1. C

Send money to creditors. Accounts payable are all the monies a business owes to others, such as creditors. Businesses often buy goods or supplies from vendors on credit and pay the invoices at a later date. When they receive the invoices, businesses process accounts payable checks to send money to the creditors to pay for the goods or supplies they purchased. Businesses process expense checks to reimburse employees for travel expenses. Accounts payable checks are not processed to buy long-term investments or donate to community activities.

SOURCE: FI:680 *(FI:117)*

SOURCE: Tuovila, A. (2021, February 24). *Accounts Payable*. Retrieved June 29, 2021, from https://www.investopedia.com/terms/a/accountspayable.asp

2. B

Due date. Accounts payable are monies a business owes to others such as suppliers that send invoices for purchases. Invoices usually indicate the terms of payment which include due dates. When processing accounts payable checks, businesses often schedule payment based on the invoice due date. For example, if the terms are 2/15, n/30, the due date is 30 days after the date of invoicing. However, a business might schedule payment before that date to take advantage of the discount, which is available if the invoice is paid within 15 days. Businesses do not schedule payment based on an invoice order number, return policy, or vendor name.

SOURCE: FI:680 *(FI:117)*

SOURCE: Wood, M. (2020, September 1). *Accounts payable: Everything you need to know to streamline your business's payments.* Retrieved June 29, 2021, from https://www.fundera.com/blog/accounts-payable

3. D

To have cash available. Businesses need to be able to pay invoices when they are due. One way to do this is to prepare an accounts payable schedule so businesses can plan payments to coincide with available cash. Also, businesses often schedule payments throughout the month so a lot of cash is not needed all at one time. Businesses do not prepare accounts payable schedules to organize the bookkeeping function, calculate long-term profit, or estimate a sales budget.

SOURCE: FI:633 *(FI:119)*

SOURCE: Averkamp, H. (2021). *Accounts Payable.* Retrieved June 29, 2021, from https://www.accountingcoach.com/accounts-payable/explanation/2

4. D

Goods and services that are most important for continued operations. When a business does not have enough cash to pay all of its vendors, it must prioritize its bills and determine which invoices to pay first. When prioritizing, the business needs to consider goods and services that are essential to keep it operating. For example, if a manufacturer relies on electricity to run its production equipment, it should pay or partially pay its electric bills promptly so that production activities can continue. The quality of goods, level of service, bulk discounts, and special purchases are not necessarily the most important considerations for continued operations.

SOURCE: FI:633 *(FI:409)*

SOURCE: Enright, M. (2020, July 22). *Managing cash outflows to maximize your financial position.* Retrieved June 29, 2021, from https://www.wolterskluwer.com/en/expert-insights/managing-cash-outflows-to-maximize-your-financial-position

5. C

The business uses a credit account to acquire goods and services. A business uses a purchase journal to record the goods and services that it buys on account. This is an important step in the accounts-payable cycle because it helps the business track the monies that it owes its vendors. A business's cash purchases are recorded in the business's cash book or journal. Businesses record information about customer transactions in sales cash-receipts journals.

SOURCE: FI:680 *(FI:411)*

SOURCE: Accounting Coach (n.d.). *What is a special journal.* Retrieved June 29, 2021, from https://www.accountingcoach.com/blog/what-is-a-special-journal

6. D

Price variance. A variance is the difference between an estimate and the actual result. Businesses analyze different types of situations (e.g., purchase transactions) to identify variances, which may indicate problems or concerns for their operations. For example, businesses typically confirm prices with their vendors when placing orders for supplies; however, vendors may increase prices without notifying their customers. By conducting a price-variance analysis on its purchases, a business can detect price discrepancies. After identifying specific price discrepancies, the business can take steps to negotiate lower prices with the existing vendor or locate similar items at lower prices from other vendors. A sales variance is a difference between the business's budgeted and actual sales. A revenue discrepancy is a difference in reported income. An inventory discrepancy is a variance between the reported number and the actual number of goods that a business has on hand.

SOURCE: FI:679 *(FI:411)*

SOURCE: Tarver, E. (2021, May 26). *What is price variance in cost accounting?* Retrieved June 29, 2021, from https://www.investopedia.com/ask/answers/052215/what-price-variance-cost-accounting.asp

7. C

Impacts the business's credit and cash flow. Businesses must ensure they compile accurate financial statements in the most efficient and effective manner possible. The success of their accounts payable process impacts the business's credit and cash flow. Properly accounting for purchases enables companies to manage their cash position. Dealing with purchases is the responsibility of the accounts payable department. Accounting for purchases does not decrease the need for purchase orders, nor does it affect the number of necessary personnel.

