

IOFM Accounts Receivable Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

- 1. Which format is promoted in the United States for transaction processing?**
 - A. ISO 20022**
 - B. STP 820**
 - C. NACHA 835**
 - D. ACH 720**
- 2. Why is it important to monitor customer credit limits?**
 - A. To maximize sales to each customer**
 - B. To minimize the risk of bad debts and ensure customers are able to pay**
 - C. To increase the complexity of transactions**
 - D. To reduce the amount of time spent on customer interactions**
- 3. Which of the following is not a mandatory element of the EDI 820 standard?**
 - A. Customer Account Number**
 - B. Invoice Gross Amount**
 - C. Amount Paid**
 - D. Payment Method**
- 4. What should be included in the analysis of deductions?**
 - A. The type of customers**
 - B. The age of deductions and their outcomes**
 - C. Vendor performance metrics**
 - D. Geographic sales data**
- 5. What should be the immediate action after a dispute is identified?**
 - A. File it away for future reference**
 - B. Route it to the appropriate resolver**
 - C. Ignore it until the next meeting**
 - D. Inform the customer about the dispute**

- 6. Why is it critical for businesses to track their accounts receivable closely?**
- A. To maintain healthy cash flow and avoid financial crises**
 - B. To ensure all employees are following company policies**
 - C. To increase market share and customer base**
 - D. To enhance the company's product offerings**
- 7. What accounting entries are recorded when a payment is received from a customer?**
- A. Debit Accounts Payable and Credit Cash**
 - B. Debit Cash and Credit Accounts Receivable**
 - C. Debit Sales Revenue and Credit Cash**
 - D. Debit Accounts Receivable and Credit Inventory**
- 8. Which practice can help to minimize disputes over accounts receivable?**
- A. Creating ambiguous contracts with clients**
 - B. Documenting all communications and agreements with customers**
 - C. Allowing unlimited payment extensions**
 - D. Offering discounts on late payments**
- 9. What is a Letter of Credit (LC) commonly used for?**
- A. Domestic payments only**
 - B. International payments**
 - C. Cash discounts**
 - D. Employee salaries**
- 10. What is a collections policy?**
- A. A guideline for pricing products**
 - B. A documented procedure outlining how to handle overdue accounts and collections efforts**
 - C. A report on customer satisfaction**
 - D. A marketing strategy to attract new customers**

Answers

SAMPLE

1. B
2. B
3. D
4. B
5. B
6. A
7. B
8. B
9. B
10. B

SAMPLE

Explanations

SAMPLE

1. Which format is promoted in the United States for transaction processing?

- A. ISO 20022
- B. STP 820**
- C. NACHA 835
- D. ACH 720

The STP 820 format is specifically designed for electronic payments and remittance information in the United States, making it a standard format adopted for transaction processing, particularly in the accounts receivable and payment processing realms. It facilitates the transmission of payment details, including invoice numbers and other pertinent information related to the transactions. This format allows for efficient Straight-Through Processing (STP), minimizing manual intervention and errors, which is crucial for optimizing cash flow and improving operational efficiencies in organizations. In contrast, the other formats listed serve different purposes or are oriented towards varying types of transactions or processes. ISO 20022 is an international standard focusing on financial services messaging across different domains, but it's broader and not specific to the type of transaction processing promoted in the U.S. NACHA 835 relates to healthcare claims payments and remittance advice but is more specific to the healthcare industry rather than general transaction processing. ACH 720 is a less common format associated with payment orders rather than the mainstream transaction processing promoted for accounts receivable practices. Thus, STP 820 stands out as the more suitable choice for transaction processing in this context.

2. Why is it important to monitor customer credit limits?

- A. To maximize sales to each customer
- B. To minimize the risk of bad debts and ensure customers are able to pay**
- C. To increase the complexity of transactions
- D. To reduce the amount of time spent on customer interactions

Monitoring customer credit limits is crucial primarily because it helps to minimize the risk of bad debts and ensure that customers are able to pay for the products or services they receive. By setting appropriate credit limits based on a customer's financial history and current creditworthiness, businesses can protect themselves from extending too much credit to customers who may struggle to meet their payment obligations. This practice involves not only evaluating the customer's past payment behaviors but also considering their overall financial stability. If customers are allowed to exceed their credit limits without proper assessment, it could lead to significant financial losses for the company if those customers default on their payments. Maintaining a careful watch over credit limits allows companies to balance growth and risk effectively, ensuring that they can sustain operations while still providing customers with the flexibility to pay. Additionally, it can foster long-term customer relationships by instilling trust and responsibility in credit transactions, reinforcing the importance of adhering to mutually agreed-upon limits. Through this diligent monitoring, businesses can enhance their cash flow and financial health while still supporting customer needs, establishing a foundation for sustainable growth.

