Chapter 17 Test Bank - Static

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

1. AJ’s Market generally holds $50,000 in cash in case an unexpected investment opportunity arises. This is an example of the \_\_\_\_ motive for holding cash.

A. precautionary

B. opportunistic

C. speculative

D. reserve

E. transaction

2. Holding cash simply as a financial reserve is referred to as the \_\_\_\_ motive.

A. precautionary

B. opportunistic

C. speculative

D. activity

E. transaction

3. The transaction motive refers to the need to hold cash:

A. as a safety margin.

B. for unforeseen investment opportunities.

C. for daily operations.

D. as a financial reserve.

E. for emergency situations.

4. Float is defined as the difference between the:

A. beginning and ending cash balances as shown on a cash budget.

B. ledger balance and the available balance.

C. book balance and the ledger balance.

D. collections and disbursements for any given period of time.

E. available balance and the collected balance.

5. Which one of the following is a special post office mailbox that is used to speed up the collection of accounts receivable payments?

A. Separation box

B. Cash box

C. Concentration account

D. Lockbox

E. Float box

6. Cash concentration is best defined as:

A. combining an entire firm's daily receipts into one bank deposit.

B. combining a week's worth of cash receipts into one bank deposit.

C. combining cash from multiple bank accounts into a firm's main bank accounts.

D. using multiple lockboxes for collecting cash payments.

E. combining a firm's bills so that disbursement checks are mailed only monthly.

7. Which one of the following is a disbursement account into which funds are transferred from a master account only as the funds are needed to cover checks presented for payment?

A. Lockbox account

B. Cash concentration account

C. Ledger account

D. Zero-balance account

E. Cash clearing account

8. A disbursement account into which funds are transferred only as needed to cover the demands for payment is called a(n) \_\_\_\_ account.

A. master

B. controlled disbursement

C. bank controlled

D. investment

E. safety stock

9. The terms of sale are best defined as the:

A. total invoice amount including all shipping costs and taxes.

B. period of time during which a sale price applies.

C. legal documents related to the credit sale of either goods or services.

D. conditions under which a firm sells its goods or services for either cash or credit.

E. process used to determine which customers will be granted credit and which will not.

10. The process of determining the probability that potential customers will not pay is called:

A. credit analysis.

B. collection policy.

C. account aging.

D. credit terms.

E. customer invoicing.

11. Collection policy refers to the:

A. process of determining which customers will be granted credit.

B. process of determining the probability that customers will not pay.

C. set of guidelines used by a firm to determine the cost of offering credit to its customers.

D. daily process of handling cash inflows and outflows of cash.

E. set of procedures a firm follows in collecting accounts receivable.

12. The length of time a firm grants its customers to pay for their purchases is called the:

A. lockbox period.

B. discount period.

C. credit period.

D. cash cycle.

E. receivables turnover period.

13. A bill given to a customer for goods he or she purchased is called a(n):

A. account reconciliation.

B. invoice.

C. docket.

D. remittance advice.

E. shipping receipt.

14. The primary purpose of a cash discount is to:

A. compensate customers for an out-of-stock item.

B. compensate customers for faulty goods or services.

C. offset the interest charges on an account receivable.

D. induce customers to pay promptly.

E. induce customers to purchase specialty items.

15. Which of these is evidence of indebtedness?

A. Terms of sale

B. Credit cost curve

C. Credit instrument

D. Concentration policy

E. Credit policy

16. The graphical representation of the sum of the carrying costs and the opportunity costs of a credit policy is called the:

A. aging report.

B. economic credit function.

C. optimal credit curve.

D. credit analysis graph.

E. credit cost curve.

17. A (n) \_\_\_\_\_ is a subsidiary of a firm that exists solely to handle the credit functions of the parent company.

A. internal credit organization

B. bank

C. credit association

D. captive finance company

E. credit union

18. The basic factors that are reviewed when evaluating the creditworthiness of a potential customer are called the:

A. terms of sale.

B. receivables factors.

C. five Cs of credit.

D. collection policy determinants.

E. credit scores.

19. Credit scoring is the:

A. categorizing of customers into groups based on the length of time it takes each customer to pay for purchases.

B. compiling of a list of accounts receivables segregated by the length of time each receivable has been outstanding.

C. evaluation of the opportunity costs of a credit policy.

D. process of quantifying the probability of default when granting credit to customers.

E. tracking of both the number and the size of customer orders over a period of time.

20. Kelly just completed compiling a listing of her firm's accounts receivables with each invoice segregated according to the length of time the invoice has been outstanding. What is the name given to this listing?

A. Aging schedule

B. Collection report

C. Credit evaluation report

D. Invoice schedule

E. Terms of credit

21. The economic order quantity (EOQ) is best defined as the:

A. minimum size of an order needed to qualify for free shipping.

B. minimum amount that must be ordered to obtain the quantity discount.

C. number of items that are sold on average each month.

D. restocking quantity that minimizes the total cost of inventory.

E. minimal amount of inventory that must be purchased to receive a cash discount.

22. The set of procedures used to determine the inventory levels for demand-dependent inventories is called:

A. the inventory flow log.

B. materials requirements planning.

C. a just-in-time inventory system.

D. the kanban.

E. the keiretsu.

23. Which one of the following is a system for managing demand-dependent inventories that minimizes the amount of inventory on hand?

A. Inventory flow log

B. Materials requirements planning

C. Just-in-time inventory system

D. Kanban

E. Keiretsu

24. Which of these is a speculative motive for holding cash?

A. Buying extra inventory because a key supplier offered a special one-time discount

B. Paying a $100 bonus to all employees at year-end

C. Paying the annual insurance premium on the firm's assets

D. Needing to purchase a new delivery truck because the old one was totally destroyed in an accident

E. Contributing $1,000 to help fund medical care for an uninsured neighbor

25. Which of these represents a transaction motive for holding cash?

A. Buying extra inventory in response to an unexpected sale offered by a supplier

B. Distributing the weekly paychecks

C. Increasing the minimum cash balance for the firm's main bank account

D. Unexpectedly purchasing a competitor's firm

E. Holding cash in anticipation that the firm may need to close for a few days if floodwaters keep rising

26. Laurie's Ice Rink keeps an extra $1,000 in its checking account simply in case an emergency arises. Which type of motive for holding cash does this represent?

A. Speculative

B. Float requirement

C. Transaction

D. Precautionary

E. Availability

27. BJ’s just reconciled its bank account and has $10,800 in outstanding deposits, $26,300 in checks outstanding, and a positive checkbook balance. The firm sells on a cash-only basis and deposits its receipts at the bank daily. The deposited funds are available to the firm the following day. The firm writes and mails checks on a daily basis also. These checks generally clear the bank in three days. What do you know about the firm's float given this information?

A. The firm has disbursements float but no collection float.

B. The collection float generally exceeds the disbursement float.

C. The firm has a net collection float.

D. The disbursement float generally exceeds the collection float.

E. Since transactions occur daily, the firm has no float.

28. Alicia wrote a check for $18 on Friday, May 6. The check cleared the bank on Wednesday, May 11. There were no other checks or deposits outstanding during the month. Given this, which one of the following statements is correct?

A. On May 6, the available balance decreased by $18.

B. On May 11, the available balance was $18 less than the ledger balance.

C. On May 12, the ledger balance was $18 less than the available balance.

D. On May 14, the available balance increased by $18.

E. On May 10, the ledger balance was $18 less than the available balance.

29. The Check Clearing Act for the 21st Century has caused:

A. increased check kiting.

B. zero-balance accounts to disappear.

C. the elimination of all lockboxes.

D. a reduction in collection float, but not disbursement float.

E. a reduction in both collection and disbursement float.

30. Taylor's Market received five checks today and went to the bank to deposit all of them. Unfortunately, the bank was closed for the day due to a robbery. How does the bank closure affect the firm's float assuming these five checks are the only outstanding bank items?

A. Collection float increased

B. Collection float decreased

C. Disbursement float increased

D. Disbursement float decreased

E. Net float remained unchanged

31. Which one of the following will reduce the disbursement float of a firm?

A. Mailing a check from a very remote location

B. Mailing an unsigned check so that it must be returned for a signature

C. Paying a loan payment at the bank rather than mailing a check to the bank

D. Requiring that all checks be held one day before mailing so they can be reviewed by a manager

E. Writing checks on a zero-balance account rather than on the master account

32. Which statement is correct?

A. Disbursement float is the period of time between a firm making a bank deposit and the funds from that deposit being available to the firm.

