

Quiz 2

TA: Ed Section Time: 12:30

**Instructions:** There are 12 questions on the following pages. *Your final answers must be entered in the spaces provided on this cover page in order to be graded.*

10  
12

**Code of Conduct:** By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this quiz. Specific to this quiz, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the quiz.

Signature: Jack Corliss Date: 10/30/09  
*Your quiz will not be graded without signature above.*

1.	True	-
2.	D	-
3.	D	-
4.	C	X
5.	O	-
6.	C	-

7.	C	-
8.	A	-
9.	\$13,400	-
10.	6	-
11.	\$60	-
12.	\$280,000	X

1. *True or False?* When a company sells a \$100 service with a 20% trade discount, the company recognizes \$80 of revenue.

True

2. Gershwin Paint Company shipped the wrong shade of paint to a customer. The customer agreed to keep the paint upon being offered a 15% price reduction. Gershwin would record this reduction by crediting accounts receivable and debiting:

- 61  
5  
A. Sales.  
B. Sales discounts.  
C. Sales returns.  
D. Sales allowances.

3. Which of the following would not need to be accounted for in a bank reconciliation?

- A. Deposits outstanding recorded by the company but not the bank.  
B. Interest earned recorded by the bank but not the company.  
C. NSF checks recorded by the bank but not by the company.  
D. Checks written by the company and recorded by the bank.

4. Which of the following does not change net accounts receivable?

- A. Returned items that were purchased on credit.  
B. Collections from customer who purchased items on account.  
C. The recording of bad debt expense.  
D. Writing off a customer's account.

5. After preparing a bank reconciliation, the service fee charged by the bank would be recorded with:

- A. A credit to service charge expense.  
B. A debit to cash.  
C. A credit to service fee revenue.  
D. A debit to service charge expense.

X  
debit expense.

6. Under the direct write-off method, what journal entry is recorded at the time a customer's account is deemed uncollectible?

- A. Debit bad debt expense, credit the allowance for uncollectible accounts.
- ☒ B. Debit the allowance for uncollectible accounts, credit accounts receivable.
- ☐ C. Debit bad debt expense, credit accounts receivable.
- ☐ D. No journal entry is required.

*Bad Debt Expense  
Accounts Receivable*

7. The following information is about the cash balances for Mooner Sooner Corporation at the end of 2010:

Bank balance: \$8,000  
Checks outstanding: \$5,800  
~~Note collected~~ by the bank: \$1,500  
~~Service fee~~: \$20  
Deposits outstanding: \$4,000  
~~Interest on~~ savings account: \$100  
~~NSF check~~ (bad check) returned for \$300

*8000  
(5800)  
4000*

What is the correct cash balance for Mooner Sooner?

- A. \$10,200
- B. \$7,400
- ☒ C. \$6,200
- D. \$6,160

*8000  
(5800)  
4000*

8. At December 31, Gill Company reported gross accounts receivable of \$238,000 and an allowance for uncollectible accounts of \$600 (credit balance). An analysis of accounts receivable suggests that the allowance for uncollectible accounts should be 3% of outstanding accounts receivable. The amount of the adjusting entry to recognize bad debt expense for the period would be:

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

*Allowance*  
*600*  
*x 0.03 = 6540*  
*7140*

$$0.03 \cdot 238,000 = 7140$$

9. Gacho Company has the following balances on December 31, 2009, before any adjusting entries: Gross accounts receivable = \$80,000; allowance for uncollectible accounts = \$1,100 (debit balance). Gacho estimates uncollectible accounts based on an aging of accounts receivable as shown below.

Age Group	Amount Receivable	Estimated Percent Uncollectible	
Not yet due	\$48,000	5%	2400
0-30 days past due	18,000	15%	2700
31-90 days past due	10,000	40%	4000
More than 90 days past due	4,000	80%	3200
Total	<u>\$80,000</u>		<u>12380</u>

What is the amount that Gacho will record as bad debt expense on December 31, 2009?

$$\begin{array}{r}
 \text{Allowance} \\
 1100 \\
 \times \rightarrow 13400 \\
 \hline
 12300
 \end{array}$$

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

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

What is Sandburg's receivables turnover ratio?

$$\begin{array}{l}
 6 \\
 \text{or} \\
 2
 \end{array}
 \quad
 \begin{array}{r}
 120,000 \\
 \hline
 20,000
 \end{array}
 \quad
 \begin{array}{r}
 120,000 \\
 \hline
 20,000
 \end{array}$$

11. On February 1, 2010, Middle Corporation loans Outside Company \$1,000 cash for six months. The annual interest rate on the note is 12%. How much interest revenue will Middle report during 2010?

Feb  
March  
April  
May  
June  
July  
August  
Sept.  
Oct.  
Nov.  
Dec.

11 months.

6%

$$1000 \cdot 0.06 =$$

\$ 60

12. A company reports the following amounts at the end of the year: Total sales = \$400,000; cash = \$35,000; sales discounts = \$10,000; accounts receivable = \$20,000; sales returns = \$15,000; cost of goods sold = \$70,000; sales allowances = \$25,000. What does the company report as net sales?

Total Sales	400,000	
Sale Discounts	(10,000)	
Sales Returns	(15,000)	
Cogs	<u>(70,000)</u>	305,000
Sales Allowances:	<u>(25,000) ?</u>	
	\$ 280,000	
	70,000	
	<u>350,000</u>	