends cash and accepts a $2,000 note receivable that offers 10% interest and is due in six months. What would Sango record on August 1, 2012, when the borrower pays Sanger the correct amount owed?

a. Cash	1,000	
Interest Revenue	100	
Notes Receivable		1,100

b. Cash	1,100	
Notes Receivable		1,100

c. Cash	1,100	
Interest Revenue		100
Notes Receivable		1,000

d. Cash	1,200	
Notes Receivable		1,200

A. Option a
B. Option b
C. Option c
D. Option d

280. On February 1, 2012, Sanger Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2012?

A. $20.
B. $40.
C. $30.
D. $60.

281. On September 1, 2012, Middelton Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How would Turner record the year-end adjustment to accrue interest in 2012?

a. Interest Revenue	360	
Interest Receivable		360

b. Interest Receivable	480	
Interest Revenue		480
c. Interest Receivable	360	
Interest Revenue		360

d. Interest Receivable	200	
Interest Revenue		200

A. Option a
B. Option b
C. Option c
D. Option d

282. On August 1, 2012, Turner Manufacturing lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How much interest revenue will Middleton Corp report during 2013?

A. $20.
B. $40.
C. $30.
D. $60.

283. On September 1, 2012, Middelton Corp. lends cash and accepts a $1,000 note receivable that offers 12% interest and is due in six months. How would Herzog record the transaction on April 1, 2013, when the borrower pays Herzog the correct amount owed?

a. Cash	9,675	
Notes Receivable		9,000
Interest Revenue		675

b. Cash	9,675	
Notes Receivable		9,000
Interest Revenue		225
Interest Receivable		450

a. Cash	9,675	
Notes Receivable		9,000
Interest Receivable		675

d. Cash	9,675	
Notes Receivable		9,675

A. Option a
B. Option b
C. Option c
D. Option d

284. Sandburg Veterinarian reports the following information for the year:

Net credit sales	$120,000
Average accounts receivable	20,000
Cash collections on credit sales	100,000

What is Sandburg's receivables turnover ratio?

A. 6.0.
B. 5.0.
C. 1.2.
D. 0.2.

285. Beverage International reports net credit sales for the year of $240,000. The company's accounts receivable balance at the beginning of the year equaled $20,000 and the balance at the end of the year equaled $30,000. What is Beverage International's receivables turnover ratio?

A. 12.0.
B. 9.6.
C. 8.0.
D. 1.5.

286. The amount of a company's receivables is influenced by several variables, including all of the following except:

A. The level of sales.
B. The nature of the product or service sold.
C. The credit and collection policies.
D. Dividend payments to stockholders.

287. Toppleson Manufacturing reports a receivables turnover ratio of 14.5. The industry average is 10.7. What most likely is causing this difference?

A. Toppleson is selling to high-risk customers.
B. Toppleson has effective procedures related to selling goods on account.
C. Toppleson provides superior products and services.
D. Toppleson allows customers too long to pay.

288. The percentage-of-credit-sales method for estimating uncollectible accounts is sometimes described as:

A. The balance sheet method.
B. The method most used by companies.
C. The income statement method.
D. The percentage-of-receivables method.

289. Which of the following statements is true with respect to the percentage-of-credit-sales method for estimating uncollectible accounts?

A. The amount recorded for bad debt expense does not depend on the balance of the allowance for uncollectible accounts.
B. This method is referred to as the balance sheet approach.
C. This method does not allow for future uncollectible accounts.
D. Under this method, bad debt expense is recorded at the time of an actual bad debt.

290. The following information pertains to Lindsey Corp. at the at the end of the year:

Credit Sales	$150,000	
Accounts Payable	20,000	
Accounts Receivable	30,000	
Allowance for Uncollectible Accounts	800	debit
Cash Sales	5,500	

Lindsey Corp. uses the percentage-of-credit-sales method and estimates that 2% of the credit sales are uncollectible. After the year-end adjustment, what amount of bad debt expense would Lindsey report for the year?

A. $1,200.
B. $2,200.
C. $3,000.
D. $3,800.

291. The following information pertains to Lightning, Inc. at the end of the year:

Credit Sales	$60,000	
Accounts Payable	10,000	
Accounts Receivable	7,000	
Allowance for Uncollectible Accounts	400	credit
Cash Sales	20,000	

Lightning uses the percentage-of-credit-sales method and estimates 1% of sales are uncollectible. What is the ending balance of the allowance account after the year-end adjustment?

A. $600.
B. $1,000.
C. $200.
D. $1,200.

292. A company offers a 20% trade discount when providing services of $5,000 or more to its customers. Record the transaction when the company provides services of $8,000 (not including the trade discount) on account.

293. On February 23, a company provides services on account to a customer for $4,500. The customer pays in full for those services on March 4. Record the transactions for the company when the services are provided on February 23 and when the cash is collected on March 4.