B. Disbursement float decreases when a check is delayed in the mail due to an extended holiday weekend.

C. Disbursement float causes the available balance to exceed the ledger balance.

D. Disbursement float is being totally eliminated by the Check Clearing Act for the 21<sup>st</sup> Century.

E. Disbursement float exists when the available balance is less than the book balance.

33. Which of these practices will reduce a firm's collection float?  
  
I. Installing a lockbox system  
  
II. Utilizing zero-balance accounts  
  
III. Depositing checks daily rather than weekly  
  
IV. Reducing the processing delay by one day

A. I and III only

B. II and IV only

C. I, II, and III only

D. I, III, and IV only

E. I, II, III, and IV

34. To minimize collection float, a firm should do which of the following?  
  
I. Deposit its collections at least daily  
  
II. Make sure all checks it receives at the sales counter are properly dated and signed  
  
III. Pay its bills in a more timely manner  
  
IV. Eliminate its regional lockboxes and have only one central lockbox located near the firm's home office

A. I and II only

B. III and IV only

C. II, III, and IV only

D. I, II, and III only

E. I, II, III, and IV

35. Al's Bakery has a checkbook balance of $1,650. A $700 deposit was made today and will be added to the available balance tomorrow. There are two outstanding checks that total to $623 that should clear tomorrow. There are no other outstanding items. Which one of the following statements accurately reflects this situation?

A. The disbursement float is $1,650.

B. The firm's current available balance is equal to $1,650 plus $700 minus $623.

C. The firm's collection float exceeds its disbursement float.

D. The firm's available balance is greater than its book balance.

E. The firm has a net disbursement float.

36. A firm's float management policy is most apt to include which one of the following statements?

A. All invoices are to be paid the same day they are received.

B. All outgoing checks are to be delivered by the fastest means possible.

C. The depository bank needs to process all deposits in accordance with the Check Clearing Act for the 21<sup>st</sup> Century.

D. Any check received is to be held until the customer's account has been updated to record the payment.

E. Accounts payable processing should be given priority over accounts receivable processing.

37. Which statement is correct?

A. Firms cannot use lockboxes if they use cash concentration accounts.

B. Firms prefer to increase processing delay on disbursements.

C. Firms prefer to eliminate all types of float.

D. Firms open regional offices so their employees can pick up lockbox payments throughout the day.

E. The Check Clearing Act for the 21st Century is designed to reduce total collection time to one day.

38. Which of these is most apt to delay the collection of cash?

A. Having customers mail checks to a local lockbox rather than the home office

B. Depositing checks throughout the day

C. Posting payments to accounts receivable prior to making deposits

D. Collecting mail more frequently

E. Supplying customers with bar coded payment slips

39. Which of these is most likely the fastest method of collecting cash?

A. Requiring customers to submit all payments to a lockbox

B. Requiring customers to submit all payments to the home office

C. Initiating a financial electronic data interchange at the time of sale

D. Offering customers credit terms of 1/5, net 15

E. Eliminating all disbursement float

40. How quickly can a bank receive payment once it transmits a copy of a check to the bank on which the check was drawn?

A. Immediately

B. In one day

C. Between one and two days

D. In two days

E. Between two and three days

41. Lockboxes should be located:

A. in every town where a firm has a customer.

B. geographically close to a firm's primary customers.

C. only in major urban areas since those are the key financial areas of the country.

D. close to a firm's home office.

E. only in cities where the firm has regional offices.

42. How are checks that are deposited into a typical lockbox handled?

A. The checks are deposited into a local bank which then overnights one check for the entire amount to the firm.

B. The checks are collected once a day, normally in the early morning, by a bank employee.

C. The checks are posted to the customer's account prior to being deposited.

D. The checks are collected throughout the day and immediately deposited into the firm's account.

E. The checks are collected and sent overnight to the firm's main office for processing.

43. The checks received in a lockbox are deposited:

A. into a local bank and then transferred electronically to a concentration account.

B. into a local bank and immediately invested in short-term investments.

C. as soon as they are posted to the customer's account.

D. the following day and immediately invested.

E. directly into an investment account.

44. Cash concentration accounts:

A. are no longer needed since the Check Clearing Act for the 21st Century has been passed.

B. eliminate the need for lockboxes.

C. decrease a firm's disbursement float by reducing mail and processing delays.

D. allow firms to more efficiently handle cash.

E. tend to decrease a firm's investment income.

45. Which of these is the most ethical practice related to cash disbursement management?

A. Intentionally delaying payments by creating a complex accounts payable system

B. Taking the cash discount but paying after the discount period

C. Paying a supplier from a zero-balance account

D. Purposely losing a supplier's invoice and requiring the supplier to submit another copy

E. Mailing a check from the most remote location possible

46. Which one of the following is a primary benefit of implementing zero-balance accounts into a cash management system?

A. Increased disbursements float

B. Total elimination of all safety stocks

C. Additional cash availability

D. Decreased collection float

E. Elimination of all float

47. When are funds generally transferred into zero-balance accounts?

A. Monthly

B. Weekly

C. Daily

D. As needed

E. Never

48. Which statement is true concerning a controlled disbursement account?

A. The number of checks that can be disbursed on any one day is limited.

B. The bank will inform the firm of the amount that needs to be transferred on a daily basis.

C. The amount that can be disbursed on any given day is limited to the balance in the account when the bank opens in the morning.

D. The total number of checks that can be written in any one month is limited.

E. The amount of the disbursements is limited to the amount the firm has available on its bank line of credit.

49. Which of the following characteristics apply to U.S. Treasury bills?  
  
I. Interest income taxed at both the federal and state level  
  
II. Minimal, if any, default risk  
  
III. Marketable, but not liquid  
  
IV. Short maturities

A. I and III only

B. II and IV only

C. I, II, and IV only

D. II, III, and IV only

E. I, II, III, and IV

50. Which of these are money market securities?  
  
I. Jumbo CDs  
  
II. Short-term municipal debt  
  
III. U.S. Treasury bills  
  
IV. Commercial paper

A. I and IV only

B. II and III only

C. I, II, and IV only

D. II, III, and IV only

E. I, II, III, and IV

51. What is the key difference between an ordinary preferred stock and a money market preferred stock?

A. Issuer

B. Maturity

C. Fixed versus floating dividend

D. Voting rights

E. Absence of any dividend

52. Which characteristic generally applies to commercial paper?

A. Issued only by financial institutions

B. Issued only by corporations

C. Maturities limited to 90 days or less

D. Unsecured

E. Secured by accounts receivable

53. Which statement is correct?

A. Commercial paper is highly marketable.

B. All T-bills are issued with 90-day maturities.

C. A certificate of deposit is a short-term loan to the government.

D. Any CD with a face amount of $10,000 or more is classified as a jumbo CD.

E. Money market preferred securities have less price volatility than ordinary preferred.

54. A firm offers credit terms of 1/5, net 25. How long is the net credit period?

A. 1 day

B. 5 days

C. 20 days

D. 25 days

E. 30 days

55. Which of these will tend to decrease the credit period?

A. Perishable product

B. Long production and sales cycle

C. Well-established customer

D. Heavy reliance on sales to that particular customer

E. Specialized new product

56. A firm grants credit with terms of 2/10, net 30. The firm's customers have \_\_\_ days to pay in order to receive a \_\_\_\_\_ percent discount.

