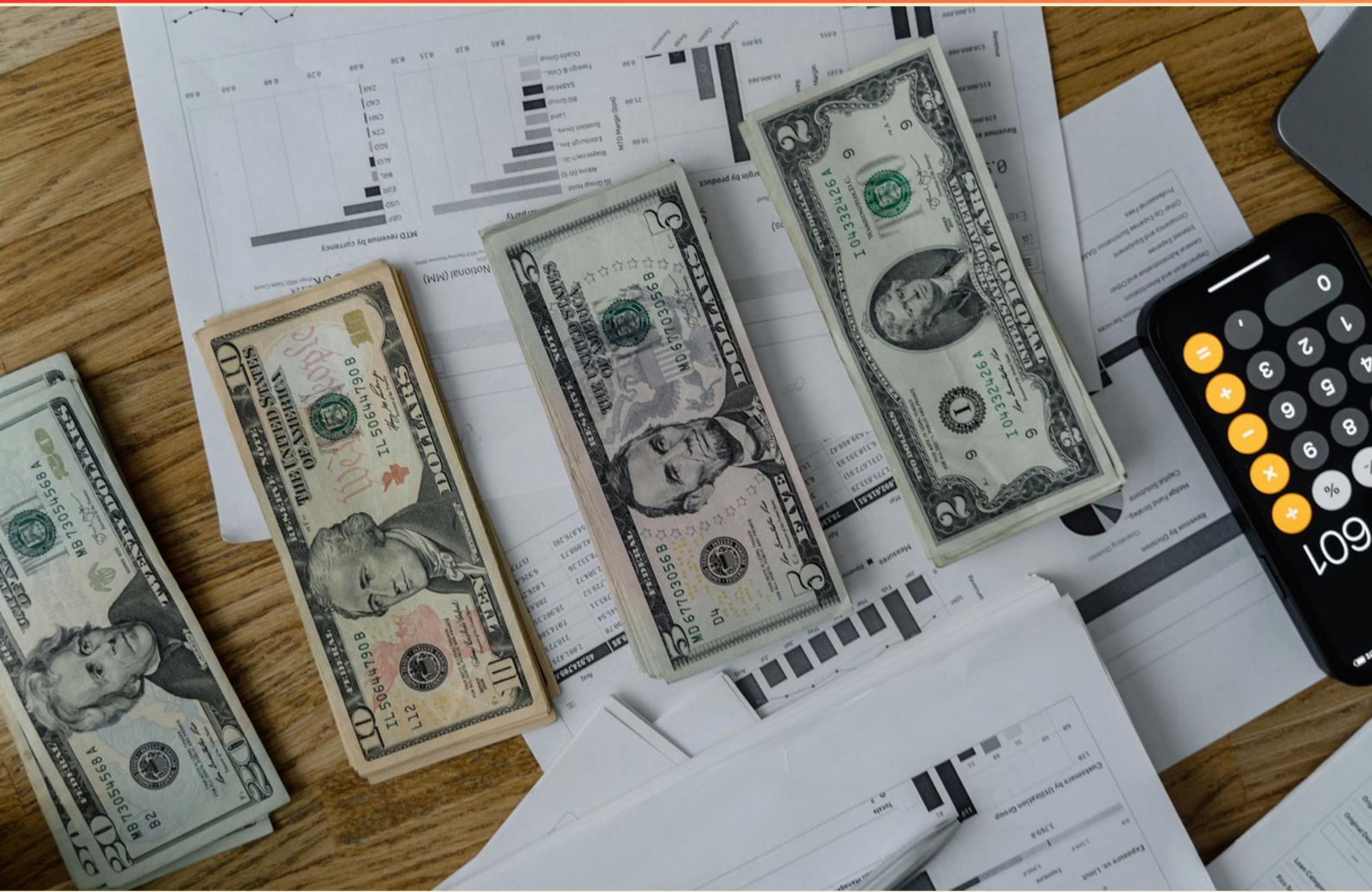


IOFM ACCOUNTS RECEIVABLE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

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



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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

