ACCOUNTING 202

CHAPTER 9

TRUE-FALSE STATEMENTS

1. Trade receivables occur when two companies trade or exchange notes receivables.

2. Other receivables include nontrade receivables such as loans to company officers.

3. Both accounts receivable and notes receivable represent claims that are expected to be collected in cash.

4. Receivables are valued and reported in the balance sheet at their gross amount less any sales returns and allowances and less any cash discounts.

5. The three primary accounting problems with accounts receivable are: (1) recognizing, (2) depreciating, and (3) disposing

Multiple Choice Questions

6. Which of the following receivables would *not* be classified as an "other receivable"?
   a. Advance to an employee
   b. Refundable income tax
   c. Notes receivable
   d. Interest receivable

7. Notes or accounts receivables that result from sales transactions are often called
   a. sales receivables.
   b. non-trade receivables.
   c. trade receivables.
   d. merchandise receivables.

8. The term "receivables" refers to
   a. amounts due from individuals or companies.
   b. merchandise to be collected from individuals or companies.
   c. cash to be paid to creditors.
   d. cash to be paid to debtors.

9. An aging of a company's accounts receivable indicates that $8,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a $1,100 credit balance, the adjustment to record bad debts for the period will require a
   a. debit to Bad Debts Expense for $8,000.
   b. debit to Allowance for Doubtful Accounts for $6,900.
   c. debit to Bad Debts Expense for $6,900.
   d. credit to Allowance for Doubtful Accounts for $8,000.

10. A reasonable amount of uncollectible accounts is evidence
    a. that the credit policy is too strict.
    b. that the credit policy is too lenient.
    c. of a sound credit policy.
    d. of poor judgments on the part of the credit manager.

11. The best managed companies will have
    a. no uncollectible accounts.
    b. a very strict credit policy.
    c. a very lenient credit policy.
    d. some accounts that will prove to be uncollectible

12. When an account is written off using the allowance method, accounts receivable
    a. is unchanged and the allowance account increases.
    b. increases and the allowance account increases.
    c. decreases and the allowance account decreases.
    d. decreases and the allowance account increases.

13. King Company uses the percentage of sales method for recording bad debts expense. For the year, cash sales are $500,000 and credit sales are $2,000,000. Management estimates that 2% is the sales percentage to use. What adjusting entry will King Company make to record the bad debts expense?

a.	Bad Debts Expense	50,000	
	Allowance for Doubtful Accounts		50,000
b.	Bad Debts Expense	40,000	
	Allowance for Doubtful Accounts		40,000
c.	Bad Debts Expense	40,000	
	Accounts Receivable		40,000
d.	Bad Debts Expense	50,000	
	Accounts Receivable		50,000

ANSWERS

True and False
1. F 2. T 3. T 4. F 5. F

Multiple Choice
6. C 7. C 8. A 9. C 10.C 11. D 12. B 13. B