A. 2; 10

B. 10; 2

C. 15; 2

D. 20; 2

E. 30; 20

57. Which one of the following will tend to increase the length of the credit period?

A. Decrease in product cost

B. Decrease in consumer demand

C. Decrease in collateral value

D. Increase in credit risk

E. Increase in product standardization

58. Which of these will tend to decrease the length of the credit period?

A. Decrease in default risk

B. Increase in the cost of the product

C. Increase in competition

D. Decrease in the size of the account

E. Decrease in turnover rate

59. Which of these would be the most common evidence of indebtedness when a sale is made on open account?

A. Sight draft

B. Commercial draft

C. Banker's acceptance

D. Promissory note

E. Invoice

60. Which one of the following is most commonly used in international trades?

A. Sight draft

B. Time draft

C. Commercial paper

D. Banker's acceptance

E. Open account

61. For which one of the following instruments does a bank guarantee payment by the buyer?

A. Money market preferred stock

B. Commercial paper

C. Banker's acceptance

D. Invoice

E. Time draft

62. The optimal credit policy of any firm will:

A. maximize sales.

B. minimize bad debts.

C. maximize units sold.

D. minimize the total costs of granting credit.

E. minimize carrying costs.

63. Which of the following characteristics will tend to cause a firm to adopt a more liberal credit policy?  
  
I. Repeat customers  
  
II. Excess capacity  
  
III. High variable costs  
  
IV. Limited competition

A. I and II only

B. III and IV only

C. I, II, and III only

D. II, III, and IV only

E. I, II, III, and IV

64. Which of these refers to a customer's willingness to meet his or her credit obligations?

A. Capital

B. Conditions

C. Capacity

D. Character

E. Collateral

65. Which one of the 5 C’s refers to the general economic climate in a customer's line of business?

A. Capital

B. Conditions

C. Capacity

D. Character

E. Collateral

66. Which of these tends to create an unexpected increase in a firm's average collection period?

A. Increased credit sales

B. The implementation of a cash discount

C. Increased customer delinquencies

D. Increased dollar value per each sale

E. Increased collection efforts

67. Which report identifies the percentage of accounts receivable that are delinquent by 90 days or more?

A. Cash budget

B. 5 C’s of credit

C. Credit analysis

D. Aging schedule

E. Credit scoring report

68. Which of these is the best example of a raw material?

A. Set of tires for an automaker

B. Partially assembled airplane

C. Cabinets ready to be shipped

D. Can of paint waiting to be sold

E. Completed product awaiting customer delivery

69. Which one of the following best illustrates the concept of derived demand?

A. A minimum wage worker tends to buy more off-brand products than do more highly paid professionals.

B. A windshield company has to step up production because auto sales are increasing.

C. A grocery store is selling more fresh fruits and vegetables.

D. Restaurant sales are rising because unemployment is falling.

E. Retail stores have increased sales around the holiday season.

70. Which of these is a shortage cost?

A. Restocking cost

B. Opportunity cost of capital

C. Inventory obsolescence

D. Insurance cost

E. Inventory theft

71. The primary goal of inventory management is to minimize the:

A. number of orders per year.

B. average inventory level.

C. total costs of holding inventory.

D. level of inventory for the most expensive items.

E. total opportunity costs.

72. Kate's Korner Market monitors 3 percent of its inventory on a daily basis, another 20 percent on a weekly basis, and the remaining inventory on a quarterly basis. What inventory management approach is being used?

A. ABC

B. EOQ

C. MRP

D. Q\*

E. JIT

73. The economic order quantity approach states that inventory order sizes should be determined by:

A. dividing annual item sales by the carrying cost per item and multiplying by 2.

B. computing the average number of items sold each month.

C. equating restocking costs with carrying costs.

D. dividing the inventory into various groups based on the value per item.

E. computing the amount of the derived demand.

74. A firm uses the extended economic order quantity approach to inventory management. Which one of the following inventory levels is considered to be the minimum inventory level given this approach?

A. Zero inventory

B. Reorder point level

C. Safety stock level

D. 50 percent of the reorder quantity

E. Safety stock plus the reorder quantity

75. Which one of the following inventory management approaches determines the finished goods inventory level and then works backward until the raw material needs are determined?

A. Extended EOQ

B. Just-in-time

C. ABC approach

D. Materials requirements planning

E. Economic order quantity

76. As of Monday morning, the ledger balance and the available balance for a firm was $2,100. During the day, the firm wrote three checks in the amounts of $674, $420, and $236. The firm deposited a check for $387 and a check for $638. What is the amount of the collection float as of the end of the day assuming none of these checks have cleared?

A. $305

B. $1,330

C. $840

D. $1,025

E. $2,355

77. As of this morning, a firm had a ledger balance of $684 with no outstanding deposits or checks. Today, the firm deposited six checks in the amount of $49 each and wrote a check in the amount of $283. What is the amount of the collection float as of the end of the day assuming none of these checks had cleared?

A. $11

B. $474

C. $283

D. $294

E. $978

78. On any given day, a firm receives and deposits numerous checks worth an average combined total of $9,215. The funds from the deposited checks are generally available after two days. Every day, the firm mails out checks totaling $7,300 that generally take three days to clear the bank. What is the amount of the collection float if the opening bank balance was $9,200?

A. $14,230

B. $15,970

C. $18,430

D. $7,300

E. $11,130

79. On any given day, Althea’s receives and deposits numerous checks worth an average combined total of $4,328. The funds from these checks are generally available in 1.2 days. Every day the firm mails out checks totaling $3,010 that generally take 2.5 days to clear the bank. What is the amount of the disbursement float if the opening bank balance was $828 with no outstanding items?

A. $6,828

B. $5,169

C. $5,194

D. $7,525

E. $7,778

80. The UpTowner writes 39 checks a day for an average amount of $918 each. These checks generally clear the bank 2.5 days after they are written. In addition, the firm generally receives an average of $53,419 a day in checks. The checks that are received are deposited immediately and the funds are generally available the following day. What is the amount of the firm's disbursement float?

A. $36,086

B. $89,505

C. $17,333

D. $53,419

E. $106,838

81. KL Textiles writes 22 checks a day for an average amount of $827 each. These checks generally clear the bank 3.5 days after they are written. In addition, the firm generally receives an average of $23,902 a day in checks. Deposited amounts are available after one day. What is the amount of the firm's disbursement float?

A. $11,951

B. $23,902

C. $39,777

D. $29,840

E. $63,679

82. Morris & Morris writes three checks a day for an average amount of $16,410 each. These checks generally clear the bank 2.5 days after they are written. In addition, the firm generally receives and deposits checks amounting to $21,618 each day. All deposits are available the next day. What is the firm's net float?

A. Net collection float of $21,618

B. Net collection float of $101,457

C. Net collection float of $144,693

D. Net disbursement float of $101,457

E. Net disbursement float of $144,693

83. Spice it Up! writes 57 checks a day with an average amount of $289 each. These checks generally clear the bank in 2.7 days. In addition, the firm generally receives an average of $20,900 a day in checks that are deposited immediately. Deposited funds are available in an average of .5 days. What is the firm's net float?

A. Net disbursement float of $36,318

B. Net disbursement float of $34,027.10

C. Net disbursement float of $34,750.30

D. Net collection float of $36,318

E. Net collection float of $34,027.10

84. During a normal month, Flo’s Flowers receives a total of nine checks with a total value of $168,000. On average, it takes 1 day from the date of deposit for the funds from these checks to be available to the firm. Assume each month has 30 days. What is the average daily float?

A. $5,600

B. $73,000

C. $50,400

D. $100,800

E. $28,600

85. Harvest Foods generally receives three checks a month in the amounts of $38,950, $16,750, and $63,800. It takes an average of one day for the funds from these checks to be added to the firm's available balance at the bank once they have been deposited. What is the amount of the average daily float? Assume a 30-day month.

A. $4,333.33

B. $3,983.33

C. $4,209.33

D. $3,506.00

E. $4,020.00

86. On May 12, you purchased $6,200 of merchandise from a supplier. The terms of the sale were 2/10, net 20. The discounted amount due is \_\_\_\_\_ which is payable no later than \_\_\_\_. May has 31 days.

A. $2,960; June 1

B. $3,515; June 1

C. $5,580; May 22

D. $6,076; May 22

E. $5,960; May 22

87. On April 14, McCallister's purchased $7,800 worth of inventory. The terms of sale were 2/10, net 30. The implicit interest is \_\_\_\_\_ and the effective annual rate is \_\_\_\_\_ percent.

A. $200; 14.95

B. $156; 44.59

C. $400; 14.95

D. $400; 27.38

E. $400; 44.59

88. On June 22, Roy's Welding Shop purchased $2,618 worth of goods. The terms of the sale were 2/15, net 45. What is the effective annual rate of interest for the credit period for this sale?

A. 27.86 percent

B. 31.38 percent

C. 29.42 percent

D. 25.73 percent

E. 28.63 percent

89. You purchased an item costing $6,379 on April 5. The terms of sale were 1/7, net 15. What is the last day you can pay the discounted price?

A. April 12

B. April 22

C. April 28

D. April 6

E. April 11

90. Sweet Music sells 915 musical instruments a year at an average price per instrument of $870. All sales are credit sales with terms of 2/10, net 40. Hogan's has found that 87 percent of its customers take advantage of the discounted price. What is the amount of the firm's average accounts receivable? The discount amount is applied to a customer’s account only after payments have been received and processed. Assume a 365-day year.

