

## Chapter 5– Financial Accounting, 2<sup>nd</sup> edition by Dyckman & Pfeiffer

### Practice Quiz

Topic: Extraordinary Items

LO: 2,6

1. Which event would be considered an extraordinary item?
  - a. Costs of a strike
  - b. Gain from the sale of a subsidiary
  - c. Warehouse fire
  - d. Recording stock option expenses

Topic: Bank Reconciliation

LO: 7

2. If the company's accountant accurately prepared a check for \$79, but recorded it in error as \$97, then the bank reconciliation should note this correction by:
  - a. Subtracting \$18 from the company's book balance.
  - b. Subtracting \$18 from the bank balance.
  - c. Adding \$18 to the bank balance.
  - d. Adding \$18 to the company's book balance.

Topic: Carrying Amount of Accounts Receivable

LO: 3,4

3. 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

Topic: Recognition of Revenue

LO: 1

4. 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

Topic: Accounts Receivable Turnover

LO: 5

5. 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.

Topic: Uncollectible Accounts

LO: 4

6. 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

Topic: Bank Reconciliation

LO: 7

7. A bank statement shows a balance of \$8,645 at May 31. A bank reconciliation is prepared and includes outstanding checks of \$2,740, deposits in transit of \$1,550, and a bank service charge of \$25. Among the paid checks returned by the bank was check # 343 from Ned Evans in the amount of \$560, which the company had erroneously recorded in the accounting records as \$650. The "adjusted cash balance" at May 31 should be:

- a. \$8,530
- b. \$7,340
- c. \$7,455
- d. \$7,520

Topic: Percentage-of-Completion

LO: 2

8. Jones Company is in the construction business. During 2010, 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

Topic: Revenue Recognition

LO: 1

9. 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

Topic: Determining the Allowance for Uncollectible Accounts

LO: 4

10. Dallas Company has just completed an aging analysis of accounts receivable at December 31, 2010 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, 2010?

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