294. Suppose Casey Title Company normally charges $500 for services related to selling a house. As part of a summer special, Casey offers customer's a trade discount of 20%. On July 9, Linda Holmes uses the services of Casey and pays cash equal to the discounted price. Record the revenue earned by Casey on July 9.

295. A company reports the following amounts at the end of the year: Total sales = $500,000; sales discounts = $10,000; sales returns = $30,000; sales allowances = $20,000. Compute net sales.

296. A company reports the following amounts at the end of the year: Total sales = $400,000; cash = $35,000; sales discounts = $10,000; accounts receivable = $20,000; sales returns = $15,000; operating expenses = $70,000; sales allowances = $25,000. Compute net sales.

297. On September 8, a company provides services on account to a customer for $1,500, terms 2/10, n/30. The customer pays for those services on September 15. Record the transactions for the company when the services are provided on September 8 and when the cash is collected on September 15.

298. On October 22, a company provides services on account to a customer for $1,800, terms 3/15, n/30. The customer pays for those services on December 19. Record the transactions for the company when the services are provided on October 22 and when cash is collected on December 19.

299. On August 12, a company provides services on account to a customer for $3,000. However, on August 16, the customer is not completely satisfied with the service and the company grants an allowance on the amount owed of $400. On August 20, the customer makes full payment of the balance owed, excluding the allowance. Record the services provided on August 12, the sales allowance on August 16, and the cash collection on August 20.

300. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $200 *(credit*) before any year-end adjustment. The balance of Accounts Receivable is $15,000. The company estimates that 10% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

301. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $2,000 *(credit*) before any year-end adjustment. The balance of Accounts Receivable is $180,000. The company estimates that 5% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

302. At the end of the year, a company has a balance in Allowance for Uncollectible Accounts of $2,000 (*debit*) before any year-end adjustment. The balance of Accounts Receivable is $180,000. The company estimates that 5% of accounts receivable will not be collected over the next year. Record the adjustment for uncollectible accounts.

303. During 2012, its first year of operations, a company provides services on account of $250,000. By the end of 2012, cash collections on these accounts total $130,000. The company estimates that 10% of accounts receivable will be uncollectible. Record the adjustment for uncollectible accounts on December 31, 2012.

304. A company has the following balances on December 31, 2012, after year-end adjustments: Accounts Receivable = $62,000; Allowance for Uncollectible Accounts = $6,000. Calculate the net realizable value of accounts receivable.

305. A company has the following balances on December 31, 2012, after year-end adjustments: Accounts Receivable = $75,000; Service Revenue = $400,000; Allowance for Uncollectible Accounts = $5,000; Cash = $20,000. Calculate the net realizable value of accounts receivable.

306. A company uses the allowance method to account for uncollectible accounts. During the year, the company has actual bad debts of $25,000. Record the write-off of the uncollectible accounts.

307. At the beginning of the year, a company had an Allowance for Uncollectible Accounts of $22,000. By the end of the year, actual bad debts total $24,000. What is the balance of the Allowance for Uncollectible Accounts after the write-offs (before any year-end adjustment)?

308. On March 13, a company writes off a customer's account of $3,800. On June 3, the customer unexpectedly pays the $3,800 balance. Using the allowance method, record the write-off on March 13 and the cash collection on June 3.

309. A company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $60,000; estimated uncollectible = 3%.
2. Accounts 1–30 days past due = $20,000; estimated uncollectible = 20%.
3. Accounts more than 30 days past due = $10,000; estimated uncollectible = 50%.

Compute the total estimated uncollectible accounts.

310. At the end of the year, a company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $80,000; estimated uncollectible = 2%.
2. Accounts 1–30 days past due = $20,000; estimated uncollectible = 25%.
3. Accounts more than 30 days past due = $4,000; estimated uncollectible = 60%.

Record the year-end adjustment for uncollectible accounts, assuming the current balance of the Allowance for Uncollectible Accounts is $900 (credit).

311. At the end of the year, a company has the following accounts receivable and estimates of uncollectible accounts:

1. Accounts not yet due = $70,000; estimated uncollectible = 4%.
2. Accounts 1–30 days past due = $30,000; estimated uncollectible = 15%.
3. Accounts more than 30 days past due = $5,000; estimated uncollectible = 40%.

Record the year-end adjustment for uncollectible accounts, assuming the current balance of the Allowance for Uncollectible Accounts is $1,200 (debit).

312. A company has the following balances on December 31, 2012, before any year-end adjustments: Accounts Receivable = $80,000; Allowance for Uncollectible Accounts = $1,100 (credit). The company estimates uncollectible accounts based on an aging of accounts receivable as shown below:

Age Group	Amount Receivable	Estimated Percent Uncollectible
Not yet due	$48,000	5%
0–30 days past due	18,000	15%
31–90 days past due	10,000	40%
More than 90 days past due	4,000	80%
Total	$80,000	

Record the adjustment for uncollectible accounts on December 31, 2012.

