**ACCT 201 Pre-Quiz #3 (Ch. 5 and 6) - Professor Farina**

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

**CHAPTER FIVE**

**True / False Questions: Circle True or False.**

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| 1. | Companies recognize revenue when goods or services are transferred to customers for the amount the company expects to be entitled to receive in exchange for those goods or services.  True    False |

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| 2. | "Determine whether it is probable the seller will collect the consideration it is entitled to receive" is one of the five steps to applying the core revenue recognition principle.  True    False |

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| 3. | A transfer of goods or services is complete when the customer has control over the goods or services.  True    False |

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| 4. | Revenue always is recognized once the buyer has physical possession of goods.  True    False |

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| 5. | A common output method used to measure progress towards completion is to compare cost incurred to date to total costs estimated to complete the job.  True    False |

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| 6. | Revenue should be recognized over time for the construction of an annex to a building that the customer owns, even if the seller will not receive payment until the annex is completed.  True    False |

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| 7. | The transaction price should be allocated to the contract's performance obligations in proportion to the stand-alone selling prices of the performance obligations.  True    False |

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| 8. | Goods and services are distinct if they are either *capable* *of* *being* *distinct* or are *separately* *identifiable*.  True    False |

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| 9. | A contract between a seller and a buyer need not be in writing to be enforceable.  True    False |

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| 10. | The probability that the customer will pay the seller does not affect whether a contract exists for purposes of revenue recognition.  True    False |

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| 11. | If an option to purchase an extended warranty at a special discount is included with a product when the product is purchased, a portion of the contract price needs to be allocated to the option.  True    False |

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| 12. | A fee for recording a new customer in the seller's information system should be treated as a separate performance obligation and should be recognized upon payment.  True    False |

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| 13. | Sellers recognize revenue for gift cards at the point in time control of the gift card is transferred to the customer.  True    False |

14. When the right of return exists, revenue can be recognized at the point of sale if the seller can make reliable estimates of future returns.
True    False

 15. Under the percentage-of-completion method, the percent complete is often estimated by comparing the cost incurred to date with the total estimated cost to complete.
True    False

16. Under the completed contract method, gross profit or loss is never recognized until the contract is completed.
True    False

  **Multiple Choice Questions: Circle the letter of the best answer.**

17. Merchandise sold FOB destination indicates that:
A. The seller holds title until the merchandise is received at the buyer's location.
B. The buyer is responsible for delivery of the merchandise to the destination.
C. The full order is back ordered to its destination.
D. The buyer pays the freight to the destination.

18. For a typical manufacturing company, the most common critical point for recognizing revenue is the date:
A. An order is received.
B. Production is completed.
C. The product is delivered.
D. Payment is received.

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| 19. | Which of the following is **not** an indicator that the customer is likely to have control over a good?

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| A.  | The asset is warehoused by seller-affiliated third party |

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| B.  | The customer has accepted the asset |

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| C.  | The customer has legal title to the asset |

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| D.  | The customer has physical possession of the asset |

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| 20. | On June 1st, Lucy & Bros received an order for 500 cupcakes. Lucy delivered the cupcakes to the client on June 25th. A $50 deposit was received on June 5th and the remaining $450 was paid on June 30th. Lucy likely would recognize revenue on

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| A.  | June 1st  |

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| B.  | June 5th  |

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| C.  | June 25th  |

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| D.  | June 30th  |

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| 21. | Binz Company provides cleaning services and sells garbage bins to office clients. On June 1st, Binz delivered 100 garbage bins to a client, and also entered into a 5-year contract for Binz to provide cleaning services to that client. Which of the following is most likely to be true?

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| A.  | Revenue for the garbage bins and the cleaning services must be recognized on June 1st. |

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| B.  | Revenue for the garbage bins is recognized on June 1st and no revenue will be recognized for the cleaning services until the end of the 5th year. |

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| C.  | Revenue for the garbage bins is recognized on June 1st and revenue for the cleaning service is recognized over the 5 years as those services are performed. |

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| D.  | Binz Company should not recognize any revenue until the end of the 5th year. |

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22. Boomerang Computer Company sells computers with an unconditional right to return the computer if the customer is not satisfied. Boomerang has a long history selling these computers under this returns policy, and can provide precise estimates of the amount of returns associated with each sale. Boomerang most likely should recognize revenue:
A. When Boomerang delivers a computer to a customer.
B. When Boomerang receives cash from the customer.
C. When a customer returns a computer.
D. Never, because the right of return is unconditional.

