Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse

Chapter 6—Reporting and Analyzing Revenues, Receivables, and Operating Income

Solutions to Practice Quiz

1. Jogo reported restructuring charges of $67 million in its 2016 income statement. The following additional details were disclosed in its footnotes:

Restructuring charges included the following	2016
Asset impairment-planned closure of 4 plants	$43
Employee severance and related costs	14
Contract termination and other exit costs	10
Total...	$67

Jogo's contract termination costs include, for example, the cost to buy out the remaining years on lease agreements, or penalties paid for canceling purchase contracts. Assume that none of these costs had yet been paid in cash in 2016.

Record these restructuring charges in journal entry form.

a.	Loss due to restructuring	67	
	Plant assets		43
	Liability for restructuring		24
b.	Loss due to restructuring	67	
	Liability for restructuring		67
c.	Loss due to restructuring	24	
	Liability for restructuring		24

d. No entry until charges are paid

Answer: a

2. At what amount will accounts receivable be reported on the balance sheet if the gross receivable balance is $18,000 and the allowance for uncollectible accounts is estimated at 8% of gross receivables?

a. $ 1,440
b. $18,000
c. $16,560
d. $19,440

Answer: c
Rationale: Receivables are reported net of the allowance account.
In this case, $18,000 – ($18,000 x 8%) = $16,560

3. When a company uses its market power over customers to induce them to purchase more goods than necessary to meet immediate needs, this is known as:

a. Consignment
b. Bundled sales
c. Channel stuffing
d. Right of return

Answer: c
Rationale: Channel stuffing is a revenue recognition problem that involves market power over customers to boost seller revenue for the period through accelerated sales from customers who purchase more inventory than they need.

4. All of the following statements are true for Garrison Company, who has an accounts receivable turnover rate of 10, *except*:

a. Garrison may have less liberal credit terms than a company with an accounts receivable turnover rate of 5.
b. Using a 365 day year, Garrison waits approximately 36.5 days to make collections of its credit sales.
c. Garrison's accounts receivable indicate greater liquidity than those of a business whose accounts receivable turnover rate is 4.
d. Garrison writes off accounts receivables as uncollectible if they are more than 36.5 days old.

Answer: d
Rationale: Since the average collection period is 36.5, it makes no sense that this would also be the point of write-off.

5. Sampson Company had accounts receivable of $140,000 and an allowance for doubtful accounts of $5,400 just before writing off as worthless an account receivable from Cargo Industries of $800.

Based on this information, what would be the net realizable value of accounts receivable before and after the write-off?

	Before	After
a.	$140,000	$134,600
b.	$139,200	$139,200
c.	$134,600	$134,600
d.	$134,600	$133,800

Answer: c

Rationale:

Before $140,000 - $5,400 = $134,600

After $139,200 - $4,600 = $134,600

6. The Tower Company provides the following information about its business segments:

	2016	**2015**
Total net revenue:	$450,000	$380,000
Segment 1	440,000	365,000
Segment 2	330,000	300,000
Segment 3		
NOPAT:		
Segment 1	$55,000	$40,000
Segment 2	25,000	20,000
Segment 3	46,000	43,000
Net operating assets:		
Segment 1	$430,000	$280,000
Segment 2	120,000	100,000
Segment 3	150,000	110,000

Calculate the 2016 Return on Net Operating Assets (RNOA) for each segment.

a. Segment 1 = 12.8% Segment 2 = 20.8% Segment 3 = 30.7%

b. Segment 1 = 12.2% Segment 2 = 5.7% Segment 3 = 13.9%

c. Segment 1 = 11.0% Segment 2 = 18.8% Segment 3 = 29.7%

d. Segment 1 = 15.5% Segment 2 = 22.7% Segment 3 = 35.4%

Answer: d
Rationale:

Segment 1 $\frac{\$55,000}{(430,000 + 280,000) / 2}$ = 15.5%

Segment 2 $\frac{\$25,000}{(120,000 + 100,000) / 2}$ = 22.7%

Segment 3 $\frac{\$46,000}{(150,000 + 110,000) / 2}$ = 35.4%

7. Jones Company is in the construction business. During 2016, Jones Company began construction on a project with total revenues of $15 million and $10 million of estimated construction expenses. At the end of the year, Jones Company has incurred $7 million of expenses on the project.

How much revenue should the company report using the percentage-of-completion method?
a. $15,000,000
b. $ 5,000,000
c. $10,500,000
d. $ 5,600,000

Answer: c
Rationale: Utilizing percentage-of-completion for revenue recognition would result in the following revenue in 2016.

Construction Revenue	**Percent Completed**	**Revenue Recognized**
$15,000,000	$7,000,000 / $10,000,000 = 70% completed	$15,000,000 * 70% = $10,500,000

8. Below are four businesses and four ways to recognize revenues:

Businesses	Ways to Recognize Revenues
1. A drug store	A. Revenue is recognized under the percentage-of-completion method.
2. A consignment car dealer	B. The revenue can be recognized ratably over the period of time covered by the monthly fee.
3. An elevator manufacturer constructing the elevator under a 3-year contract.	C. When merchandise is given to the customer and the right of return period has expired.
4. Electric utility company	D. When ownership transfers to a third party buyer.

Which of the following best matches the business with the revenue recognition method?

a. 1A, 2B, 3C, 4D
b. 1C, 2D, 3A, 4B
c. 1D, 2B, 3A, 4C
d. 1C, 2A, 3D, 4B

Answer: b

Rationale:

Businesses	Ways to Recognize Revenues
1. A drug store	C. When merchandise is given to the customer and the right of return period has expired.
2. A consignment car dealer	D. When ownership transfers to a third party buyer.
3. An elevator manufacturer constructing the elevator under a 3-year contract.	A. Revenue is recognized under the percentage-of-completion method.
4. Electric utility company	B. The revenue can be recognized ratably over the period of time covered by the monthly fee.

9. Dallas Company has just completed an aging analysis of accounts receivable at December 31, 2016 as follows:

Age of accounts receivable	Receivable Balance	Estimated Percent Uncollectible
Current	$75,000	1%
1-30 days past due	40,000	2%
31-60 days past due	22,000	8%

What is the appropriate balance for Dallas' Allowance for Doubtful Accounts at December 31, 2016?

a. $137,000
b. $ 5,069
c. $ 2,560
d. $ 3,310

Answer: d
Rationale: $75,000 x 0.01 = $750; $40,000 x 0.02 = $800; $22,000 x 0.08 = $1,760; Total = $3,310