A. $29,560

B. $30,315

C. $31,280

D. $32,440

E. $32,620

91. The Dog House offers credit terms of 2/7, net 20 to all of its customers. Historically, 93 percent of its customers take advantage of the discount. What is the firm's average collection period?

A. 7.91 days

B. 7.67 days

C. 8.20 days

D. 8.33 days

E. 9.08 days

92. Beauty Aids has an average collection period of 8.4 days and annual credit sales of $937,800. What is the average investment in accounts receivable as shown on the balance sheet? Assume a 365-day year.

A. $18,850

B. $20,375

C. $22,506

D. $18,906

E. $21,582

93. Electronics and More offers credit terms of 2/7, net 30. What is the effective annual rate on a $4,500 purchase if you forgo the discount?

A. 41.83 percent

B. 38.59 percent

C. 44.99 percent

D. 37.80 percent

E. 32.58 percent

94. Rock Bottom Carpets sells 3,100 carpets a year at an average price per carpet of $1,640. The carrying cost per unit is $218.40. The company orders 500 carpets at a time and has a fixed order cost of $78 per order. The carpets are sold out before they are restocked. What is the economic order quantity?

A. 38 carpets

B. 66 carpets

C. 47 carpets

D. 51 carpets

E. 72 carpets

95. Used Furniture sells 1,330 sofas a year at an average price per sofa of $549. The carrying cost per unit is $31.60. The company orders 75 sofas at a time and has a fixed order cost of $69 per order. The sofas are sold out before they are restocked. What is the economic order quantity?

A. 76 sofas

B. 72 sofas

C. 81 sofas

D. 98 sofas

E. 101 sofas

96. The Flowering Vine buys hanging plants for $4 each and resells them for $10.95 each. The firm sells 6,200 plants per year. Generally, the firm orders 250 plants at a time and has a fixed cost per order of $49. The carrying cost per unit is $22.32. To avoid newer plants mixing with older plants, the inventory is totally sold out before it is restocked. Given the current ordering system, the total annual carrying cost is \_\_\_\_ and the total annual restocking cost is \_\_\_\_.

A. $2,811; $1,215

B. $2,811; $1,269

C. $2,790; $1,215

D. $2,790; $1,225

E. $3,212; $1,269

97. You have $32,618 on deposit at the bank with no outstanding checks or deposits. If you write a check for $8,900, what will be your book balance on that day if the check will take 3 days to clear?

A. $23,718

B. $29,651

C. $41,518

D. $30,022

E. $32,618

98. You place an order for 380 units of Good Y at a unit price of $49. The supplier offers terms of 2/10, net 30. The supplier is offering you a discount of \_\_\_\_\_ on your order if you pay within \_\_\_\_ days.

A. $372.40;10

B. $1,489.60;30

C. $372.40;20

D. $1,489.60;10

E. $372.40; 30

99. You place an order for 1,200 units of widgets at a unit price of $19.99. The supplier offers terms of 2/5, net 20. If you don't take the discount, how much interest on your order are you paying implicitly?

A. $468.33

B. $479.76

C. $492.00

D. $460.04

E. $564.80

100. In a typical month, a company receives 39 checks totaling $168,000. The payment on these checks is normally delayed by an average of 2.7 days. What is the average daily float? Assume 30 days in a month.

A. $14,500

B. $15,333

C. $15,120

D. $16,217

E. $14,667

101. Stinkey sells 2,250 units of its perfume collection each year at a price per unit of $199. All sales are on credit with terms of 2/7, net 30. The discount is taken by 91 percent of the customers. What is the average amount of the company's accounts receivable?

A. $11,126

B. $11,246

C. $11,003

D. $14,815

E. $14,778

102. LD&M sells earnings forecasts for international securities. Its credit terms are 1/3, net 15. Based on experience, 84 percent of all customers take the discount. What is the average collection period?

A. 4.42 days

B. 4.92 days

C. 5.08 day

D. 4.57 days

E. 4.08 days

103. Outdoors Woods has annual credit sales of $14.38 million. The average collection period is 12 days. What is the average investment in accounts receivable as shown on the balance sheet? Assume a 365-day year.

A. $446,000

B. $524,000

C. $408,888

D. $472,767

E. $393,134

104. A firm offers terms of 2/5, net 30. What effective annual interest rate does the firm earn when a customer does not take the discount?

A. 21.69 percent

B. 24.42 percent

C. 28.97 percent

D. 31.08 percent

E. 34.31 percent

105. Westover’s has an average collection period of 31 days. Its average daily investment in accounts receivables is $51,068. What are its annual credit sales? Assume a 365-day year.

A. $527,272

B. $601,285

C. $614,414

D. $450,200

E. $419,737

Chapter 17 Test Bank - Static Key

1. AJ’s Market generally holds $50,000 in cash in case an unexpected investment opportunity arises. This is an example of the \_\_\_\_ motive for holding cash.

A. precautionary

B. opportunistic

**C.** speculative

D. reserve

E. transaction

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

2. Holding cash simply as a financial reserve is referred to as the \_\_\_\_ motive.

**A.** precautionary

B. opportunistic

C. speculative

D. activity

E. transaction

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

3. The transaction motive refers to the need to hold cash:

A. as a safety margin.

B. for unforeseen investment opportunities.

**C.** for daily operations.

D. as a financial reserve.

E. for emergency situations.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

4. Float is defined as the difference between the:

A. beginning and ending cash balances as shown on a cash budget.

**B.** ledger balance and the available balance.

C. book balance and the ledger balance.

D. collections and disbursements for any given period of time.

E. available balance and the collected balance.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

5. Which one of the following is a special post office mailbox that is used to speed up the collection of accounts receivable payments?

A. Separation box

B. Cash box

C. Concentration account

**D.** Lockbox

E. Float box

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

6. Cash concentration is best defined as:

A. combining an entire firm's daily receipts into one bank deposit.

B. combining a week's worth of cash receipts into one bank deposit.

**C.** combining cash from multiple bank accounts into a firm's main bank accounts.

D. using multiple lockboxes for collecting cash payments.

E. combining a firm's bills so that disbursement checks are mailed only monthly.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

7. Which one of the following is a disbursement account into which funds are transferred from a master account only as the funds are needed to cover checks presented for payment?

A. Lockbox account

B. Cash concentration account

C. Ledger account

**D.** Zero-balance account

E. Cash clearing account

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

8. A disbursement account into which funds are transferred only as needed to cover the demands for payment is called a(n) \_\_\_\_ account.

A. master

**B.** controlled disbursement

C. bank controlled

D. investment

E. safety stock

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

9. The terms of sale are best defined as the:

A. total invoice amount including all shipping costs and taxes.

B. period of time during which a sale price applies.

C. legal documents related to the credit sale of either goods or services.

**D.** conditions under which a firm sells its goods or services for either cash or credit.

E. process used to determine which customers will be granted credit and which will not.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

10. The process of determining the probability that potential customers will not pay is called:

**A.** credit analysis.

B. collection policy.

C. account aging.

D. credit terms.

E. customer invoicing.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit analysis*

11. Collection policy refers to the:

A. process of determining which customers will be granted credit.

B. process of determining the probability that customers will not pay.

C. set of guidelines used by a firm to determine the cost of offering credit to its customers.

D. daily process of handling cash inflows and outflows of cash.

**E.** set of procedures a firm follows in collecting accounts receivable.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Cash collections management*

12. The length of time a firm grants its customers to pay for their purchases is called the:

A. lockbox period.

B. discount period.

**C.** credit period.

D. cash cycle.

E. receivables turnover period.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

13. A bill given to a customer for goods he or she purchased is called a(n):

A. account reconciliation.

**B.** invoice.

C. docket.

D. remittance advice.

E. shipping receipt.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit instruments*

14. The primary purpose of a cash discount is to:

A. compensate customers for an out-of-stock item.

B. compensate customers for faulty goods or services.

C. offset the interest charges on an account receivable.

**D.** induce customers to pay promptly.

E. induce customers to purchase specialty items.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Cash collections management*

15. Which of these is evidence of indebtedness?

A. Terms of sale

B. Credit cost curve

**C.** Credit instrument

D. Concentration policy

E. Credit policy

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit instruments*

16. The graphical representation of the sum of the carrying costs and the opportunity costs of a credit policy is called the:

A. aging report.

B. economic credit function.

C. optimal credit curve.

D. credit analysis graph.

**E.** credit cost curve.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit policy analysis*

17. A (n) \_\_\_\_\_ is a subsidiary of a firm that exists solely to handle the credit functions of the parent company.

A. internal credit organization

B. bank

C. credit association

**D.** captive finance company

E. credit union

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit management*

18. The basic factors that are reviewed when evaluating the creditworthiness of a potential customer are called the:

A. terms of sale.

B. receivables factors.

**C.** five Cs of credit.

D. collection policy determinants.

E. credit scores.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit analysis*

19. Credit scoring is the:

A. categorizing of customers into groups based on the length of time it takes each customer to pay for purchases.

B. compiling of a list of accounts receivables segregated by the length of time each receivable has been outstanding.

C. evaluation of the opportunity costs of a credit policy.

**D.** process of quantifying the probability of default when granting credit to customers.

E. tracking of both the number and the size of customer orders over a period of time.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit analysis*

20. Kelly just completed compiling a listing of her firm's accounts receivables with each invoice segregated according to the length of time the invoice has been outstanding. What is the name given to this listing?