23. Minarski Electronics sells computers and provides hardware maintenance services. On April 1st, Minarski sold a package deal containing a computer and a one-year unlimited maintenance/repair service for the computer at a bundle price of $1,000. If sold separately, the computer costs $840 and the one-year unlimited maintenance/repair service costs $360. How much revenue does Minarski Electronics recognize for the month ended April 30th, assuming that revenue is accrued monthly?

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| A.  | $1,000 |
| B.  | $870 |
| C.  | $725 |
| D.  | $30 |

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|  24. | Which of the following is **not** a performance obligation?

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| A.  | A good that the seller could sell separately and that is separately identifiable from other goods and services in the contract. |

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| B.  | A right of return. |

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| C.  | An option for a customer to purchase goods under terms that are more advantageous than those enjoyed by other customers. |

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| D.  | An extended warranty. |
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| 25. | Which of the following is an example of a variable consideration?

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| A.  | John is expected to receive $100 for his tutoring services provided that he keeps track of his hours. |

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| B.  | Melody's Piano will get paid for the 50 pianos sold provided that the pianos are non-defective after the customer takes control. |

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| C.  | Cantankerous Computers gets paid a base amount for every repair plus an additional hourly fee of $10. |

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| D.  | Excellent Electronics has a 10% mail-in rebate program for the Model X-001 speaker system. The company sold $10,000 worth of systems and believes there is a 50% chance that rebates will be redeemed. |

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For #26 and #27:  Arizona Desert Homes (ADH) constructed a new subdivision during 2008 and 2009 under contract with Cactus Development Co. Relevant data are summarized below:

 

ADH uses the percentage-of-completion method to recognize revenue.

 26. What would be the journal entry made in 2008 to record revenue?
A. 

B. 

C. 

D. 

27. What would be the journal entry to record revenue in 2009?
A. 

B. 

C. 

D. 

For #28, 29 and 30: Indiana Co. began a construction project in 2009 that will provide it $150 million when it is completed in 2011. During 2009, Indiana incurred $36 million of costs and estimates an additional $84 million of costs to complete the project.

28. Using the percentage-of-completion method, Indiana:
A. Recognized no gross profit or loss on the project in 2009.
B. Recognized $6 million loss on the project in 2009.
C. Recognized $9 gross profit on the project in 2009.
D. Recognized $36 million loss on the project in 2009.

29. In 2010, Indiana incurred costs of $58.5 million and estimated an additional $40.5 million in costs to complete the project. Using the percentage-of-completion method, Indiana:
A. Recognized $15 million gross profit on the project in 2010.
B. Recognized $13.5 million gross profit on the project in 2010.
C. Recognized $6 million gross profit on the project in 2010.
D. Recognized $1.5 million gross profit on the project in 2010.

30. Suppose that, in 2010, Indiana incurred costs of $63.75 million and estimated an additional $42.75 million in costs to complete the project. Using the percentage-of-completion method, Indiana:
A. Recognized $3.75 million loss on the project in 2010.
B. Recognized $5.25 million gross profit on the project in 2010.
C. Recognized $7.5 million gross profit on the project in 2010.
D. None of these is correct.

Summary data for Benedict Construction Co.'s (BCC) Job 1227, which was completed in 2009, are presented below:

 

31.  Assuming BCC used the completed contract method to recognize revenue, what would gross profit have been in 2008 and 2009 (rounded to the nearest thousand)?

             
A.  
B.  
C.  
D.  

**CHAPTER SIX**

 **True / False Questions: Circle True or False.**

32.  Compound interest includes interest earned on interest.
True    False

33. When interest is compounded, the stated rate of interest exceeds the effective rate of interest.
True    False

34. The calculation of present value eliminates interest from future cash flows.
True    False

35. In the future value of an ordinary annuity, the last cash payment will not earn any interest.
True    False

36. With an annuity due, a payment is made or received on the date the agreement begins.
True    False

37. An annuity is a series of equal periodic payments.
True    False

 **Multiple Choice Questions: Circle the letter of the best answer.**

38. Today Thomas deposited $100,000 in a three-year, 12% CD that compounds quarterly. What is the maturity value of the CD?
A. $109,270.
B. $119,410.
C. $142,576.
D. $309,090.

39. Carol wants to invest money in a 6% CD account that compounds semiannually. Carol would like the account to have a balance of $50,000 five years from now. How much must Carol deposit to accomplish her goal?
A. $35,069.
B. $43,131.
C. $37,205.
D. $35,000.