313. Calculate the missing amount for each of the following notes receivable.

Face Value	Annual Interest rate	Fraction of the Year	Interest
$15,000	4%	8 months	(a)
$25,000	8%	(b)	$500
$30,000	(c)	4 months	$500
(d)	6%	6 months	$600

314. On February 1, 2012, a company loans one of its employees $20,000 and accepts a nine-month, 8% note receivable. Calculate the amount of interest revenue the company will recognize in 2012.

315. On July 1, 2012, a company loans one of its employees $20,000 and accepts a nine-month, 8% note receivable. Calculate the amount of interest revenue the company will recognize in 2012 and 2013.

316. On April 1, 2012, a company loans one of its suppliers $50,000 and accepts a 24-month, 12% note receivable. Calculate the amount of interest revenue the company will recognize in 2012, 2013, and 2014.

317. On April 14, a company lends $10,000 cash to one of its employees and accepts a six-month, 12% note in return. Record the acceptance of the note receivable.

318. On April 1, a company provides services to one of its customers for $12,000. As payment for the services, the company accepts a six-month, 10% note from the customer. Record the acceptance of the note receivable on April 1 and the cash collection on October 1.

319. On May 1, 2012, a company lends $100,000 to one of its main suppliers and accepts a 12-month, 6% note. Record the acceptance of the note on May 1, 2012, the adjustment on December 31, 2012, and the cash collection on May 1, 2013.

320. Below are amounts for two companies:

	Beginning Accounts Receivable (net)	Ending Accounts Receivable (net)	Net Sales
Company 1	$1,500	$1,200	$29,700
Company 2	3,100	3,300	80,000

For each company, calculate the receivables turnover ratio. Which company appears more efficient in collecting cash from sales?

321. At the end of the year, a company reports a balance in its Allowance for Uncollectible Accounts of $1,400 (*credit*) before any year-end adjustment. The company estimates future uncollectible accounts to be 3% of credit sales for the year. Credit sales for the year total $280,000. Record the adjustment for the allowance for uncollectible accounts using the percentage-of-credit-sales method.

322. At the end of the year, a company reports a balance in its Allowance for Uncollectible Accounts of $1,400 (*debit*) before any year-end adjustment. The company estimates future uncollectible accounts to be 3% of credit sales for the year. Credit sales for the year total $280,000. Record the adjustment for the allowance for uncollectible accounts using the percentage-of-credit-sales method.

323. A company reports the following amounts at the end of the year (before any year-end adjustment).

Credit sales for the year	$120,000	
Accounts receivable	36,000	
Allowance for uncollectible accounts	1,500	(*credit*)

Record the adjustment for uncollectible accounts (1) using the percentage-of-receivables method, assuming the company estimates 10% of receivables will not be collected, and (2) using the percentage-of-credit-sales method, assuming the company estimates 2% of credit sales will not be collected.

324. Give three examples of contra revenue accounts and the transactions with which they are associated.

325. Explain how companies account for uncollectible accounts receivable (bad debts).

326. What does it mean to report accounts receivable at their net realizable value.

327. Discuss the differences between the allowance method and the direct write-off method for recording uncollectible accounts. Which of the two is acceptable under financial accounting rules?

328. How is the receivables turnover ratio measured? What does this ratio indicate? Is a higher or lower receivables turnover preferable?

329. Explain why the percentage-of-receivables method is referred to as the *balance sheet method* and the percentage-of-credit-sales method is referred to as the *income statement method.* Which method is typically used in practice? Why?

330. _____ Contra asset that represents the estimated amount of future bad debts.
Answer: j

331. _____ Actual bad debts.
Answer: h

332. _____ The effect of estimating future bad debts.
Answer: i

333. _____ The procedure using an adjustment for future uncollectible accounts.
Answer: b

334. _____ The total amount owed to a company from credit sales to customers.
Answer: a

335. _____ Accounts receivable less allowance for uncollectible accounts.
Answer: e

336. _____ Considers that the longer past due the account receivable is, the less likely it is to be collected.
Answer: f

337. _____ Recognizes bad debts when accounts become uncollectible.
Answer: d

338. _____ The amount of the adjustment to the allowance for uncollectible accounts during the period.
Answer: g

339. _____ The effect of writing off an account receivable as a bad debt under the allowance method.
Answer: c

340. _____ When a customer returns a product.
Answer: b

341._____ Deducted from list price.
Answer: e

342._____ Sale on account to customers.
Answer: a

343._____ Offered to induce prompt payment.
Answer: d

344._____ Refund because of some deficiency in the company's product or service.
Answer: c
Refer To: 05-161

345. On January 1, 2012, Alice & Co. lends $5,000 to an employee and accepts a 24-month, 10% note. At the end of 2012, what effect will the adjustment for accrued interest revenue have on the Alice & Co.'s financial statements?