3. Which of the following is not a mandatory element of the EDI 820 standard?

- A. Customer Account Number**
- B. Invoice Gross Amount**
- C. Amount Paid**
- D. Payment Method**

The EDI 820 standard, which is used for Payment Order/Remittance Advice, outlines specific mandatory data elements necessary for the processing of electronic payments. Among these, elements such as Customer Account Number, Invoice Gross Amount, and Amount Paid are critical for ensuring that payments are applied accurately to the correct invoices and accounts. The Customer Account Number is essential for identifying the recipient of the payment, while the Invoice Gross Amount provides a reference to the total amount of the invoice before any deductions, allowing for clarity in the reconciliation process. Similarly, the Amount Paid is crucial as it indicates the specific amount being remitted, which is necessary for proper accounting and record-keeping. On the other hand, the Payment Method represents how the payment is being made (such as via check, electronic transfer, etc.), but it is not a mandatory component of the EDI 820 transaction. While it can provide useful information for reconciliation and operational processing, organizations are technically able to process the transaction without specifying the payment method, making it optional rather than mandatory. This distinction clarifies why the Payment Method is not considered a required element within the EDI 820 standard.

4. What should be included in the analysis of deductions?

- A. The type of customers**
- B. The age of deductions and their outcomes**
- C. Vendor performance metrics**
- D. Geographic sales data**

The analysis of deductions plays a crucial role in understanding the reasons behind customer deductions and managing accounts receivable effectively. Choosing to include the age of deductions and their outcomes is essential because it provides insights into how long deductions have been outstanding and how successfully they have been resolved. This information helps in identifying patterns, such as recurring issues with specific types of deductions or customers, and whether the organization's resolution strategies are effectively reducing the number and amount of deductions over time. Understanding the age of deductions allows accounts receivable teams to prioritize their collection efforts and take timely actions on older deductions that could represent significant cash flow that is tied up. Monitoring outcomes can help assess effectiveness and inform process improvements in billing or customer relations. This analysis is crucial for minimizing losses from ongoing deductions and improving overall accounts receivable performance. While factors like type of customers, vendor performance metrics, and geographic sales data can provide contextual information, they do not directly address the specific issues associated with deduction management as effectively as age and outcomes do. Therefore, focusing on age and outcomes is the most relevant choice in analyzing deductions.

5. What should be the immediate action after a dispute is identified?

- A. File it away for future reference**
- B. Route it to the appropriate resolver**
- C. Ignore it until the next meeting**
- D. Inform the customer about the dispute**

When a dispute is identified in accounts receivable processes, the immediate action should be to route it to the appropriate resolver. This is critical because disputes can impact cash flow and customer relationships if not addressed promptly and efficiently. By routing the dispute to someone equipped to handle it—such as a manager or a specific department—you ensure that there is a systematic approach to resolving the issue. This action initiates the process of gathering relevant information, assessing the nature of the dispute, and determining the best course of action to resolve it, ultimately facilitating a quicker resolution. The correct and timely routing of disputes also helps maintain accurate records and adherence to protocols, which are essential for effective accounts receivable management. Additionally, it could prevent further escalation of the issue and foster trust with the customer, as they see that the matter is being taken seriously and handled by the right individual or team. In contrast, neglecting the issue or filing it away can lead to unresolved disputes, which can result in financial losses and eroded customer confidence.

6. Why is it critical for businesses to track their accounts receivable closely?

- A. To maintain healthy cash flow and avoid financial crises**
- B. To ensure all employees are following company policies**
- C. To increase market share and customer base**
- D. To enhance the company's product offerings**

Tracking accounts receivable closely is essential for maintaining healthy cash flow and avoiding financial crises. Accounts receivable represent the money that is owed to the company for goods or services provided on credit. By closely monitoring these accounts, businesses can ensure timely collection of payments, which directly impacts cash flow. Healthy cash flow is critical for meeting operational expenses, investing in growth, and maintaining overall financial stability. When accounts receivable are not managed effectively, it can lead to delayed payments and increased risk of bad debts, ultimately threatening the organization's financial health. Additionally, closely tracking accounts receivable allows businesses to identify trends, evaluate the creditworthiness of customers, and manage their credit policies effectively. This proactive approach enables organizations to address potential issues before they escalate into significant financial troubles. Overall, a robust accounts receivable management strategy is vital for sustaining positive cash flow, ensuring the business can operate smoothly and invest in future opportunities.