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- 1. Why is customer communication important in accounts receivable?**
 - A. It distracts from core operations
 - B. It contributes to relationship building and timely payments
 - C. It is only required for high-value customers
 - D. It complicates the payment process
- 2. What can result from proper education of customers regarding remittance information?**
 - A. Decreased clarity in billing statements
 - B. Improved remittance information over time
 - C. More disputes on payment terms
 - D. Lower customer satisfaction
- 3. How many types of lockboxes are commonly recognized?**
 - A. One
 - B. Two
 - C. Three
 - D. Four
- 4. What does the aging report in accounts receivable indicate?**
 - A. The number of new customers acquired
 - B. The age of company employees
 - C. The length of time invoices have been outstanding
 - D. The total sales for the current month
- 5. What is the benefit of investing in pre-processing software?**
 - A. It reduces system compatibility with remittance data
 - B. It formats remit data for better compatibility with the auto-cash engine
 - C. It complicates the payment matching process
 - D. It eliminates the need for remittance data
- 6. What is NOT a benefit of a Letter of Credit?**
 - A. Security in international transactions
 - B. Having costs lower than other methods
 - C. Facilitating trade with new customers
 - D. Mitigating the risk of non-payment

- 7. What crucial information is included in the EDI 820 standard other than the invoice number?**
- A. Shipping Address
 - B. Customer Satisfaction Rating
 - C. Discount
 - D. Payment Due Date
- 8. What is a valid reason for issuing an accounts receivable credit?**
- A. To recognize an increase in sales
 - B. For product returns or billing discrepancies
 - C. To adjust for overall sales growth
 - D. None of the above
- 9. Describe the 'invoice discounting' method.**
- A. It allows businesses to increase their product prices
 - B. It allows businesses to borrow money against outstanding invoices
 - C. It allows businesses to offer discounts to customers
 - D. It allows businesses to delay payment to suppliers
- 10. What is the typical first step in the AR process?**
- A. Creating a credit memo for customers
 - B. Invoicing the customer after goods or services are delivered
 - C. Reconciling the accounts receivable ledger
 - D. Assessing the credit risk of customers

Answers

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

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Explanations

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1. Why is customer communication important in accounts receivable?

- A. It distracts from core operations
- B. It contributes to relationship building and timely payments**
- C. It is only required for high-value customers
- D. It complicates the payment process

Customer communication is crucial in accounts receivable primarily because it contributes to relationship building and encourages timely payments. Effective communication establishes trust and rapport between the business and its customers, which can lead to improved customer loyalty and satisfaction. When customers feel valued and informed, they are more likely to prioritize payments and maintain a positive relationship with the business. Additionally, clear communication about invoices, payment terms, and any potential issues can help prevent misunderstandings that could delay payments. Regularly engaging with customers can also allow for proactive discussions about any difficulties they may be facing in making payments, creating opportunities to work together on solutions. This not only helps with cash flow but also enhances the overall business relationship, making it more likely that customers will continue to do business with the company in the future. In contrast, the other options do not recognize the benefits and necessity of maintaining open lines of communication with customers. The idea that it distracts from core operations overlooks the fundamental role communication plays in facilitating smoother accounts receivable processes. The notion that communication is only necessary for high-value customers fails to appreciate that all customer interactions can impact a business's financial health. Lastly, the view that customer communication complicates payment processes disregards the fact that clear communication generally simplifies issues and aids in achieving

2. What can result from proper education of customers regarding remittance information?

- A. Decreased clarity in billing statements
- B. Improved remittance information over time**
- C. More disputes on payment terms
- D. Lower customer satisfaction

Proper education of customers regarding remittance information leads to improved remittance information over time. When customers are well-informed about how to properly submit payments, including the necessary details such as invoice numbers or payment references, the accuracy and completeness of their remittance advice increase. This improved communication reduces mistakes and misunderstandings, ultimately leading to a more efficient accounts receivable process. As customers become accustomed to the requirements and expectations for remittances, they are more likely to provide the correct information consistently. This can result in faster payment processing, fewer inquiries regarding payment status, and a smoother operational workflow for the accounts receivable department. Therefore, taking the time to educate customers on this aspect has significant long-term benefits for both customers and the business.