A. Decreases assets.
B. Decreases revenue.
C. Increases expense.
D. Increases stockholders' equity.

346. On July 8, Ray Inc. sold 100 printers to Office Rental Company at $600 each and offered a 2% discount for payment within 10 days. On July 15, Office Rental Company paid the full amount in cash. What should Ray Inc. record on July 15?

a. Cash	60,000	
Accounts Receivable		60,000

b. Cash	58,800	
Accounts Receivable		58,800

c. Cash	58,800	
Sales Discounts	1,200	
Accounts Receivable		60,000

d. Cash	60,000	
Sales Discounts		1,200
Sales Revenue		58,800

A. Option a
B. Option b
C. Option c
D. Option d

347. On December 31, 2012, Andy Inc. has a debit balance of $1,500 for the Allowance for Uncollectible Accounts before any year-end adjustment. Andy Inc. also has the following information for its accounts receivable and the estimated percentages of bad debts for different past-due amounts:

Age Group (days past due)	Accounts Receivable	Estimated Percent Uncollectible
0-30	$50,000	5%
31-60	$20,000	10%
61-90	$10,000	20%

What is the amount of bad debt expense to be reported on Andy Inc.'s financial statements for 2012?

A. $6,500
B. $1,500
C. $5,000
D. $8,000

348. Eric Company has the following information:

Total revenues	$860,000
Sales returns and allowances	$50,000
Sales discounts	$30,000
Ending inventory	$100,000

What is the amount of net revenues for Eric Company?

A. $330,000.
B. $230,000.
C. $680,000.
D. $780,000.

349. Richard LLC accounts for possible bad debts using the allowance method. When an actual bad debt occurs, what effect does it have on the accounting equation?

A. Increases assets and increases stockholders' equity.
B. Decreases assets and decreases stockholders' equity.
C. Decreases assets and decreases liabilities.
D. No effect on the accounting equation.

350. On December 31, 2012, Mark Inc. estimates future bad debts to be $6,500. The Allowance for Uncollectible Accounts has a credit balance of $2,500 before any year-end adjustment. What adjustment should Mark Inc. record for the estimated bad debts on December 31, 2012?

A. Debit Bad Debt Expense, $6,500; credit Allowance for Uncollectible Accounts, $6,500.
B. Debit Bad Debt Expense, $4,000; credit Allowance for Uncollectible Accounts $4,000.
C. Debit Allowance for Uncollectible Accounts, $9,000; credit Bad Debt Expense, $6,500.
D. Debit Bad Debt Expense, $9,000; credit Allowance for Uncollectible Accounts, $9,000.

351. On March 17, Jackal Lumber sold building materials to Fredo Limited for $15,000 with terms of 3/10, net 20. What amount did Jackal record as revenue on March 25 when Fredo paid for the building materials?

A. $15,000.
B. $14,550.
C. $15,450.
D. $0.

352. The direct write-off method is generally not permitted for financial reporting purposes because:

A. Compared to the allowance method, it would allow greater flexibility to managers in manipulating reported net income?
B. This method is primarily used for tax purposes.
C. It is too difficult to accurately estimate future bad debts.
D. Expenses (bad debts) are not properly matched with the revenues (credit sales) that they help to generate.

353. At the beginning of the year, Vici Ventures had accounts receivable of $220,000. At the end of the year, the company had accounts receivable of $340,000. During the year, Vici had total sales of $1,000,000, 70% of which were credit sales What was Vici's receivables turnover ratio for the year?

A. 2.50
B. 3.57
C. 2.94
D. 146 days

354. Suppose that the balance of a company's Allowance for Uncollectible Accounts was $6,200 (credit) at the end of 2012, prior to any adjustments. The company estimated that the total of uncollectible accounts in its accounts receivable was $44,300 at the end of 2012. Total accounts receivable were $150,000 on December 31, 2012, and total credit sales for 2012 were $330,000. What amount of bad debt expense would appear in the company's 2012 income statement, assuming the company uses the percentage-of-receivables method?

A. $38,100.
B. $105,700.
C. $33,000.
D. $50,500.

355. Garber Plumbers offers a 20% trade discount when providing $2,000 or more of plumbing services to its customers. In March 2012, Garber provided $4,000 of plumbing services to Red Oak, Inc. and $1,500 of services to Cyril, Inc. Each of these customers was granted credit terms of 2/10, net 30. If both customers paid for the plumbing services within the discount period, what was the net sales figure for these two transactions?

A. $5,500.
B. $4,312.
C. $4,486.
D. $4,606.

356. Boynton Jewelers reported the following amounts at the end of the year: total sales = $550,000; sales discounts = $12,000; sales returns = $44,000; sales allowances = $17,000. What was the company's net sales for the year?

