CH 18 REVENUE RECOGNITION SELF-STUDY

(note from Dr. N: I have deleted questions for you to omit, but did not renumber the remaining questions)

1. When goods or services are exchanged for cash or claims to cash (receivables), revenues are
   A. earned.
   B. realized.
   C. recognized.
   D. all of these.

2. An alternative available when the seller is exposed to continued risks of ownership through return of the product is
   A. recording the sale, and accounting for returns as they occur in future periods.
   B. not recording a sale until all return privileges have expired.
   C. recording the sale, but reducing sales by an estimate of future returns.
   D. all of these.

3. In selecting an accounting method for a newly contracted long-term construction project, the principal factor to be considered should be
   A. the terms of payment in the contract.
   B. the degree to which a reliable estimate of the costs to complete and extent of progress toward completion is practicable.
   C. the method commonly used by the contractor to account for other long-term construction contracts.
   D. the inherent nature of the contractor’s technical facilities used in construction.


<table>
<thead>
<tr>
<th>Contract</th>
<th>Price</th>
<th>Billings Through 12/31/11</th>
<th>Collections Through 12/31/11</th>
<th>Costs to 12/31/11</th>
<th>Estimated Costs to Complete</th>
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<tbody>
<tr>
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Which of the following should be shown on the income statement for 2011 related to Contract 1?
A. Gross profit, $750,000
B. Gross profit, $550,000
C. Gross profit, $950,000
D. Gross profit, $200,000

5. In certain cases, revenue is recognized at the completion of production even though no sale has been made. Which of the following statements is not true?
   A. Examples involve precious metals or farm equipment.
   B. The products possess immediate marketability at quoted prices.
   C. No significant costs are involved in selling the product.
   D. All of these statements are false.

6. Deferred gross profit on installment sales should be treated as a (n)
   A. deduction from installment accounts receivable.
   B. deduction from installment sales.
   C. unearned revenue and classified as a current liability.
   D. deduction from gross profit on sales.
8. Which of the following is not an accurate representation concerning revenue recognition?
   A. Revenue from selling products is recognized at the date of sale, usually interpreted to mean the date of delivery to customers.
   B. Revenue from services rendered is recognized when cash is received or when services have been performed.
   C. Revenue from permitting others to use enterprise assets is recognized as time passes or as the assets are used.
   D. Revenue from disposing of assets other than products is recognized at the date of sale.

10. Under the percentage-of-completion method, how should the balances of progress billings and construction in process be shown at reporting dates prior to the completion of a long-term contract?
   A. Progress billings as deferred income, construction in progress as a deferred expense.
   B. Progress billings as income, construction in process as inventory.
   C. Net, as a current asset if a debit balance, and as a current liability if a credit balance.
   D. Net, as income from construction if credit balance, and loss from construction if debit balance.

11. Under the completed contract method, the Construction in Process account balance will consist of
   A. construction costs only.
   B. gross profit only.
   C. construction costs and gross profit.
   D. construction costs and billings.

12. Tri-State Builders, Inc. is using the completed-contract method for a $7,350,000 contract that will take two years to complete. Data at December 31, 2011, the end of the first year, are as follows:

   | Costs incurred to date | $3,760,000 |
   | Estimated costs to complete | 4,030,000 |
   | Billings to date | 3,220,000 |
   | Collections to date | 2,990,000 |

   The gross profit or loss that should be recognized for 2011 is
   A. $0.
   B. a $440,000 loss.
   C. a $540,000 loss.
   D. a $770,000 loss.

13. The installment-sales method of recognizing profit for accounting purposes is acceptable if
   A. collections in the year of sale do not exceed 30% of the total sales price.
   B. an unrealized profit account is credited.
   C. there is no reasonable basis of estimating the uncollectibility of the sales price.
   D. the method is consistently used for all sales of similar merchandise.

15. Revenue is considered to be earned when:
   A. a company exchanges goods or services for cash or claims to cash.
   B. it is realized or realizable.
   C. a company has substantially completed what it must in order to be entitled to the benefits represented by the revenues.
   D. assets received by the company in exchange for goods or services are readily convertible to known amounts of cash or claims to cash.
16. Revenue from selling assets other than inventory is generally recognized:
   A. at the date of sale.
   B. at the completion of production.
   C. after costs are recovered.
   D. as cash is collected.

19. The completed-contract method should be used only when:
   A. an entity has primarily short-term contracts.
   B. there are inherent hazards in the contract beyond normal, recurring business risks.
   C. the conditions for using the percentage-of-completion method cannot be met.
   D. All of the options are correct.