**A.** Aging schedule

B. Collection report

C. Credit evaluation report

D. Invoice schedule

E. Terms of credit

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Collection policy*

21. The economic order quantity (EOQ) is best defined as the:

A. minimum size of an order needed to qualify for free shipping.

B. minimum amount that must be ordered to obtain the quantity discount.

C. number of items that are sold on average each month.

**D.** restocking quantity that minimizes the total cost of inventory.

E. minimal amount of inventory that must be purchased to receive a cash discount.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Economic order quantity (EOQ) model*

22. The set of procedures used to determine the inventory levels for demand-dependent inventories is called:

A. the inventory flow log.

**B.** materials requirements planning.

C. a just-in-time inventory system.

D. the kanban.

E. the keiretsu.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Inventory management*

23. Which one of the following is a system for managing demand-dependent inventories that minimizes the amount of inventory on hand?

A. Inventory flow log

B. Materials requirements planning

**C.** Just-in-time inventory system

D. Kanban

E. Keiretsu

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Derived-demand inventory management*

24. Which of these is a speculative motive for holding cash?

**A.** Buying extra inventory because a key supplier offered a special one-time discount

B. Paying a $100 bonus to all employees at year-end

C. Paying the annual insurance premium on the firm's assets

D. Needing to purchase a new delivery truck because the old one was totally destroyed in an accident

E. Contributing $1,000 to help fund medical care for an uninsured neighbor

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

25. Which of these represents a transaction motive for holding cash?

A. Buying extra inventory in response to an unexpected sale offered by a supplier

**B.** Distributing the weekly paychecks

C. Increasing the minimum cash balance for the firm's main bank account

D. Unexpectedly purchasing a competitor's firm

E. Holding cash in anticipation that the firm may need to close for a few days if floodwaters keep rising

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

26. Laurie's Ice Rink keeps an extra $1,000 in its checking account simply in case an emergency arises. Which type of motive for holding cash does this represent?

A. Speculative

B. Float requirement

C. Transaction

**D.** Precautionary

E. Availability

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Reasons to hold cash*

27. BJ’s just reconciled its bank account and has $10,800 in outstanding deposits, $26,300 in checks outstanding, and a positive checkbook balance. The firm sells on a cash-only basis and deposits its receipts at the bank daily. The deposited funds are available to the firm the following day. The firm writes and mails checks on a daily basis also. These checks generally clear the bank in three days. What do you know about the firm's float given this information?

A. The firm has disbursements float but no collection float.

B. The collection float generally exceeds the disbursement float.

C. The firm has a net collection float.

**D.** The disbursement float generally exceeds the collection float.

E. Since transactions occur daily, the firm has no float.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

28. Alicia wrote a check for $18 on Friday, May 6. The check cleared the bank on Wednesday, May 11. There were no other checks or deposits outstanding during the month. Given this, which one of the following statements is correct?

A. On May 6, the available balance decreased by $18.

B. On May 11, the available balance was $18 less than the ledger balance.

C. On May 12, the ledger balance was $18 less than the available balance.

D. On May 14, the available balance increased by $18.

**E.** On May 10, the ledger balance was $18 less than the available balance.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

29. The Check Clearing Act for the 21st Century has caused:

A. increased check kiting.

B. zero-balance accounts to disappear.

C. the elimination of all lockboxes.

D. a reduction in collection float, but not disbursement float.

**E.** a reduction in both collection and disbursement float.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Cash management regulation and processes*

30. Taylor's Market received five checks today and went to the bank to deposit all of them. Unfortunately, the bank was closed for the day due to a robbery. How does the bank closure affect the firm's float assuming these five checks are the only outstanding bank items?

**A.** Collection float increased

B. Collection float decreased

C. Disbursement float increased

D. Disbursement float decreased

E. Net float remained unchanged

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

31. Which one of the following will reduce the disbursement float of a firm?

A. Mailing a check from a very remote location

B. Mailing an unsigned check so that it must be returned for a signature

**C.** Paying a loan payment at the bank rather than mailing a check to the bank

D. Requiring that all checks be held one day before mailing so they can be reviewed by a manager

E. Writing checks on a zero-balance account rather than on the master account

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

32. Which statement is correct?

A. Disbursement float is the period of time between a firm making a bank deposit and the funds from that deposit being available to the firm.

B. Disbursement float decreases when a check is delayed in the mail due to an extended holiday weekend.

**C.** Disbursement float causes the available balance to exceed the ledger balance.

D. Disbursement float is being totally eliminated by the Check Clearing Act for the 21<sup>st</sup> Century.

E. Disbursement float exists when the available balance is less than the book balance.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

33. Which of these practices will reduce a firm's collection float?  
  
I. Installing a lockbox system  
  
II. Utilizing zero-balance accounts  
  
III. Depositing checks daily rather than weekly  
  
IV. Reducing the processing delay by one day

A. I and III only

B. II and IV only

C. I, II, and III only

**D.** I, III, and IV only

E. I, II, III, and IV

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

34. To minimize collection float, a firm should do which of the following?  
  
I. Deposit its collections at least daily  
  
II. Make sure all checks it receives at the sales counter are properly dated and signed  
  
III. Pay its bills in a more timely manner  
  
IV. Eliminate its regional lockboxes and have only one central lockbox located near the firm's home office

**A.** I and II only

B. III and IV only

C. II, III, and IV only

D. I, II, and III only

E. I, II, III, and IV

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

35. Al's Bakery has a checkbook balance of $1,650. A $700 deposit was made today and will be added to the available balance tomorrow. There are two outstanding checks that total to $623 that should clear tomorrow. There are no other outstanding items. Which one of the following statements accurately reflects this situation?

A. The disbursement float is $1,650.

B. The firm's current available balance is equal to $1,650 plus $700 minus $623.

**C.** The firm's collection float exceeds its disbursement float.

D. The firm's available balance is greater than its book balance.

E. The firm has a net disbursement float.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

36. A firm's float management policy is most apt to include which one of the following statements?

A. All invoices are to be paid the same day they are received.

B. All outgoing checks are to be delivered by the fastest means possible.

**C.** The depository bank needs to process all deposits in accordance with the Check Clearing Act for the 21<sup>st</sup> Century.

D. Any check received is to be held until the customer's account has been updated to record the payment.

E. Accounts payable processing should be given priority over accounts receivable processing.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

37. Which statement is correct?

A. Firms cannot use lockboxes if they use cash concentration accounts.

**B.** Firms prefer to increase processing delay on disbursements.

C. Firms prefer to eliminate all types of float.

D. Firms open regional offices so their employees can pick up lockbox payments throughout the day.

E. The Check Clearing Act for the 21 st Century is designed to reduce total collection time to one day.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

38. Which of these is most apt to delay the collection of cash?

A. Having customers mail checks to a local lockbox rather than the home office

B. Depositing checks throughout the day

**C.** Posting payments to accounts receivable prior to making deposits

D. Collecting mail more frequently

E. Supplying customers with bar coded payment slips

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

39. Which of these is most likely the fastest method of collecting cash?

A. Requiring customers to submit all payments to a lockbox

B. Requiring customers to submit all payments to the home office

**C.** Initiating a financial electronic data interchange at the time of sale

D. Offering customers credit terms of 1/5, net 15

E. Eliminating all disbursement float

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Cash collections management*

40. How quickly can a bank receive payment once it transmits a copy of a check to the bank on which the check was drawn?

**A.** Immediately

B. In one day

C. Between one and two days

D. In two days

E. Between two and three days

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Cash management regulation and processes*

