Question 1 - 10 points (18 minutes)

1. In a credit sale with a cash discount, say which of the following

statements is true: (1 point)

a) The <Customers> account is debited with the net amount of the sale.

b) The <Sales> account is credited with the gross amount of the sale.

c) The discount is recorded in a liability account <Deferred income> pending cancellation at the time of collection.

d) Whatever the date of payment by the customer, the discount decreases the amount received.

**e) None of the above**.

2. The amortized cost of a note receivable corresponds to: (1 point)

(a) the carrying amount of the ticket;

b) the face value of the ticket;

c) **the book value plus interest income;**

(d) the carrying amount of the note net of expected credit losses;

e) none of the above.

3. Here is information taken from the books of Monarque inc. for the year ended December 31, 20X8: (2 points)

Customers on January 1, 20X8, gross amount $ 190,000

Provision for customer value adjustments at January 1, 20X8 10,000

Customers at December 31, 20X8, net balance 180,800

Expected credit losses - customers (debit balance) 5,500

All the adjustments have been made. What amount is the Monarque inc. on December 31, 20X8?

(a) $ 15,500;

**b) $ 5,500;**

c) $ 10,000;

d) $ 9,200;

e) none of the above.

You have the following data for sub-questions 4 and 5:

Sales, total $ 200,000

Customers on January 1, 20X1, gross amount 35,000

Customers at December 31, 20X1, gross amount 40,000

Provision for customer value adjustments at January 1, 20X1 (credit) 4,000

Provision for customer value adjustments at December 31, 20X1 (credit) 3,700

Cash sales 120,000

During the year, A Ltd. collected $ 2,000 in accounts receivable derecognized in the past; account <Cash> was debited for $ 2,000 and account <Provision> was credited for a customer value adjustment of $ 2,000. All adjustment postings have already been made.

4. What will be the amount appearing in A's income statement regarding the <Expected credit losses-customers> account? Explain your answer. (3 points)

a) $ 300 debit balance;

b) $ 1,700 credit balance;

c**) $ 2,300 credit balance;**

d) $ 2,300 debit balance;

e) none of the above.

**The difference between the provisions for customer value adjustments when the year ends and when the year starts is 4000-3700=300. This value summed up with the new created provision of 2000 makes the customer adjustments 2300 credit**

5. Credit sales for fiscal year 20X1 amounted to: (1 point)

(a) $ 40,000;

b) $ 85,000;

c) $ 5,000;

**d) $ 80,000;**

e) none of the above.

6. In times of falling prices, the first in, first out method of determining the cost of inventory will result in: (1 point)

a) **Show ending inventories and a higher cost of goods sold than if the average cost method had been used**.

b) Show ending inventories and a lower gross profit than if the average cost method had been used.

c) Show ending inventory and a lower cost of goods sold than if the average cost method had been used.

d) Show ending inventory and a higher gross profit than if the average cost method had been used.

e) None of the above.