A. $489,000.
B. $485,000.
C. $477,000.
D. $499,000.

357. At the end of 2012, Murray State Lenders had a balance in its Allowance for Uncollectible Accounts of $4,500 (credit) before any adjustment. The company estimated its future uncollectible accounts to be $12,000 using the percentage-of-receivables method. Murray State's adjustment on December 31, 2012, to record its estimated uncollectible accounts included a:

A. Credit to Allowance for Uncollectible Accounts of $12,000.
B. Debit to Bad Debt Expense of $7,500.
C. Credit to Allowance for Uncollectible Accounts of $7,500.
D. Both b and c.

358. At the end of 2012, Murray State Lenders had a balance in its Allowance for Uncollectible Accounts of $4,500 (debit) before any adjustment. The company estimated its future uncollectible accounts to be $12,000 using the percentage-of-receivables method. Murray State's adjustment on December 31, 2012, to record its estimated uncollectible accounts included a:

A. Credit to Allowance for Uncollectible Accounts of $12,000.
B. Debit to Bad Debt Expense of $16,500.
C. Credit to Allowance for Uncollectible Accounts of $16,500.
D. Both b and c.

359. McConnell's Bakeries had the following balances on December 31, 2012, before any adjustment: Accounts Receivable = $100,000; Allowance for Uncollectible Accounts = $4,100 (credit). McConnell's estimates uncollectible accounts based on an aging of accounts receivable as shown below:

Age Group (days past due)	Accounts Receivable	Estimated Percent Uncollectible
Not yet due	$50,000	4%
0-30	$20,000	8%
31-60	$18,000	10%
More than 60	$12,000	40%

What amount of bad debt expense did McConnell's record in its December 31, 2012, adjustment to the allowance account?

A. $10,200.
B. $12,800.
C. $15,300.
D. $6,100.

360. At the beginning of 2012, the balance in Jackson Enterprises' Allowance for Uncollectible Accounts was $31,800. During 2012, the company wrote off $38,000 of accounts receivable. Writing off the individual bad debts would include a:

A. Debit to Bad Debt Expense.
B. Credit to Accounts Receivable.
C. Credit to the Allowance for Uncollectible Accounts.
D. Both a and c.

361. A company provides services on account. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Increase	Decrease	Increase	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

362. A company collects an account receivable previously written off. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Increase	Decrease	Increase	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

363. A company collects a customer's account within the discount period. Indicate how this transaction would affect the following five financial statement items:

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Decrease	No effect	Decrease	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	No effect	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

364. A company records a sales return from a credit customer. Indicate how this transaction would affect the following five financial statement items.

	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
a.	Decrease	No effect	Decrease	Decrease	No effect
b.	Increase	No effect	Increase	Increase	Decrease
c.	Increase	Increase	Increase	Increase	No effect
d.	No effect	No effect	No effect	No effect	No effect

A. Option a
B. Option b
C. Option c
D. Option d

365. Gershwin Wallcovering Inc. shipped the wrong shade of paint to a customer. The customer agreed to keep the paint upon being offered a 15% price reduction. The price reduction is an example of a:

A. Sales revenue.
B. Sales discount.
C. Sales return.
D. Sales allowance.

366. Tom's Textiles shipped the wrong material to a customer, who refused to accept the order. This is an example of a:

A. Sales Revenue.
B. Sales discount.
C. Sales return.
D. Sales allowance.

Ch5 Key

1. TRUE
2. TRUE
3. FALSE
4. TRUE
5. FALSE
6. TRUE
7. TRUE
8. FALSE
9. TRUE
10. FALSE
11. TRUE
12. FALSE
13. FALSE
14. TRUE
15. TRUE
16. FALSE
17. TRUE
18. FALSE
19. FALSE
20. TRUE
21. TRUE
22. TRUE
23. FALSE
24. TRUE
25. FALSE
26. FALSE
27. TRUE
28. FALSE
29. TRUE
30. TRUE
31. TRUE
32. FALSE

33. TRUE

34. TRUE

35. TRUE

36. FALSE

37. TRUE

38. FALSE

39. TRUE

40. TRUE

41. FALSE

42. TRUE

43. FALSE

44. TRUE

45. TRUE

46. FALSE

47. FALSE

48. TRUE

49. TRUE

50. FALSE

51. FALSE

52. TRUE

53. TRUE

54. TRUE

55. C

56. D

57. A

58. D

59. C

60. B

61. B

62. B

63. D

64. A

65. C

66. C

67. D

68. C

69. C

70. C

71. A

72. D

73. C

74. D

75. A

76. B

77. D

78. B

79. B

80. D

81. B

82. D

83. C

84. A

85. D

86. C

87. B

88. D

89. C

90. D

91. C

92. B

93. D

94. C

95. D

96. C

97. B

98. D

99. A

100. B

101. A

102. B

103. D

104. B

105. C

106. A

107. C

108. B

109.