40. Monica wants to sell her share of an investment to Barney for $50,000 in three years. If money is worth 6% compounded semiannually, what would Monica accept today?
A. $ 8,375.
B. $41,874.
C. $11,941.
D. $41,000.

41. At the end of the next four years, a new machine is expected to generate net cash flows of $8,000, $12,000, $10,000, and $15,000, respectively. What are the cash flows worth today if a 3% interest rate properly reflects the time value of money in this situation?
A. $41,556.
B. $47,700.
C. $32,400.
D. $38,100.

42. At the end of each quarter, Patti deposits $500 into an account that pays 12% interest compounded quarterly. How much will Patti have in the account in three years?
A. $7,096.
B. $7,013.
C. $7,129.
D. $8,880.

43. Shelley wants to cash in her winning lottery ticket. She can either receive ten, $100,000 semiannual payments starting today, or she can receive a lump-sum payment now based on a 6% annual interest rate. What is the equivalent lump-sum payment?
A. $853,020.
B. $801,971.
C. $744,090.
D. $878,611.

44. Rosie's Florist borrows $300,000 to be paid off in six years. The loan payments are semiannual with the first payment due in six months, and interest is at 6%. What is the amount of each payment?
A. $25,750.
B. $29,761.
C. $30,139.
D. $25,500.

45. Debbie has $368,882 accumulated in a 401K plan. The fund is earning a low, but safe, 3% a year. The withdrawals will take place annually starting today. How soon will the fund be exhausted if Debbie withdraws $30,000 each year?
A. 15 years.
B. 16 years.
C. 14 years.
D. 12.3 years.

 46. Spielberg Inc. signed a $200,000 noninterest-bearing note due in five years from a production company eager to do business. Comparable borrowings have carried an 11% interest rate. At what amount should this debt be valued at its inception?
A. $200,000.
B. $178,000.
C. $118,690.
D. $222,000.

**SHORT PROBLEMS:**

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| 47. Clarks Inc., a shoe retailer, sells boots in different styles. In early November the company starts selling “SunBoots” to customers for $70 per pair. When a customer purchases a pair of SunBoots, Clarks also gives the customer a 20% discount coupon for any additional future purchases made in the next 30 days. Customers can’t obtain the discount coupon otherwise. Clarks anticipates that approximately 10% of customers will utilize the coupon, and that on average those customers will purchase additional goods that normally sell for $150. |
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| **Required:** |

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| **1.** | How many performance obligations are in a contract to buy a pair of SunBoots?

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| **2.** | Prepare a journal entry to record revenue for the sale of 1,300 pairs of SunBoots, assuming that Clarks uses the residual method to estimate the stand-alone selling price of SunBoots sold without the discount coupon |

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| 48. Assume Nortel Networks contracted to provide a customer with Internet infrastructure for $2,350,000. The project began in 2016 and was completed in 2017. Data relating to the contract are summarized below: |

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|   |   | 2016 |   |   | 2017 |   |
|   Costs incurred during the year | $ | 328,000 |   | $ | 1,830,000 |   |
|   Estimated costs to complete as of 12/31 |   | 1,312,000 |   |   | 0 |   |
|   Billings during the year |   | 436,000 |   |   | 1,690,000 |   |
|   Cash collections during the year |   | 264,000 |   |   | 1,785,000 |   |
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|  **Required:** |
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| **1.** | Compute the amount of revenue and gross profit or loss to be recognized in 2016 and 2017 assuming Nortel recognizes revenue over time according to percentage of completion.  |
| **2.** | Compute the amount of revenue and gross profit or loss to be recognized in 2016 and 2017 assuming this project does not qualify for revenue recognition over time. |

49. Esquire Company needs to acquire a molding machine to be used in its manufacturing process. Two types of machines that would be appropriate are presently on the market. The company has determined the following:

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| Machine A could be purchased for $21,000. It will last 10 years with annual maintenance costs of $700 per year. After 10 years the machine can be sold for $2,205. |
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| Machine B could be purchased for $17,500. It also will last 10 years and will require maintenance costs of $2,800 in year three, $3,500 in year six, and $4,200 in year eight. After 10 years, the machine will have no salvage value. |
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| **Required:** |
| 1. Calculate the present value of both Machine A and Machine B. Assume an interest rate of 8% properly reflects the time value of money in this situation and that maintenance costs are paid at the end of each year. Ignore income tax considerations.
2. Which machine should be purchased?
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