

Financial Accounting for Undergraduates
3rd Edition by Wallace, Nelson, Christensen, and Ferris

Practice Quiz Solutions

Chapter 8. Accounting for Receivables

Identify the choice that BEST completes the statement or answers the question.

1. Smith & Sons has accounts receivable of \$100,000 and a debit balance of \$100 in the allowance for doubtful accounts. Fifty percent of the accounts receivable are current and fifty percent are past due. The company estimates that one percent of the current accounts and five percent of the past due accounts will prove uncollectible. The adjusting entry to provide for the bad debt expense under the aging method should be for what amount?
 - a. \$5,100
 - b. \$4,900
 - c. \$3,100
 - d. \$2,900

Answer: c

Rationale: $[(\$50,000 \times 1\%) + (\$50,000 \times 5\%) + \$100]$

2. The Aussie Pie company sells Australian meat pies. At January 1, the company had an accounts receivable balance of \$500,000 (debit) and an allowance for doubtful accounts balance of \$25,000 (credit). During the year, the company had total sales of \$2,000,000 (all on credit) and collected \$1,900,000 of accounts receivable. Also during the year, the company wrote off \$30,000 of bad debts. At year end, the company determined that the allowance for doubtful accounts should have a balance of \$34,000 (credit). As part of the year end adjusting journal entry, the company will:
 - a. Debit the allowance account for \$34,000
 - b. Debit the allowance account for \$29,000
 - c. Debit the allowance account for \$39,000
 - d. Credit the allowance account for \$34,000
 - e. Credit the allowance account for \$29,000
 - f. Credit the allowance account for \$39,000

Answer: f

Rationale: $(\$30,000 - \$25,000 + \$34,000)$

3. Smith & Sons uses the allowance method of recording credit losses. The company wrote off one customer's account in the amount of \$1,000 that was subsequently collected. The company reinstated the account and then recorded the collection. What is the result of these procedures?
- a. Increase total assets by \$1,000.
 - b. Decrease total assets by \$1,000.
 - c. Decrease total assets by \$2,000.
 - d. There is no effect on total assets.

Answer: *d*

4. Smith & Sons received a six month note from a customer. The note had a face amount of \$5,000 and carried an interest rate of nine percent. What is the total amount of interest to be received?
- a. \$225
 - b. \$450
 - c. \$675
 - d. The amount cannot be determined from the given information.

Answer: *a*

Rationale: $(\$5,000 \times 9\% \times 6/12 \text{ months})$

5. Smith & Sons pays a three percent credit card fee on all credit sales, and receives a cash deposit immediately following each credit card transaction. If credit sales for the company total \$20,000, what journal entry should be recorded to recognize the receipt of cash and the credit card fee expense?
- a. Debit Cash \$19,400; debit Credit Card Fee Expense \$600
 - b. Debit Cash \$20,000; credit Credit Card Fee Expense \$600
 - c. Debit Cash \$20,600; debit Credit Card Fee Expense \$600
 - d. Debit Cash \$20,600; credit Credit Card Fee Expense \$600

Answer: *a*

Rationale: $\$20,000 - (\$20,000 \times 3\%)$

6. On September 1, Smith & Sons accepted a \$20,000, 90 day, nine percent promissory note in exchange for overdue accounts receivable for the same amount from the Claremont Company. On November 30, the Claremont Company dishonored the note. What journal entry should be recorded by Smith & Sons on November 30?
- a. Debit Dishonored Note Receivable Expense; Credit Notes Receivable
 - b. Debit Allowance for Doubtful Accounts; Credit Notes Receivable
 - c. Debit Accounts Receivable; Credit Interest Income; Credit Notes Receivable
 - d. None of the above journal entries is correct

Answer: c

7. The direct write-off method is not generally accepted because it violates which of the following accounting principles or concepts?
- a. The entity principle
 - b. The matching principle
 - c. The conservatism concept
 - d. The materiality concept

Answer: b

8. Which of the following statements is *true*?
- a. The direct write-off method is generally accepted.
 - b. The percentage of net sales method estimates the bad debts expense indirectly.
 - c. The accounts receivable aging method estimates the bad debts expense indirectly.
 - d. None of the above is true.

Answer: c

9. Smith & Sons has net sales of \$50,000, a beginning balance in accounts receivable of \$5,000, and an ending balance in accounts receivable of \$7,000. What is the company's accounts receivable turnover?
- a. 10.0
 - b. 8.3
 - c. 7.1
 - d. 6.0

Answer: *b*

Rationale: $\$50,000 / [(\$5,000 + \$7,000) / 2]$

10. Smith & Sons has an accounts receivable turnover of nine. What is the company's average collection period?
- a. 45.1 days
 - b. 43.1 days
 - c. 41.6 days
 - d. 40.6 days

Answer: *d*

Rationale: $(365 \text{ days} / 9)$