Accounts Receivable	6,400	
Service Revenue		6,400

110.

February 23		
Accounts Receivable	4,500	
Service Revenue		4,500
March 4		
Cash	4,500	
Accounts Receivable		4,500

111.

May 1	Debit	Credit
Cash	400	
Service Revenue		400

112. $440,000

113. $350,000

114.

September 8		
Accounts Receivable	1,500	
Service Revenue		1,500
September 15		
Cash	1,470	
Sales Discounts	30	
Interest Revenue		1,500

115.

October 22		
Accounts Receivable	1,800	
Service Revenue		1,800
December 19		
Cash	1,800	
Accounts Receivable		1,800

116.

August 12		
Accounts Receivable	3,000	
Service Revenue		3,000
August 16		
Sales Allowances	400	
Accounts Receivable		400
August 20		
Cash	2,600	
Accounts Receivable		2,600

117.

Bad Debt Expense	1,300	
Allowance for Uncollectible Accounts		1,300

118.

Bad Debt Expense	7,000	
Allowance for Uncollectible Accounts		7,000

Bad Debt Expense	11,000	
Allowance for Uncollectible Accounts		11,000

119.

Bad Debt Expense	12,000	
Allowance for Uncollectible Accounts		12,000

120.

121. $56,000

122. $70,000

Allowance for Uncollectible Accounts	25,000	
Accounts Receivable		25,000

123.

124. -$2,000 (or $2,000 debit)

March 13		
Allowance for Uncollectible Accounts	3,800	
Accounts Receivable		3,800
June 3		
Accounts Receivable	3,800	
Allowance for Uncollectible Accounts		3,800
Cash	3,800	
Accounts Receivable		3,800

125.

126. $10,800

Bad Debt Expense	8,100	
Allowance for Uncollectible Accounts		8,100

127.

Bad Debt Expense	10,500	
Allowance for Uncollectible Accounts		10,500

128.

Bad Debt Expense	11,200	
Allowance for Uncollectible Accounts		11,200

129.

130. (a) $400; (b) 3 months; (c) 5%; (d) $20,000

131. $1,200

132. 2012 = $800; 2013 = $400

133. 2012 = $4,500; 2013 = $6,000; 2012 = $1,500

Notes Receivable	10,000	
Cash		10,000

134.

April 1		
Notes Receivable	12,000	
Service Revenue		12,000
October 1		
Cash	12,600	
Notes Receivable		12,000
Interest Revenue		600

135.

May 1, 2012		
Notes Receivable	100,000	
Cash		100,000
December 31, 2012		
Interest Receivable	4,000	
Interest Revenue		4,000
April 1, 2013		
Cash	106,000	
Notes Receivable		100,000
Interest Receivable		4,000
Interest Revenue		2,000

136.

137. Company 1 = 22; Company 2 = 25; Company 2 is more efficient.

Bad Debt Expense	8,400	
Allowance for Uncollectible Accounts		8,400

138.

Bad Debt Expense	8,400	
Allowance for Uncollectible Accounts		8,400

139.

(1)		
Bad Debt Expense	2,100	
Allowance for Uncollectible Accounts		2,100
(2)		
Bad Debt Expense	2,400	
Allowance for Uncollectible Accounts		2,400

140.

141. A sales discount represents a reduction, not in the selling price of a product or service, but in the amount to be paid by a credit customer if paid within a specified period of time. Sales returns occur when a customer returns a product. Sales allowances occur when the seller reduces the customer's balance owed or provides at least a partial refund because of some deficiency in the company's product or service.

142. Companies should account for uncollectible accounts receivable using the allowance method. Under this method, a company estimates future bad debts and records those estimates as an expense and a contra asset in the current period.

143. Net realizable value is the amount of cash a company expects to collect from its accounts receivable, and it is calculated as total accounts receivable minus an allowance for uncollectible accounts. The net realizable value of accounts receivable is the amount reported in the balance sheet.

144. The allowance method requires companies to estimate future bad debts and record those estimates in the current period as a reduction in accounts receivable (using a contra asset account) and an increase in bad debt expense. The direct write-off method makes no attempt to estimate future bad debts. Instead, the reduction in accounts receivable and increase in expense associated with bad debts is recorded only when the bad debt actually occurs. Only the allowance method is allowed for financial reporting purposes.

145. The receivables turnover ratio equals net sales divided by average accounts receivable. The ratio shows the number of times during a year that the average accounts receivable balance is collected (or "turns over"). Typically, a higher ratio is a good indicator of a company's effectiveness in managing receivables.