20. A very popular measure used to determine the progress toward completion under the percentage-of-completion method is the:
   A. cost-to-cost method.
   B. efforts expended method.
   C. output method.
   D. units of work performed method.

21. The Billings on Construction in Process account is reported as:
   A. revenue on the income statement.
   B. a current asset only.
   C. a current liability only.
   D. either a current asset or current liability.

22. Under the completed-contract method, which of the following are recorded each period during construction?
   A. Revenues.
   B. Gross profit.
   C. Costs incurred.
   D. All of the options.

23. A loss on an unprofitable long-term contract is recognized in the current period under:
   A. the completed-contract method only.
   B. the percentage-of-completion method only.
   C. both the completed-contract and percentage-of-completion methods.
   D. neither the completed-contract nor the percentage-of-completion methods.

24. A loss in the current period on a contract expected to be profitable upon completion is recognized in the current period under:
   A. the completed-contract method only.
   B. the percentage-of-completion method only.
   C. both the completed-contract and percentage-of-completion methods.
   D. neither the completed-contract nor percentage-of-completion methods.
26. The loss (gain) on repossession of merchandise is the difference between the estimated fair value of the merchandise and:
   A. its original cost.
   B. the balance of the installment receivable.
   C. unrecovered cost of the merchandise.
   D. the deferred gross profit.

Add’l self-study questions

2. No profit is recognized until cash receipts exceed the seller’s cost of the merchandise under the:
   A. percentage-of-completion method.
   B. installment sales method.
   C. cost recovery method.
   D. cost recovery method and the installment sales method.

5. The revenue recognition principle states that revenue is recognized when it is earned and realized or realizable.
   A. True
   B. False

6. Revenue is realized when a company exchanges goods or services for cash or claims to cash.
   A. True
   B. False

7. Trade loading and channel stuffing are used to overstate revenues and window dress the financial statements.
   A. True
   B. False

8. Under the deposit method, no revenue is recognized until the sale is complete.
   A. True
   B. False

9. Under the installment-sales method, gross profit is recognized in the periods that cash is received, rather than in the period of sale.
   A. True
   B. False

10. The completed-contract method recognizes revenues, costs, and gross profit as a company makes progress toward completion on a long-term contract.
    A. True
    B. False

13. Companies commonly recognize revenues from manufacturing and selling activities at point of sale (usually meaning delivery).
    A. True
    B. False
14. Under the percentage-of-completion method, a company accumulates construction costs plus gross profit earned to date in the Construction in Process inventory account.
   A. True
   B. False

16. Which of the following transactions results in the recognition of revenue?
   A. Permitting use of an asset.
   B. Sale of assets other than inventory.
   C. Rendering a service.
   D. All of the above.

17. Revenue earned from permitting others to use enterprise assets is recognized:
   A. at the point of sale.
   B. as time passes.
   C. when cash is collected.
   D. None of the above.

18. Franklin Builders, Inc. is using the completed-contract method for a $6,250,000 contract that will take three years to complete. Data at December 31, 2011, the end of the first year, are as follows:
   - Costs incurred to date: $3,120,000
   - Estimated costs to complete: $3,330,000
   - Billings to date: $2,960,000
   - Collections to date: $2,770,000

   The gross profit or loss that should be recognized for 2011 is
   A. $0.
   B. a $160,000 loss.
   C. a $200,000 loss.
   D. a $66,667 loss.

20. Under the completion-of-production basis, revenue is recognized if:
   A. the sales price is reasonably assured.
   B. the units produced are interchangeable.
   C. no significant costs are involved in distributing the product.
   D. All of the above.

21. Carroll Co. began operations on July 1, 2011 and appropriately uses the installment method of accounting. The following information pertains to Carroll's operations for 2011:
   - Installment sales: $720,000
   - Cost of installment sales: 432,000
   - General and administrative expenses: 72,000
   - Collections on installment sales: 330,000

   The balance in the deferred gross profit account at December 31, 2011 should be
   A. $115,200.
   B. $156,000.
   C. $288,000.
   D. $90,000.
23. Repossessed merchandise on an installment sale should be recorded at:
   A. its original cost.
   B. zero.
   C. net realizable value.
   D. fair market value.

25. Under the deposit method:
   A. cash is received at the point of sale.
   B. cash is received after the sales transaction is completed.
   C. cash is not received until some event occurs in the future.
   D. cash is received before the sales transaction is completed.

SOLUTIONS

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<th>Self-study</th>
<th>Additional self-study</th>
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