SOURCE: FI:679

SOURCE: Averkamp, H. (2021). *Accounts payable process*. Retrieved June 25, 2021, from https://compdb.mbaresearch.org/index.php/indicator/2550

8. D

Purchase requisitions. Businesses use this document to request the purchase of goods or services for the company. This document starts the purchasing process, although not all businesses use purchase requisitions. Some businesses only use these documents for purchases that exceed a certain dollar amount. These documents are mainly used to ask permission, and they are not legally binding. Purchase orders outline the precise details of an actual purchase from a vendor. Invoices itemize the transaction between buyer and seller. Vouchers serve as a cover sheet for the compiled purchase order, receiving report, vendor's invoice, and other paperwork.

SOURCE: FI:679

SOURCE: Hao, D. (2018, January 30). *What is a purchase requisition and why it is important for your business*. Retrieved June 25, 2021, from https://blog.procurify.com/2018/01/30/purchase-requisition-important-business/

9. C

Archive the inactive vendor accounts in the business's computer system. Inactive vendor accounts contain information about vendors that the business no longer uses. Fraud can occur on inactive vendor accounts. For example, an employee may approve payment of a nonexistent invoice on an inactive vendor account and direct the funds to an unauthorized personal account. To reduce risks associated with this type of fraud, businesses should review their vendor accounts on a periodic basis (every 12-24 months), and archive inactive accounts. This usually involves coding or storing the account information so it is not easily accessible in the business's computer system. Businesses update the contact information for active rather than inactive vendor accounts. Archiving vendor accounts should not occur on a daily or weekly basis because businesses do not order goods from some of their vendors on such a frequent basis.

SOURCE: FI:680 *(FI:632)*

SOURCE: L'Heureux, N. (2017, December 20). *Four keys to reduce vendor fraud risk.* Retrieved June 29, 2021, from https://www.oversight.com/blog/four-keys-reduce-vendor-fraud-risk

10. A

May have less cash available to pay its debts. The accounts turnover rate is a measure that indicates how well a company is able to pay its debts. If a company turns over it accounts payable quickly, it probably has enough money to pay its bills on time. On the other hand, if the accounts payable turnover rate decreases, the company is not paying its bills as quickly as usual, which may indicate that the business is experiencing a cash shortage. In many situations, the cash shortage is temporary and may be due to customers delaying payments they owe the company. There is not enough information to determine if the company has enough cash to pay its bills for the next six months, if it needs to obtain a long-term loan to cover expenses, or if it manages its cash inefficiently.

SOURCE: FI:633

SOURCE: AccountingTools. (2021, April 15). *Accounts payable turnover ratio.* Retrieved June 29, 2021, from https://www.accountingtools.com/articles/2017/5/5/accounts-payable-turnover-ratio

11. A

37 days. The accounts payable turnover rate is a measure that indicates the how well a company is able to pay its debts. If a company turns over its accounts payable quickly, it probably has enough money to pay its bills on time. On the other hand, if the accounts payable turnover rate decreases, the company is not paying its bills as quickly as usual, which may indicate that the business is experiencing a cash shortage. To determine the average number of days that payables are outstanding, first determine the accounts payable turnover rate by dividing the annual purchases in dollars by the average accounts payable ($225,000/$22,500 = 10). Then, divide the number of days in a year by the accounts payable turnover rate to obtain the average number of days that the business's payables are outstanding (365/10 = 36.5 or 37 days).

SOURCE: FI:633

SOURCE: AccountingTools. (2021, April 15). *Accounts payable turnover ratio.* Retrieved June 29, 2021, from https://www.accountingtools.com/articles/2017/5/5/accounts-payable-turnover-ratio

12. D

Decreases. Accounts receivable are the monies owed to the business by its customers. When customers pay their bills on time, the business has more cash and the amount of money that customers owe the business—the accounts receivable—decreases. If customers do not pay their bills, the balance that customers owe the business increases. It is typical for a business's accounts-receivable balance to fluctuate; therefore, the accounts-receivable balance does not stabilize or remain the same.

SOURCE: FI:682 *(FI:424)*

SOURCE: Kokemuller, N. (n.d.). *Accounts receivable basics.* Retrieved June 29, 2021, from http://smallbusiness.chron.com/accounts-receivable-basics-55749.html

13. B

A funeral home's payment to the floral company for flowers purchased on credit. When a company receives payment for items purchased on credit, those payments are recorded as entries in the accounts receivable ledger. A floral company that makes a payment to a creditor would record the payment as an entry in its accounts payable ledger because it has made a payment to a creditor. A floral company purchase of roses on credit would be an entry in an accounts payable ledger because it is an amount the company must pay. A one-time floral company purchase of decorative wire accents made with cash would be recorded as an entry in a cash payments journal.