3. How many types of lockboxes are commonly recognized?

- A. One
- B. Two
- C. Three**
- D. Four

Lockboxes are a specialized banking service that organizations use to streamline the collection of accounts receivable. They are designed to expedite the processing of incoming payments by having customers remit their payments to a designated postal address where the bank collects and processes the checks. There are three commonly recognized types of lockboxes: 1. **Retail Lockboxes:** These are used by companies that receive a large volume of small payments, such as consumer goods companies. Payments are often in the form of checks from individual customers. 2. **Wholesale Lockboxes:** These are used for higher-value transactions typically associated with business-to-business payments. Companies dealing with fewer, larger invoices benefit from this type as it allows for faster processing of these payments. 3. **Check-Only Lockboxes:** This type is specifically designed to handle only checks without any accompanying documents. This setup is straightforward and allows for efficiencies in processing the checks quickly. Recognizing the various types of lockboxes is essential for companies to choose the most effective method for managing their receivables based on their customer base and payment behaviors.

4. What does the aging report in accounts receivable indicate?

- A. The number of new customers acquired
- B. The age of company employees
- C. The length of time invoices have been outstanding**
- D. The total sales for the current month

The aging report in accounts receivable serves as a crucial tool for assessing the financial health of a company. It primarily indicates the length of time invoices have been outstanding, which helps in identifying which payments are overdue and how long they have been unpaid. This information is vital for managing cash flow and making informed decisions regarding credit policies and collection efforts. When accounts are aged, they are typically categorized into different time frames, such as 0-30 days, 31-60 days, 61-90 days, and beyond 90 days. This categorization allows businesses to prioritize collections based on how long an account has been overdue, providing insights into customer payment behavior and the potential need for immediate follow-up or a more stringent collections strategy. Understanding the aging of accounts receivable is essential for maintaining liquidity and ensuring that resources are allocated efficiently, as outstanding invoices can severely impact a company's cash flow.

5. What is the benefit of investing in pre-processing software?

- A. It reduces system compatibility with remittance data
- B. It formats remit data for better compatibility with the auto-cash engine**
- C. It complicates the payment matching process
- D. It eliminates the need for remittance data

Investing in pre-processing software offers significant advantages, particularly in enhancing the efficiency of payment handling in accounts receivable. By formatting remittance data for better compatibility with the auto-cash engine, the pre-processing software ensures that the data received from customers is structured in a way that can be easily processed and matched. This not only speeds up the reconciliation process but also reduces the likelihood of errors that can occur when incompatible data formats are used. When remittance data is accurately formatted, it allows the automation of cash application processes to function smoothly and effectively. This leads to quicker payments being applied to the correct invoices, ultimately improving cash flow and reducing the amount of time spent on manual intervention. The integration of pre-processing software with existing systems creates a seamless flow of information, facilitating better decision-making and financial management within the organization. This capability stands in contrast to the other options, which either imply negative outcomes or misunderstand the role of such software. For example, the software does not reduce system compatibility; rather, it enhances it. Additionally, it streamlines the payment matching process instead of complicating it, and it definitely does not eliminate the need for remittance data, as that data is crucial for accurate cash application.

6. What is NOT a benefit of a Letter of Credit?

- A. Security in international transactions
- B. Having costs lower than other methods**
- C. Facilitating trade with new customers
- D. Mitigating the risk of non-payment

A Letter of Credit (LOC) is a financial document issued by a bank that guarantees payment to a seller on behalf of a buyer, provided that the seller meets the terms and conditions outlined in the LOC. While it offers several benefits to both parties involved in a transaction, one aspect that is often misunderstood is the associated costs. The primary benefit of a Letter of Credit includes offering security in international transactions, which reassures sellers that they will receive payment even when dealing with unfamiliar buyers or markets. Additionally, it facilitates trade with new customers by reducing the perceived risks involved, making it easier for sellers to engage with parties they have not previously worked with. It also plays a crucial role in mitigating the risk of non-payment, as banks back the transactions, providing confidence to sellers. However, despite these advantages, the cost associated with obtaining a Letter of Credit can be higher than other methods of payment, such as cash in advance or open account arrangements. Fees may be incurred during the issuance, negotiation, and confirmation of the credit, leading to the conclusion that a Letter of Credit may not necessarily have lower costs compared to alternative payment methods. Thus, recognizing the cost aspect is vital when evaluating the use of Letters of Credit in trade.

