

6.5

1. Which of the following describes payment of interest and principal on a loan?

- ☒ A) Credit an asset, debit an expense, and debit a liability.
- B) Credit an asset, and debit a liability.
- ☒ C) Debit an asset and credit a liability.
- D) Debit an expense and credit a liability.
- E) Debit an asset, debit an expense, and debit a liability.

2. On July 10, the Seattle Sled Company made a \$40,000 credit sale under the terms 2/10, n/30. If Seattle Sled receives full payment of the account on July 18, the amount of cash received is:

- A) \$36,200.
- B) \$36,800.
- ☒ C) \$39,200.
- D) \$39,770.

$$40,000 \times 2\% = 800$$

$$40,000 - 800 = 39,200$$

3. The face amount of accounts receivable for Harrison Company is \$30,000. It was estimated that 8% of the accounts will not be collected, cash discounts of \$700 will be exercised, and \$450 of sales returns will be experienced. The net realizable value of accounts receivable is:

- A) \$28,000
- ☒ B) \$26,450
- C) \$23,000
- D) \$30,000

$$FV = 30,000$$

$$NRV = FV - \text{Adjustments}$$

$$= 30,000 - 2400 - 700 - 450$$

$$NRV = 26,450$$

4. Under the allowance method of accounting for bad debts, the recognition of bad debts expense:

- A) decreases current assets and increases net income.
- ☒ B) decreases current assets and net income.
- C) increases current assets and net income.
- D) increases current assets and decreases net income.

$$\text{Bad Debt Expense (-SE)}$$

$$\text{Allowance (-A)}$$

5. Toboggan Toys received an order from a customer on March 1. The toys were shipped on March 18. The customer sent a check for full payment on April 10. Toboggan received the check on April 12th and deposited it in the bank account. Toboggan should record the sales revenue related to this series of transactions on:

- ☒ A) March 1.
☒ B) March 18.
☐ C) April 10.
☐ D) April 12.

6. A company had the following partial list of account balances at year-end.

Sales Returns and Allowances	\$500
Accounts Receivable	9,000
Sales Discounts	700
Sales Revenues	57,200
Allowance for doubtful accounts	300

The amount of Net Sales shown on the income statement would be:

- ☐ A) \$57,200.
☐ B) \$64,000.
☐ C) \$56,000.
☒ D) \$55,700.

Rev - 300

$$57,200 - 300 - 700 - 500 = 55,700$$

7. Name two accounts and their contra accounts.

2) Notes payable / cash

1) Allowance for doubtful accounts / Accounts Rec.

8. Snowshoes, Inc. buys a building on June 1, 2000 for \$505,000, which it pays with a bank loan. The building is estimated to be useful for 10 years and will have a salvage value of \$5,000 at the end of that time. The company will use straight line depreciation.

a) How much will be in the accumulated depreciation at the end of the fiscal year of June 30, 2002? $505,000 / 10 = 50,500 \times 2 = 101,000$

$$\frac{505,000 - 5,000}{10} = 50,000 \times 2 = 100,000$$

On July 1, 2002 the company sells the building for \$350,000.

b) What is the book value of the building?

$$505,000 - 101,000 = 404,000$$

$$50,000 \times \frac{1}{2}$$

$$104,166.67$$

c) The building is being sold at how much of a gain or loss?

$$404,000 - 350,000 = 54,000 \text{ gain}$$