41. Lockboxes should be located:

A. in every town where a firm has a customer.

**B.** geographically close to a firm's primary customers.

C. only in major urban areas since those are the key financial areas of the country.

D. close to a firm's home office.

E. only in cities where the firm has regional offices.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

42. How are checks that are deposited into a typical lockbox handled?

A. The checks are deposited into a local bank which then overnights one check for the entire amount to the firm.

B. The checks are collected once a day, normally in the early morning, by a bank employee.

C. The checks are posted to the customer's account prior to being deposited.

**D.** The checks are collected throughout the day and immediately deposited into the firm's account.

E. The checks are collected and sent overnight to the firm's main office for processing.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

43. The checks received in a lockbox are deposited:

**A.** into a local bank and then transferred electronically to a concentration account.

B. into a local bank and immediately invested in short-term investments.

C. as soon as they are posted to the customer's account.

D. the following day and immediately invested.

E. directly into an investment account.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

44. Cash concentration accounts:

A. are no longer needed since the Check Clearing Act for the 21 st Century has been passed.

B. eliminate the need for lockboxes.

C. decrease a firm's disbursement float by reducing mail and processing delays.

**D.** allow firms to more efficiently handle cash.

E. tend to decrease a firm's investment income.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash collections management*

45. Which of these is the most ethical practice related to cash disbursement management?

A. Intentionally delaying payments by creating a complex accounts payable system

B. Taking the cash discount but paying after the discount period

**C.** Paying a supplier from a zero-balance account

D. Purposely losing a supplier's invoice and requiring the supplier to submit another copy

E. Mailing a check from the most remote location possible

*AACSB: Ethics*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

46. Which one of the following is a primary benefit of implementing zero-balance accounts into a cash management system?

A. Increased disbursements float

B. Total elimination of all safety stocks

**C.** Additional cash availability

D. Decreased collection float

E. Elimination of all float

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

47. When are funds generally transferred into zero-balance accounts?

A. Monthly

B. Weekly

C. Daily

**D.** As needed

E. Never

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

48. Which statement is true concerning a controlled disbursement account?

A. The number of checks that can be disbursed on any one day is limited.

**B.** The bank will inform the firm of the amount that needs to be transferred on a daily basis.

C. The amount that can be disbursed on any given day is limited to the balance in the account when the bank opens in the morning.

D. The total number of checks that can be written in any one month is limited.

E. The amount of the disbursements is limited to the amount the firm has available on its bank line of credit.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Cash disbursements management*

49. Which of the following characteristics apply to U.S. Treasury bills?  
  
I. Interest income taxed at both the federal and state level  
  
II. Minimal, if any, default risk  
  
III. Marketable, but not liquid  
  
IV. Short maturities

A. I and III only

**B.** II and IV only

C. I, II, and IV only

D. II, III, and IV only

E. I, II, III, and IV

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Money market securities*

50. Which of these are money market securities?  
  
I. Jumbo CDs  
  
II. Short-term municipal debt  
  
III. U.S. Treasury bills  
  
IV. Commercial paper

A. I and IV only

B. II and III only

C. I, II, and IV only

D. II, III, and IV only

**E.** I, II, III, and IV

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Money market securities*

51. What is the key difference between an ordinary preferred stock and a money market preferred stock?

A. Issuer

B. Maturity

**C.** Fixed versus floating dividend

D. Voting rights

E. Absence of any dividend

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Money market securities*

52. Which characteristic generally applies to commercial paper?

A. Issued only by financial institutions

B. Issued only by corporations

C. Maturities limited to 90 days or less

**D.** Unsecured

E. Secured by accounts receivable

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Money market securities*

53. Which statement is correct?

A. Commercial paper is highly marketable.

B. All T-bills are issued with 90-day maturities.

C. A certificate of deposit is a short-term loan to the government.

D. Any CD with a face amount of $10,000 or more is classified as a jumbo CD.

**E.** Money market preferred securities have less price volatility than ordinary preferred.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.2 Cash Management: Collection, Disbursement, and Investment*

*Topic: Money market securities*

54. A firm offers credit terms of 1/5, net 25. How long is the net credit period?

A. 1 day

B. 5 days

C. 20 days

**D.** 25 days

E. 30 days

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

55. Which of these will tend to decrease the credit period?

**A.** Perishable product

B. Long production and sales cycle

C. Well-established customer

D. Heavy reliance on sales to that particular customer

E. Specialized new product

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

56. A firm grants credit with terms of 2/10, net 30. The firm's customers have \_\_\_ days to pay in order to receive a \_\_\_\_\_ percent discount.

A. 2; 10

**B.** 10; 2

C. 15; 2

D. 20; 2

E. 30; 20

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

57. Which one of the following will tend to increase the length of the credit period?

A. Decrease in product cost

**B.** Decrease in consumer demand

C. Decrease in collateral value

D. Increase in credit risk

E. Increase in product standardization

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

58. Which of these will tend to decrease the length of the credit period?

A. Decrease in default risk

B. Increase in the cost of the product

C. Increase in competition

**D.** Decrease in the size of the account

E. Decrease in turnover rate

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

59. Which of these would be the most common evidence of indebtedness when a sale is made on open account?

A. Sight draft

B. Commercial draft

C. Banker's acceptance

D. Promissory note

**E.** Invoice

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit instruments*

60. Which one of the following is most commonly used in international trades?

A. Sight draft

B. Time draft

C. Commercial paper

**D.** Banker's acceptance

E. Open account

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit instruments*

61. For which one of the following instruments does a bank guarantee payment by the buyer?

A. Money market preferred stock

B. Commercial paper

**C.** Banker's acceptance

D. Invoice

E. Time draft

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit instruments*

62. The optimal credit policy of any firm will:

A. maximize sales.

B. minimize bad debts.

C. maximize units sold.

**D.** minimize the total costs of granting credit.

E. minimize carrying costs.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Optimal credit policy*

63. Which of the following characteristics will tend to cause a firm to adopt a more liberal credit policy?  
  
I. Repeat customers  
  
II. Excess capacity  
  
III. High variable costs  
  
IV. Limited competition

**A.** I and II only

B. III and IV only

C. I, II, and III only

D. II, III, and IV only

E. I, II, III, and IV

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit policy*

64. Which of these refers to a customer's willingness to meet his or her credit obligations?

A. Capital

B. Conditions

C. Capacity

**D.** Character

E. Collateral

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Five C’s of credit*

65. Which one of the 5 C’s refers to the general economic climate in a customer's line of business?

A. Capital

**B.** Conditions

C. Capacity

D. Character

E. Collateral

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Five C’s of credit*

66. Which of these tends to create an unexpected increase in a firm's average collection period?

A. Increased credit sales

B. The implementation of a cash discount

**C.** Increased customer delinquencies

D. Increased dollar value per each sale

E. Increased collection efforts

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

67. Which report identifies the percentage of accounts receivable that are delinquent by 90 days or more?

A. Cash budget

B. 5 C’s of credit

C. Credit analysis

**D.** Aging schedule

E. Credit scoring report

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Collection policy*

68. Which of these is the best example of a raw material?

**A.** Set of tires for an automaker

B. Partially assembled airplane

C. Cabinets ready to be shipped

D. Can of paint waiting to be sold

E. Completed product awaiting customer delivery

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.4 Inventory Management*

*Topic: Inventory types*

69. Which one of the following best illustrates the concept of derived demand?

A. A minimum wage worker tends to buy more off-brand products than do more highly paid professionals.

**B.** A windshield company has to step up production because auto sales are increasing.

C. A grocery store is selling more fresh fruits and vegetables.

D. Restaurant sales are rising because unemployment is falling.

E. Retail stores have increased sales around the holiday season.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.4 Inventory Management*

*Topic: Derived-demand inventory management*

70. Which of these is a shortage cost?

**A.** Restocking cost

B. Opportunity cost of capital

C. Inventory obsolescence

D. Insurance cost

E. Inventory theft

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.4 Inventory Management*

*Topic: Inventory management*

71. The primary goal of inventory management is to minimize the:

A. number of orders per year.

B. average inventory level.

**C.** total costs of holding inventory.

D. level of inventory for the most expensive items.

E. total opportunity costs.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.4 Inventory Management*

*Topic: Inventory management*

72. Kate's Korner Market monitors 3 percent of its inventory on a daily basis, another 20 percent on a weekly basis, and the remaining inventory on a quarterly basis. What inventory management approach is being used?