7. What crucial information is included in the EDI 820 standard other than the invoice number?

- A. Shipping Address
- B. Customer Satisfaction Rating
- C. Discount**
- D. Payment Due Date

The EDI 820 standard is primarily focused on payment order and remittance advice, making it specifically relevant to transactions involving payments. Among the various types of information contained within an EDI 820 document, details concerning discounts play a significant role. These discounts are often expressed as a percentage or a dollar amount that can impact the total payment amount and help clarify the financial agreement between the buyer and seller. Knowing the discount terms is vital for both parties to ensure accurate payment processing and cost management. The inclusion of discounts allows both the payer and the payee to fully understand any potential reductions in the amount owed, thus facilitating transparency and proper accounting. In contrast, other choices like shipping address and customer satisfaction ratings, while important in their contexts, are not relevant to the EDI 820 standard. Shipping address details are generally more pertinent to logistics documents, and customer satisfaction ratings we typically find in quality assessment metrics rather than payment documents. The payment due date is also relevant but is not as focal as the discount information in the context of EDI 820 transactions.

8. What is a valid reason for issuing an accounts receivable credit?

- A. To recognize an increase in sales
- B. For product returns or billing discrepancies**
- C. To adjust for overall sales growth
- D. None of the above

Issuing an accounts receivable credit is an essential component of managing customer accounts and maintaining financial accuracy. A valid reason for issuing a credit is specifically tied to instances such as product returns or billing discrepancies. When a customer returns merchandise because it was defective or unsatisfactory, a credit is issued to adjust their account balance accordingly. Similarly, if there was an error in billing—perhaps the customer was charged too much or for an incorrect item—a credit rectifies the mistake and ensures that the customer is only responsible for the correct amount owed. This practice not only reflects a commitment to customer satisfaction by addressing their concerns but also maintains accurate financial records for the business. Balancing accounts correctly is crucial for effective cash flow management and for building long-term relationships with customers. In contrast, reasons such as recognizing an increase in sales or making adjustments for overall sales growth do not warrant issuing a credit; these scenarios typically involve adjustments to revenue, not the need for a credit to a customer's account.

9. Describe the 'invoice discounting' method.

- A. It allows businesses to increase their product prices
- B. It allows businesses to borrow money against outstanding invoices**
- C. It allows businesses to offer discounts to customers
- D. It allows businesses to delay payment to suppliers

The invoice discounting method is a financing arrangement that enables businesses to borrow money against the value of their outstanding invoices. This means that instead of waiting for their customers to pay their invoices, businesses can receive immediate cash flow by using those invoices as collateral for a loan. This method typically involves a financial institution or a specialized lender who reviews the invoices and then provides a percentage of the invoice value upfront, usually around 70-90%. When the customer eventually pays the invoice, the lender deducts their fees and returns the remaining amount to the business. This approach helps companies manage their cash flow more effectively, improve liquidity, and maintain operations without interruptions that may arise from delayed payments from customers. Other options do not accurately describe invoice discounting. For instance, while offering discounts to customers or delaying payments to suppliers is a common business practice, they do not relate to the borrowing of funds against invoices. Similarly, increasing product prices is a different strategy and does not pertain to the concept of invoice discounting or financing.

10. What is the typical first step in the AR process?

- A. Creating a credit memo for customers
- B. Invoicing the customer after goods or services are delivered**
- C. Reconciling the accounts receivable ledger
- D. Assessing the credit risk of customers

In the accounts receivable (AR) process, the typical first step involves invoicing the customer after goods or services are delivered. This step is crucial because it initiates the billing cycle, formally notifying the customer of the amount owed for the goods or services received. An invoice serves as a legal document that provides a clear record of the transaction and specifies payment terms, which is essential for both the seller and buyer to ensure agreement on what is owed. Once the invoice is sent, it starts the process of tracking payments and managing the accounts receivable. This initial action establishes a timeline for when payment is expected and sets the stage for any subsequent steps, such as following up on overdue accounts or reconciling the accounts receivable ledger. The other options, while related to important aspects of the AR process, occur either before or after the invoicing step and are not foundational to initiating the AR cycle.

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!

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