146. The percentage-of-receivables method estimates future bad debts based on a balance sheet amount - accounts receivable. The percentage-of-credit-sales method estimates future bad debts based on an income statement amount - credit sales. The current emphasis on better measurement of assets (balance sheet focus) outweighs the emphasis on better measurement of net income (income statement focus). This is why the percentage-of-receivables method (balance sheet method) is the preferable method and most commonly used in practice, while the percentage-of-credit-sales method (income statement method) is allowed only if amounts do not differ significantly from estimates using the percentage-of-receivables method.

147.

148.

149.

150.

151.

152.

153.

154.

155.

156.

157.

158.

159.

160.

161.

162. D

163. C

164. D

165. D

166. D

167. B

168. D

169. D

170. A

171. A

172. D

173. C

174. D

175. D

176. D

177. B

178. C

179. D

180. A

181. A

182. D

183. C

184. TRUE

185. TRUE

186. FALSE

187. TRUE

188. FALSE

189. TRUE

190. TRUE

191. FALSE

192. TRUE

193. FALSE

194. TRUE

195. FALSE

196. FALSE

197. TRUE

198. TRUE

199. FALSE

200. TRUE

201. FALSE

202. FALSE

203. TRUE

204. TRUE

205. TRUE

206. FALSE

207. TRUE

208. FALSE

209. FALSE

210. TRUE

211. FALSE

212. TRUE

213. TRUE

214. TRUE

215. FALSE

216. TRUE

217. TRUE

218. TRUE

219. FALSE

220. TRUE

221. FALSE

222. TRUE

223. TRUE

224. FALSE

225. TRUE

226. FALSE

227. TRUE

228. TRUE

229. FALSE

230. FALSE

231. TRUE

232. TRUE

233. FALSE

234. FALSE

235. TRUE

236. TRUE

237. TRUE

238. C

239. D

240. A

241. D

242. C

243. B

244. B

245. B

246. D

247. A

248. C

249. C

250. D

251. C

252. C

253. C

254. A

255. D

256. C

257. D

258. A

259. B

260. D

261. B

262. B

263. D

264. B

265. D

266. C

267. A

268. D

269. C

270. B

271. D

272. C

273. D

274. C

275. B

276. D

277. C

278. D

279. C

280. B

281. D

282. A

283. B

284. A

285. B

286. D

287. B

288. C

289. A

290. C

291. B

	Accounts Receivable	6,400	
292.	Service Revenue		6,400

	February 23		
	Accounts Receivable	4,500	
	Service Revenue		4,500
	March 4		
	Cash	4,500	
293.	Accounts Receivable		4,500

	May 1	Debit	Credit
	Cash	400	
294.	Service Revenue		400

295. $440,000

296. $350,000

	September 8		
	Accounts Receivable	1,500	
	Service Revenue		1,500
	September 15		
	Cash	1,470	
	Sales Discounts	30	
297.	Interest Revenue		1,500

	October 22		
	Accounts Receivable	1,800	
	Service Revenue		1,800
	December 19		
	Cash	1,800	
298.	Accounts Receivable		1,800

	August 12		
	Accounts Receivable	3,000	
	Service Revenue		3,000
	August 16		
	Sales Allowances	400	
	Accounts Receivable		400
	August 20		
	Cash	2,600	
299.	Accounts Receivable		2,600

	Bad Debt Expense	1,300	
300.	Allowance for Uncollectible Accounts		1,300

	Bad Debt Expense	7,000	
301.	Allowance for Uncollectible Accounts		7,000

	Bad Debt Expense	11,000	
302.	Allowance for Uncollectible Accounts		11,000

	Bad Debt Expense	12,000	
303.	Allowance for Uncollectible Accounts		12,000

304. $56,000

305. $70,000

Allowance for Uncollectible Accounts	25,000	
Accounts Receivable		25,000

306.

307. -$2,000 (or $2,000 debit)

March 13		
Allowance for Uncollectible Accounts	3,800	
Accounts Receivable		3,800
June 3		
Accounts Receivable	3,800	
Allowance for Uncollectible Accounts		3,800
Cash	3,800	
Accounts Receivable		3,800

308.

309. $10,800

Bad Debt Expense	8,100	
Allowance for Uncollectible Accounts		8,100

310.

Bad Debt Expense	10,500	
Allowance for Uncollectible Accounts		10,500

311.

Bad Debt Expense	11,200	
Allowance for Uncollectible Accounts		11,200

312.

313. (a) $400; (b) 3 months; (c) 5%; (d) $20,000

314. $1,200

315. 2012 = $800; 2013 = $400

316. 2012 = $4,500; 2013 = $6,000; 2012 = $1,500

Notes Receivable	10,000	
Cash		10,000

317.

April 1		
Notes Receivable	12,000	
Service Revenue		12,000
October 1		
Cash	12,600	
Notes Receivable		12,000
Interest Revenue		600

318.