7. What accounting entries are recorded when a payment is received from a customer?

A. Debit Accounts Payable and Credit Cash

B. Debit Cash and Credit Accounts Receivable

C. Debit Sales Revenue and Credit Cash

D. Debit Accounts Receivable and Credit Inventory

When a payment is received from a customer, the correct accounting entries involve increasing the Cash account and decreasing the Accounts Receivable account. This reflects that the company has received cash (an asset) and, at the same time, recognizes that the outstanding amount owed by the customer has been settled. Recording a debit to Cash indicates an increase in assets, as cash inflow adds to the available funds for the company. Conversely, the credit to Accounts Receivable signifies that the amount owed by the customer is reduced, as the payment has been collected. This entry accurately captures the financial impact of the transaction on the company's balance sheet and ensures that the accounting records are kept in balance, as the increase in one asset (Cash) is offset by the decrease in another asset (Accounts Receivable). This understanding emphasizes the fundamental accounting principle of double-entry accounting, where every financial transaction affects at least two accounts, ensuring the accounting equation remains balanced.

8. Which practice can help to minimize disputes over accounts receivable?

A. Creating ambiguous contracts with clients

B. Documenting all communications and agreements with customers

C. Allowing unlimited payment extensions

D. Offering discounts on late payments

Documenting all communications and agreements with customers is essential for minimizing disputes over accounts receivable. When all interactions, agreements, and changes are meticulously recorded, it provides clear evidence of what was agreed upon between the parties. This documentation serves several purposes: 1. **Clarity**: It ensures that both the business and the customer are on the same page regarding the terms of the agreement, payment due dates, and any arrangements made. This clarity can significantly reduce misunderstandings that might lead to disputes. 2. **Reference**: In the event of a disagreement, having documentation easily accessible can help quickly resolve issues. It allows both parties to refer back to the original terms, conversations, or emails, making it easier to verify claims and settle discrepancies. 3. **Accountability**: It holds both parties accountable to their commitments, knowing that there is a record of what was discussed and agreed upon. This accountability can deter potential disagreements from escalating into serious disputes. By ensuring that all aspects of the transaction are documented, businesses can create a solid foundation for their accounts receivable management, reducing the risk of conflicts over what was promised or expected.

9. What is a Letter of Credit (LC) commonly used for?

- A. Domestic payments only
- B. International payments**
- C. Cash discounts
- D. Employee salaries

A Letter of Credit (LC) is primarily used in international trade as a guarantee from a bank on behalf of a buyer that payment will be made to a seller, provided that the seller meets the requirements established in the Letter of Credit. This instrument is crucial for international transactions because it mitigates the risk of non-payment for the seller and assures the buyer that the payment will be made only when certain negotiated conditions are fulfilled, such as delivering specific goods or services. In the context of international payments, Letters of Credit facilitate trade between parties in different countries, offering protection and assurance regarding payment and delivery. This is especially important as it lowers the risk of currency fluctuations and helps ensure compliance with shipping and import/export regulations. The other options do not accurately represent the primary functions of a Letter of Credit. Domestic payments are typically managed through different means, and cash discounts or employee salaries fall outside the scope of what an LC is intended to support. Therefore, focusing on international payments highlights the core purpose and utility of a Letter of Credit in the context of global commerce.

10. What is a collections policy?

- A. A guideline for pricing products
- B. A documented procedure outlining how to handle overdue accounts and collections efforts**
- C. A report on customer satisfaction
- D. A marketing strategy to attract new customers

A collections policy is a documented procedure that outlines how a business will manage overdue accounts and the efforts involved in collecting debts from customers. This policy serves as a framework for the company's collection practices, detailing the steps to follow when accounts become delinquent. It typically includes guidelines on communication with customers, payment arrangements, escalation processes, and legal actions that may be undertaken if necessary. The collections policy plays a crucial role in maintaining healthy cash flow and minimizing losses from bad debts. By having such a policy in place, businesses can ensure consistency in their approach to collections, protect relationships with customers, and adhere to any relevant laws and regulations regarding debt collection. This structure helps in setting clear expectations for both the organization and its customers regarding payment obligations and the consequences of non-payment.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://10fmaccountsreceivable.examzify.com>

We wish you the very best on your exam journey. You've got this!