**A.** ABC

B. EOQ

C. MRP

D. Q\*

E. JIT

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Intermediate*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: ABC inventory management*

73. The economic order quantity approach states that inventory order sizes should be determined by:

A. dividing annual item sales by the carrying cost per item and multiplying by 2.

B. computing the average number of items sold each month.

**C.** equating restocking costs with carrying costs.

D. dividing the inventory into various groups based on the value per item.

E. computing the amount of the derived demand.

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Economic order quantity (EOQ) model*

74. A firm uses the extended economic order quantity approach to inventory management. Which one of the following inventory levels is considered to be the minimum inventory level given this approach?

A. Zero inventory

B. Reorder point level

**C.** Safety stock level

D. 50 percent of the reorder quantity

E. Safety stock plus the reorder quantity

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Economic order quantity (EOQ) model*

75. Which one of the following inventory management approaches determines the finished goods inventory level and then works backward until the raw material needs are determined?

A. Extended EOQ

B. Just-in-time

C. ABC approach

**D.** Materials requirements planning

E. Economic order quantity

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Inventory management*

76. As of Monday morning, the ledger balance and the available balance for a firm was $2,100. During the day, the firm wrote three checks in the amounts of $674, $420, and $236. The firm deposited a check for $387 and a check for $638. What is the amount of the collection float as of the end of the day assuming none of these checks have cleared?

A. $305

B. $1,330

C. $840

**D.** $1,025

E. $2,355

Collection float = $387 + 638 = $1,025

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

77. As of this morning, a firm had a ledger balance of $684 with no outstanding deposits or checks. Today, the firm deposited six checks in the amount of $49 each and wrote a check in the amount of $283. What is the amount of the collection float as of the end of the day assuming none of these checks had cleared?

A. $11

B. $474

C. $283

**D.** $294

E. $978

Collection float = 6 ×$49 = $294

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

78. On any given day, a firm receives and deposits numerous checks worth an average combined total of $9,215. The funds from the deposited checks are generally available after two days. Every day, the firm mails out checks totaling $7,300 that generally take three days to clear the bank. What is the amount of the collection float if the opening bank balance was $9,200?

A. $14,230

B. $15,970

**C.** $18,430

D. $7,300

E. $11,130

Collection float = 2 × $9,215 = $18,430

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

79. On any given day, Althea’s receives and deposits numerous checks worth an average combined total of $4,328. The funds from these checks are generally available in 1.2 days. Every day the firm mails out checks totaling $3,010 that generally take 2.5 days to clear the bank. What is the amount of the disbursement float if the opening bank balance was $828 with no outstanding items?

A. $6,828

B. $5,169

C. $5,194

**D.** $7,525

E. $7,778

Disbursement float = 2.5× $3,010 = $7,525

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

80. The UpTowner writes 39 checks a day for an average amount of $918 each. These checks generally clear the bank 2.5 days after they are written. In addition, the firm generally receives an average of $53,419 a day in checks. The checks that are received are deposited immediately and the funds are generally available the following day. What is the amount of the firm's disbursement float?

A. $36,086

**B.** $89,505

C. $17,333

D. $53,419

E. $106,838

Disbursement float = 39 × $918 ×2.5 = $89,505

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

81. KL Textiles writes 22 checks a day for an average amount of $827 each. These checks generally clear the bank 3.5 days after they are written. In addition, the firm generally receives an average of $23,902 a day in checks. Deposited amounts are available after one day. What is the amount of the firm's disbursement float?

A. $11,951

B. $23,902

C. $39,777

D. $29,840

**E.** $63,679

Disbursement float = 22 × $827 ×3.5 = $63,679

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

82. Morris & Morris writes three checks a day for an average amount of $16,410 each. These checks generally clear the bank 2.5 days after they are written. In addition, the firm generally receives and deposits checks amounting to $21,618 each day. All deposits are available the next day. What is the firm's net float?

A. Net collection float of $21,618

B. Net collection float of $101,457

C. Net collection float of $144,693

**D.** Net disbursement float of $101,457

E. Net disbursement float of $144,693

Collection float = 1 × $21,618 = $21,618

Disbursement float = 3× $16,410×2.5 = $123,075

Net disbursement float = $123,075-21,618 = $101,457

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

83. Spice it Up! writes 57 checks a day with an average amount of $289 each. These checks generally clear the bank in 2.7 days. In addition, the firm generally receives an average of $20,900 a day in checks that are deposited immediately. Deposited funds are available in an average of .5 days. What is the firm's net float?

A. Net disbursement float of $36,318

**B.** Net disbursement float of $34,027.10

C. Net disbursement float of $34,750.30

D. Net collection float of $36,318

E. Net collection float of $34,027.10

Collection float = .5 × $20,900 = $10,450

Disbursement float = 57 × $289 ×2.7 = $44,477.10

Net disbursement float = $44,477.10-10,450 = $34,027.10

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

84. During a normal month, Flo’s Flowers receives a total of nine checks with a total value of $168,000. On average, it takes 1 day from the date of deposit for the funds from these checks to be available to the firm. Assume each month has 30 days. What is the average daily float?

**A.** $5,600

B. $73,000

C. $50,400

D. $100,800

E. $28,600

Average daily float = $168,000/30 × 1 = $5,600

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

85. Harvest Foods generally receives three checks a month in the amounts of $38,950, $16,750, and $63,800. It takes an average of one day for the funds from these checks to be added to the firm's available balance at the bank once they have been deposited. What is the amount of the average daily float? Assume a 30-day month.

A. $4,333.33

**B.** $3,983.33

C. $4,209.33

D. $3,506.00

E. $4,020.00

Average daily float = [($38,950 +16,750 +63,800)/30]×1 = $3,983.33

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

86. On May 12, you purchased $6,200 of merchandise from a supplier. The terms of the sale were 2/10, net 20. The discounted amount due is \_\_\_\_\_ which is payable no later than \_\_\_\_. May has 31 days.

A. $2,960; June 1

B. $3,515; June 1

C. $5,580; May 22

**D.** $6,076; May 22

E. $5,960; May 22

Last day for discount = May 12 +10 days = May 22

Discounted price = $6,200 × (1 -.02) = $6,076

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

87. On April 14, McCallister's purchased $7,800 worth of inventory. The terms of sale were 2/10, net 30. The implicit interest is \_\_\_\_\_ and the effective annual rate is \_\_\_\_\_ percent.

A. $200; 14.95

**B.** $156; 44.59

C. $400; 14.95

D. $400; 27.38

E. $400; 44.59

Implicit interest = .02 × $7,800 = $156

Days of credit granted = 30 - 10 = 20 days

Effective annual rate = (1 + {(.02 × $7,800) / [(1 - .02) × $7,800]})365/20- 1 = .4459, or 44.59 percent

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

88. On June 22, Roy's Welding Shop purchased $2,618 worth of goods. The terms of the sale were 2/15, net 45. What is the effective annual rate of interest for the credit period for this sale?

**A.** 27.86 percent

B. 31.38 percent

C. 29.42 percent

D. 25.73 percent

E. 28.63 percent

Days of credit granted = 45 -15 = 30 days

Effective annual rate = (1 + {(.02 × $2,618) / [(1 - .02) × $2,618]})365/30- 1 = .2786, or 27.86 percent

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

89. You purchased an item costing $6,379 on April 5. The terms of sale were 1/7, net 15. What is the last day you can pay the discounted price?

**A.** April 12

B. April 22

C. April 28

D. April 6

E. April 11

Last day for discount = April 5 + 7 days = April 12

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

90. Sweet Music sells 915 musical instruments a year at an average price per instrument of $870. All sales are credit sales with terms of 2/10, net 40. Hogan's has found that 87 percent of its customers take advantage of the discounted price. What is the amount of the firm's average accounts receivable? The discount amount is applied to a customer’s account only after payments have been received and processed. Assume a 365-day year.

A. $29,560

**B.** $30,315

C. $31,280

D. $32,440

E. $32,620

Total sales = 915 × $870 = $796,050

Average collection period = (.87 × 10) + (.13 ×40) = 13.9 days

Average accounts receivable = $796,050/365 × 13.9= $30,315

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

91. The Dog House offers credit terms of 2/7, net 20 to all of its customers. Historically, 93 percent of its customers take advantage of the discount. What is the firm's average collection period?