SOURCE: FI:682 *(FI:424)*

SOURCE: Gilbertson, C.B., & Lehman, M.W. (2019). *Century 21 accounting* (11th ed.) [Chapter 10]. Mason, OH: South-Western Cengage Learning.

14. D

Encourage customers to pay bills on time. Companies can employ several techniques to encourage customers to pay on time. Businesses should enforce well-defined credit guidelines, even if that means losing some customers in the interim, and they can establish interest payments for late payments. Businesses can offer discounts for early payments, which often helps them get paid more quickly and reduces customer costs. Companies should send regular reminders, often via email, to help customers pay on time. The aforementioned techniques do not affect company recruitment, reputation, or sales.

SOURCE: FI:682

SOURCE: Threesixtymarketing. (2020, June 17). *How to encourage your customers to pay on time*. Retrieved June 25, 2021, from https://www.360payments.com/how-to-encourage-your-customers-to-pay-on-time/

15. A

Payment for products and/or services sold occurs immediately. Companies issue sales receipts when the payment for products and/or services sold occurs as a single transaction. Sales receipts are typically used when the company receives payment immediately, while invoices are used when the company receives payment later. Because there isn't additional money owed after the transaction, there isn't a need for further negotiation or information about late payment fees.

SOURCE: FI:682

SOURCE: Truex, L. (2019, October 14). *Using invoices vs. receipts for your home business*. Retrieved June 25, 2021, from https://www.thebalancesmb.com/using-invoices-vs-receipts-for-your-home-business-4169957

16. B

Sales. A sales journal is an accounting record used to record the business's credit sales or sales on account. The sales journal includes information such as the date of sale, customer's name, sales number, dollar amount of the sale, and sales tax payable. The business then records this information in its general ledger. A business uses a general journal to record transactions that do not relate to other special journals. A cash-receipts journal details the business's cash transactions. Businesses use a cash-payments journal to record the payments to vendors that they have processed.

SOURCE: FI:683 *(FI:426)*

SOURCE: AccountingTools. (2021, February 21.) *Sales journal definition.* Retrieved June 29, 2021, from https://www.accountingtools.com/articles/2017/5/16/sales-journal

17. B

Debit. The accounting function records its sales transactions in the sales journal. Because the customer has taken possession of the goods but has not paid for them, the bookkeeper records the $500 as a debit to the company's accounts receivable. When the business receives the $500 payment from the customer, the bookkeeper then credits the amount to the company's accounts receivable. The bookkeeper does not record the sales transaction as a net loss or net gain in the company's sales journal.

SOURCE: FI:683 *(FI:426)*

SOURCE: Leonard, K. (2019, March 1). *How to record a journal entry for a sale on an account.* Retrieved June 29, 2021, from http://smallbusiness.chron.com/record-journal-entry-sale-account-40870.html

18. D

Allowance method. The preferred method for accounting for uncollectible or bad debt expense is the allowance method of accounting for bad debt. To calculate the bad debt or uncollectible receivables, you should use a percentage of the accounting period's sales. The allowance for uncollectible or bad debt expense should be based on past experience according to U.S. GAAP. A periodic inventory system records the inventory transactions at the end of every accounting period. A perpetual inventory system records the inventory transactions after every purchase or sale of goods. The average method calculates inventory costs using the average cost of the products in inventory at the end of the accounting period.

SOURCE: FI:683 *(FI:429)*

SOURCE: Corporate Finance Institute. (n.d.) *What is bad debt expense?* Retrieved June 29, 2021, from https://corporatefinanceinstitute.com/resources/knowledge/accounting/bad-debt-expense/

19. C

Focus on collection activities. Accounts receivable are the monies others owe the business. A low accounts-receivable turnover rate indicates that it takes longer to collect the money that others, primarily customers, owe the business. When it takes longer to receive customer payments, there is less cash flowing into the business, which can negatively affect daily operations. One way a business can increase the accounts-receivable turnover rate is by focusing on collection activities, which involves actively following up on delinquent accounts to obtain payment. Liberal credit policies tend to have a negative effect on the accounts-receivable turnover rate. Maintaining minimal inventory levels will not improve the accounts-receivable turnover rate and is likely to lead to stock outs and backorders. A sales report is a summary of the business's sales activities for a certain period and will not help the business improve its accounts-receivable turnover rate.