May 1, 2012		
Notes Receivable	100,000	
Cash		100,000
December 31, 2012		
Interest Receivable	4,000	
Interest Revenue		4,000
April 1, 2013		
Cash	106,000	
Notes Receivable		100,000
Interest Receivable		4,000
Interest Revenue		2,000

319.

320. Company 1 = 22; Company 2 = 25; Company 2 is more efficient.

	Bad Debt Expense	8,400	
321.	Allowance for Uncollectible Accounts		8,400

	Bad Debt Expense	8,400	
322.	Allowance for Uncollectible Accounts		8,400

	(1)		
	Bad Debt Expense	2,100	
	Allowance for Uncollectible Accounts		2,100
	(2)		
	Bad Debt Expense	2,400	
323.	Allowance for Uncollectible Accounts		2,400

324. A sales discount represents a reduction, not in the selling price of a product or service, but in the amount to be paid by a credit customer if paid within a specified period of time. Sales returns occur when a customer returns a product. Sales allowances occur when the seller reduces the customer's balance owed or provides at least a partial refund because of some deficiency in the company's product or service.

325. Companies should account for uncollectible accounts receivable using the allowance method. Under this method, a company estimates future bad debts and records those estimates as an expense and a contra asset in the current period.

326. Net realizable value is the amount of cash a company expects to collect from its accounts receivable, and it is calculated as total accounts receivable minus an allowance for uncollectible accounts. The net realizable value of accounts receivable is the amount reported in the balance sheet.

327. The allowance method requires companies to estimate future bad debts and record those estimates in the current period as a reduction in accounts receivable (using a contra asset account) and an increase in bad debt expense. The direct write-off method makes no attempt to estimate future bad debts. Instead, the reduction in accounts receivable and increase in expense associated with bad debts is recorded only when the bad debt actually occurs. Only the allowance method is allowed for financial reporting purposes.

328. The receivables turnover ratio equals net sales divided by average accounts receivable. The ratio shows the number of times during a year that the average accounts receivable balance is collected (or "turns over"). Typically, a higher ratio is a good indicator of a company's effectiveness in managing receivables.

329. The percentage-of-receivables method estimates future bad debts based on a balance sheet amount - accounts receivable. The percentage-of-credit-sales method estimates future bad debts based on an income statement amount - credit sales. The current emphasis on better measurement of assets (balance sheet focus) outweighs the emphasis on better measurement of net income (income statement focus). This is why the percentage-of-receivables method (balance sheet method) is the preferable method and most commonly used in practice, while the percentage-of-credit-sales method (income statement method) is allowed only if amounts do not differ significantly from estimates using the percentage-of-receivables method.

330.

331.

332.

333.

334.

335.

336.

337.

338.

339.

340.

341.

342.

343.

344.

345. D

346. C

347. D

348. D

349. D

350. B

351. D

352. D

353. A

354. A

355. D

356. C

357. D

358. D

359. D

360. B

361. C

362. D

363. A

364. A

365. D

366. C

Ch5 Summary

Category	*# of Questions*
AACSB: Analytic	180
AACSB: Reflective Thinking	186
AICPA: Critical Thinking	124
AICPA: Decision Making	20
AICPA: Measurement	194
AICPA: Reporting	28
Blooms: Analysis	80
Blooms: Analysis	80
Blooms: Application	17
Blooms: Application	17
Blooms: Comprehension	22
Blooms: Comprehension	22
Blooms: Evaluation	2
Blooms: Evaluation	2
Blooms: Knowledge	59
Blooms: Knowledge	59
Blooms: Synthesis	3
Blooms: Synthesis	3
Difficulty: Easy	94
Difficulty: Hard	118
Difficulty: Medium	154
Learning Objective: 05-01 Recognize accounts receivable.	40
Learning Objective: 05-02 Calculate net revenues using discounts; returns; and allowances.	82
Learning Objective: 05-03 Record an allowance for future uncollectible accounts.	88
Learning Objective: 05-04 Apply the procedure to write off accounts receivable as uncollectible.	56
Learning Objective: 05-05 Use the aging method to estimate future uncollectible accounts.	34
Learning Objective: 05-06 Contrast the allowance method and direct write-off method when accounting for uncollectible accounts.	8
Learning Objective: 05-06 Contrast the allowance method and direct write-off method when accounting for uncollectible accounts.-off method when accounting for uncollectible accounts.	34
Learning Objective: 05-07 Apply the procedure to account for notes receivable; including interest calculation.	46
Learning Objective: 05-08 Calculate key ratios investors use to monitor a companys effectiveness in managing receivables.	12
Learning Objective: 05-08 Calculate key ratios investors use to monitor a companys effectiveness in managing receivables.	12
Learning Objective: 05-09 Estimate uncollectible accounts using the percentage-of-credit-sales method.	28
Spiceland - Chapter 05	370