**A.** 7.91 days

B. 7.67 days

C. 8.20 days

D. 8.33 days

E. 9.08 days

Average collection period = (.93 ×7) + (.07×20) = 7.91 days

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

92. Beauty Aids has an average collection period of 8.4 days and annual credit sales of $937,800. What is the average investment in accounts receivable as shown on the balance sheet? Assume a 365-day year.

A. $18,850

B. $20,375

C. $22,506

D. $18,906

**E.** $21,582

Average investment in receivables = ($937,800/365) ×8.4 = $21,582

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

93. Electronics and More offers credit terms of 2/7, net 30. What is the effective annual rate on a $4,500 purchase if you forgo the discount?

A. 41.83 percent

B. 38.59 percent

C. 44.99 percent

**D.** 37.80 percent

E. 32.58 percent

Days in period = 30 - 7 = 23 days

Effective annual rate = (1 + {(.02 × $4,500) / [(1 - .02) × $4,500]})365/23- 1 = .3780, or 37.80 percent

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

94. Rock Bottom Carpets sells 3,100 carpets a year at an average price per carpet of $1,640. The carrying cost per unit is $218.40. The company orders 500 carpets at a time and has a fixed order cost of $78 per order. The carpets are sold out before they are restocked. What is the economic order quantity?

A. 38 carpets

B. 66 carpets

**C.** 47 carpets

D. 51 carpets

E. 72 carpets

EOQ = [(2 ×3,100 × $78)/$218.40].5 = 47 carpets

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Economic order quantity (EOQ) model*

95. Used Furniture sells 1,330 sofas a year at an average price per sofa of $549. The carrying cost per unit is $31.60. The company orders 75 sofas at a time and has a fixed order cost of $69 per order. The sofas are sold out before they are restocked. What is the economic order quantity?

**A.** 76 sofas

B. 72 sofas

C. 81 sofas

D. 98 sofas

E. 101 sofas

EOQ = [(2 ×1,330× $69)/$31.60].5 = 76 sofas

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Economic order quantity (EOQ) model*

96. The Flowering Vine buys hanging plants for $4 each and resells them for $10.95 each. The firm sells 6,200 plants per year. Generally, the firm orders 250 plants at a time and has a fixed cost per order of $49. The carrying cost per unit is $22.32. To avoid newer plants mixing with older plants, the inventory is totally sold out before it is restocked. Given the current ordering system, the total annual carrying cost is \_\_\_\_ and the total annual restocking cost is \_\_\_\_.

A. $2,811; $1,215

B. $2,811; $1,269

**C.** $2,790; $1,215

D. $2,790; $1,225

E. $3,212; $1,269

Total annual carrying cost = [(250 + 0)/2] × $22.32 = $2,790

Total restocking cost = (6,200/250) × $49 = $1,215

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level.*

*Section: 17.5 Inventory Management Techniques*

*Topic: Inventory costs*

97. You have $32,618 on deposit at the bank with no outstanding checks or deposits. If you write a check for $8,900, what will be your book balance on that day if the check will take 3 days to clear?

**A.** $23,718

B. $29,651

C. $41,518

D. $30,022

E. $32,618

Book balance = $32,618-8,900 = $23,718

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

98. You place an order for 380 units of Good Y at a unit price of $49. The supplier offers terms of 2/10, net 30. The supplier is offering you a discount of \_\_\_\_\_ on your order if you pay within \_\_\_\_ days.

**A.** $372.40;10

B. $1,489.60;30

C. $372.40;20

D. $1,489.60;10

E. $372.40; 30

Discount = 380 × $49×.02 = $372.40

The discount is received if the invoice is paid within 10 days

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

99. You place an order for 1,200 units of widgets at a unit price of $19.99. The supplier offers terms of 2/5, net 20. If you don't take the discount, how much interest on your order are you paying implicitly?

A. $468.33

**B.** $479.76

C. $492.00

D. $460.04

E. $564.80

Implicit interest = 1,200× $19.99×.02 = $479.76

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

100. In a typical month, a company receives 39 checks totaling $168,000. The payment on these checks is normally delayed by an average of 2.7 days. What is the average daily float? Assume 30 days in a month.

A. $14,500

B. $15,333

**C.** $15,120

D. $16,217

E. $14,667

Average daily float = $168,000/30 ×2.7 = $15,120

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used.*

*Section: 17.1 Float and Cash Management*

*Topic: Float costs and management*

101. Stinkey sells 2,250 units of its perfume collection each year at a price per unit of $199. All sales are on credit with terms of 2/7, net 30. The discount is taken by 91 percent of the customers. What is the average amount of the company's accounts receivable?

**A.** $11,126

B. $11,246

C. $11,003

D. $14,815

E. $14,778

Average collection period = (.91 × 7) + (.09 × 30) = 9.07 days

Accounts receivable = [(2,250× $199)/365] ×9.07 = $11,126

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

102. LD&M sells earnings forecasts for international securities. Its credit terms are 1/3, net 15. Based on experience, 84 percent of all customers take the discount. What is the average collection period?

A. 4.42 days

**B.** 4.92 days

C. 5.08 day

D. 4.57 days

E. 4.08 days

Average collection period = (.84 ×3) + (.16 × 15) = 4.92 days

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

103. Outdoors Woods has annual credit sales of $14.38 million. The average collection period is 12 days. What is the average investment in accounts receivable as shown on the balance sheet? Assume a 365-day year.

A. $446,000

B. $524,000

C. $408,888

**D.** $472,767

E. $393,134

Average accounts receivable = $14,380,000/365 ×12 = $472,767

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

104. A firm offers terms of 2/5, net 30. What effective annual interest rate does the firm earn when a customer does not take the discount?

A. 21.69 percent

B. 24.42 percent

C. 28.97 percent

D. 31.08 percent

**E.** 34.31 percent

EAR = ({1 +[.02/(1 -.02)]}365/(30 - 5))- 1 = .3431, or 34.31 percent

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Credit terms*

105. Westover’s has an average collection period of 31 days. Its average daily investment in accounts receivables is $51,068. What are its annual credit sales? Assume a 365-day year.

A. $527,272

**B.** $601,285

C. $614,414

D. $450,200

E. $419,737

Average collection period = ($51,068/31)(365) = $601,285

*AACSB: Analytical Thinking*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 1 Basic*

*Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies.*

*Section: 17.3 Credit and Receivables*

*Topic: Accounts receivable*

Chapter 17 Test Bank - Static Summary

|  |  |
| --- | --- |
| *Category* | *# of Questions* |
| AACSB: Analytical Thinking | 30 |
| AACSB: Ethics | 1 |
| Accessibility: Keyboard Navigation | 105 |
| Blooms: Analyze | 31 |
| Blooms: Remember | 35 |
| Blooms: Understand | 39 |
| Difficulty: 1 Basic | 104 |
| Difficulty: 2 Intermediate | 1 |
| Learning Objective: 17-01 Explain how firms manage their cash and identify some of the collection, concentration, and disbursement techniques used. | 50 |
| Learning Objective: 17-02 Analyze how firms manage their receivables and the basic components of a firms credit policies. | 41 |
| Learning Objective: 17-03 Differentiate between the types of inventory and inventory management systems used by firms and explain what determines the optimal inventory level. | 14 |
| Section: 17.1 Float and Cash Management | 31 |
| Section: 17.2 Cash Management: Collection, Disbursement, and Investment | 19 |
| Section: 17.3 Credit and Receivables | 41 |
| Section: 17.4 Inventory Management | 4 |
| Section: 17.5 Inventory Management Techniques | 10 |
| Topic: ABC inventory management | 1 |
| Topic: Accounts receivable | 6 |
| Topic: Cash collections management | 11 |
| Topic: Cash disbursements management | 6 |
| Topic: Cash management regulation and processes | 2 |
| Topic: Collection policy | 2 |
| Topic: Credit analysis | 3 |
| Topic: Credit instruments | 5 |
| Topic: Credit management | 1 |
| Topic: Credit policy | 1 |
| Topic: Credit policy analysis | 1 |
| Topic: Credit terms | 17 |
| Topic: Derived-demand inventory management | 2 |
| Topic: Economic order quantity (EOQ) model | 5 |
| Topic: Five C’s of credit | 2 |
| Topic: Float costs and management | 22 |
| Topic: Inventory costs | 1 |
| Topic: Inventory management | 4 |
| Topic: Inventory types | 1 |
| Topic: Money market securities | 5 |
| Topic: Optimal credit policy | 1 |
| Topic: Reasons to hold cash | 6 |