SOURCE: FI:637

SOURCE: Accounting Tools. (2021, April 10). *Accounts receivable turnover ratio definition.* Retrieved June 29, 2021, from http://www.accountingtools.com/accounts-receivable-turnover

20. B

No. The estimated dollar amount was $5,600. Businesses estimate that a certain amount of its annual accounts receivable will be uncollectible. This estimate is important because it affects a business's tax deductions and must be included in its financial statements. The percentage amount that the business estimates is often based on previous write-offs and industry averages. To calculate the business's estimated amount of uncollectible accounts in dollars, multiply the total dollar amount of the accounts receivable at the end of the accounting period by the estimated uncollectible percentage rate ($140,000 X 4% or .04 = $5,600). The actual uncollectible amount was $5,225, which is less than the estimated amount of $5,600.

SOURCE: FI:637

SOURCE: Accounting Coach.(n.d.) *How do you estimate the amount of uncollectible accounts receivable.* Retrieved June 29, 2021, from https://www.accountingcoach.com/blog/uncollectible-accounts-receivable

21. A

Time. The difference between long-term liabilities and current liabilities is best characterized as a difference in time, because long-term liabilities are debts that are owed for more than one year, while current liabilities are debts owed for less than a year. Long-term liabilities include equipment or buildings. Current liabilities include those taken on in the regular operation of business. Scope, quality, and quantity of debt do not affect whether a debt is defined as a long-term or current liability.

SOURCE: FI:692

SOURCE: Leonard, K. (2018, August 29). Current vs. long-term liabilities. Retrieved June 25, 2021, from https://smallbusiness.chron.com/current-vs-longterm-liabilities-51157.html

22. B

Balance sheet. The balance sheet is a financial statement that captures the financial condition of a business at the particular moment. It illustrates how much money a business has, how much it owes, and how much belongs to owners or stockholders. The income statement is a financial summary that shows how much money the business has made or lost over a period of time. The statement of work is a dynamic document used in project management as the foundation of a project. The audit report is a document that describes the accuracy and appropriateness of a business's information, processes, and/or systems.

SOURCE: FI:692

SOURCE: Schmidt, M. (2021, May 29). Reviewing liabilities on the balance sheet. Retrieved June 25, 2021, from https://www.investopedia.com/articles/investing/100313/reviewing-liabilities-balance-sheet.asp

23. C

Credit limits. Controlling accounts receivable is an important function because businesses need to collect from customers to have cash to pay expenses and continue to operate. One way to control accounts receivable is by establishing credit limits for each customer, and monitoring the accounts to make sure customers pay promptly and do not exceed the limit. For example, if a customer's credit limit is $5,000 and the customer has reached that limit, a business might not approve additional sales until the customer makes a payment. This encourages customers to stay current so they can continue to buy. Establishing invoicing systems, sales budgets, and return policies are not ways of controlling accounts receivable.

SOURCE: FI:637 *(FI:130)*

SOURCE: AccountingTools. (2021, April 13). *Credit limit definition.* Retrieved June 29, 2021, from https://www.accountingtools.com/articles/2017/9/21/credit-limit

24. D

Following up with delinquent customers. Accounts receivable are all monies owed to the company by its customers. Because customers do not always pay their invoices on time, businesses should follow up to remind them that payment is due. If customers do not pay their bills within a reasonable amount of time, the company suffers because it lacks the cash it needs to operate. By conducting follow-up activities, the company is more likely to obtain its receivables on time. Monitoring sales and quotas and acquiring short-term loans are not aspects of managing the monies owed the company by its customers.

SOURCE: FI:683 *(FI:213)*

SOURCE: Najjar, D. (2019, December 13). *Get tips for improving the accounts receivable process.* Retrieved June 29, 2021, from https://www.thebalancesmb.com/top-strategies-for-improving-accounts-receivable-4018880

25. D

Extending its accounts payable cycle. Businesses often experience temporary cash shortages. To have enough cash to operate until anticipated monies are available, a business might be able to delay some of its payables, which can be done in different ways. The business may decide to delay certain invoices long enough to avoid late fees with some of its vendors. Or, the business may negotiate a due date extension or arrange partial payment terms. In some situations, a business may be able to obtain a short-term loan from a lending institution. If the business is experiencing a temporary cash flow shortage, it is not likely to have the money to hire temporary staff or to invest in a mutual fund.

SOURCE: FI:633 *(FI:225)*

SOURCE: Wolters Kluwer. (2020, February 17). *The relationship between accounts payable and cash flow.* Retrieved June 29, 2021, from https://www.wolterskluwer.com/en/expert-insights/the-relationship-between-accounts-payable-and-cash-flow