#### **Chapter 8 Questions**

#### **Multiple Choice**

- 1. When customers make purchases with a national credit card, the retailer
- a. is responsible for maintaining customer accounts.
- b. is not involved in the collection process.
- c. absorbs any losses from uncollectible accounts.
- d. receives cash equal to the full price of the merchandise sold from the credit card company.
- 2. The two methods of accounting for uncollectible accounts are the direct write-off method and the
- a. Accrual Method
- b. Net Realizable Method
- c. Bad Debt Method
- d. Allowance Method
- 3. A 90-day note dated April 20 would mature on
- a. July 19
- b. July 21
- c. July 20
- d. July 18
- 4. Under the direct write-off method of accounting for uncollectible accounts, Bad Debt Expense is debited
- a. when a credit sale is past due.
- b. at the end of each accounting period.
- c. whenever a pre-determined amount of credit sales have been made.
- d. when an account is determined to be uncollectible.
- 5. An aging of a company's accounts receivable indicates that \$6,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a \$2,000 debit balance, the adjustment to record bad debts for the period will require a
- a. debit to Bad Debt Expense for \$8,000.
- b. debit to Allowance for Doubtful Accounts for \$8,000.
- c. debit to Bad Debt Expense for \$4,000.
- d. credit to Allowance for Doubtful Accounts for \$4,000.
- 6. The face value of a note refers to the amount
- a. that can be received if sold to a factor.
- b. borrowed plus interest received at maturity from the maker.
- c. at which the note receivable is recorded.
- d. remaining after a service charge has been deducted.
- 7. The interest on a \$10,000, 9%, 90-day note receivable is
- a. \$225.
- b. \$900.
- c. \$75.
- d. \$150.

8. Doane Company receives a \$10,000, 3-month, 6% promissory note from Ray Company in settlement of an open accounts receivable. What entry will Doane Company make upon receiving the note?

a. Notes Receivable 10,150

Accounts Receivable—Ray Company 10,150

b. Notes Receivable 10,150

Accounts Receivable—Ray Company 10,000 Interest Revenue 150

c. Notes Receivable 10,000
Interest Receivable 150

Accounts Receivable—Ray Company 10,000 Interest Revenue 150

d. Notes Receivable 10,000

Accounts Receivable—Ray Company 10,000

- 9. A debit balance in the Allowance for Doubtful Accounts
- a. is the normal balance for that account.
- b. indicates that actual bad debt write-offs have exceeded previous provisions for bad debts.
- c. indicates that actual bad debt write-offs have been less than what was estimated.
- d. cannot occur if the percentage of receivables method of estimating bad debts is used.
- 10. When the allowance method of accounting for uncollectible accounts is used, Bad Debt Expense is recorded
- a. in the year after the credit sale is made.
- b. in the same year as the credit sale.
- c. as each credit sale is made.
- d. when an account is written off as uncollectible.
- 11. To record estimated uncollectible accounts using the allowance method, the adjusting entry would be a
- a. debit to Accounts Receivable and a credit to Allowance for Doubtful Accounts.
- b. debit to Bad Debt Expense and a credit to Allowance for Doubtful Accounts.
- c. debit to Allowance for Doubtful Accounts and a credit to Accounts Receivable.
- d. debit to Loss on Credit Sales and a credit to Accounts Receivable.
- 12. Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are \$45,000. If the balance of the Allowance for Doubtful Accounts is \$6,000 credit before adjustment, what is the amount of bad debt expense for that period?
- a. \$45,000
- b. \$39,000
- c. \$51,000
- d. \$6,000

- 13. Using the percentage-of-receivables method for recording bad debt expense, estimated uncollectible accounts are \$45,000. If the balance of the Allowance for Doubtful Accounts is \$6,000 debit before adjustment, what is the balance after adjustment?
- a. \$45,000
- b. \$51,000
- c. \$39,000
- d. \$6,000
- 14. Non-trade receivables should be reported separately from trade receivables. Why is this statement either true or false?
- a. It is true because trade receivables are current assets and non-trade receivables are long term.
- b. It is false because all current receivables must be grouped together in one account.
- c. It is true because non-trade receivables do not result from business operations and should not be included with accounts receivable.
- d. It is false because management can decide how to report receivables.
- 15. In 20XX Wilkinson Company had net credit sales of \$2,250,000. On January 1, 20XX, Allowance for Doubtful Accounts had a credit balance of \$54,000. During 20XX, \$90,000 of uncollectible accounts receivable were written off. Past experience indicates that the allowance should be 10% of the balance in receivables (percentage of receivables basis). If the accounts receivable balance at December 31 was \$600,000, what is the required adjustment to the Allowance for Doubtful Accounts at December 31, 20XX?
- a. \$ 60,000
- b. \$ 25,000
- c. \$ 96,000
- d. \$ 90,000

# **EXERCISES**

January 5

<u>1.</u>	Strickman Company uses the allowance method for estimating uncollectible accounts.	Prepare
jοι	urnal entries to record the following transactions:	

Sold merchandise to Sue Land for \$1,800, terms n/15.

April August	<ul><li>Received \$400 from Sue Land on acc</li><li>Wrote off as uncollectible the balance</li></ul>		when she dec	clared
bankru	tcy.		When she dec	siarea .
Octobe	5 Unexpectedly received a check for \$6	650 from Sue Land.		
		5.1.	T 5.4%	0 - 11
		Date	Debit	Credit
			<u> </u>	
-				
		l	.1	
<b>2.</b> Com	oute the maturity value as indicated for each	of the following notes rece	eivable.	
A.	A \$9,000, 6%, 3-month note dated July 20.			
	Maturity value \$			
В.	A \$16,000, 9%, 150-day note dated August 5			
	Maturity value \$			

<u>3.</u> Merry Co. sells Christmas angels. Merry determines that at the end of December, they have the following aging schedule of Accounts Receivable:

<u>Customer</u>	<u>Total</u>			Number of Da	ys Past Due	
		Not yet due	<u>1–30</u>	<u>31–60</u>	<u>61–90</u>	<u>Over 90</u>
K. Brant	\$500		\$300	\$200		
D. Eaton	300	100			200	
S Klein	150			50		100
C. Sheen	200	200				
	?	300	300	250	200	100
% uncollectible	!	1%	5%	10%	25%	50%
Total Estimated Uncollectible						
Amounts	<u>?</u>	<u>?</u>	<u> </u>	<u>?</u>	<u> </u>	<u>?</u>

(a) Compute the total estimated uncollectible amounts.

(b) Compute the net receivables based on the above information at the end of December (There was no beginning balance in the Allowance for Doubtful Accounts).

**4.** The December 31, 20XX balance sheet of the Kramer Company had Accounts Receivable of \$650,000 and a credit balance in Allowance for Doubtful Accounts of \$33,000. During 2017, the following transactions occurred: sales on account \$1,550,000; sales returns and allowances, \$100,000; collections from customers, \$1,250,000; accounts written off, \$35,000; previously written off accounts of \$8,000 were collected.

#### (a) Journalize the 20XX transactions.

Date	Debit	Credit

(b) If the company uses the percentage of receivables basis to estimate bad debt expense and determines that uncollectible accounts are expected to be 6% of accounts receivable, what is the adjusting entry at December 31, 20XX?

# <u>5.</u> Prepare journal entries to record the following transactions entered into by the Merando Company:

24	~~	14
71	12	

**June 1** Received a \$10,000, 6%, 1-year note from Dan Gore as full payment on his account.

**Nov.** 1 Sold merchandise on account to Barlow, Inc., for \$14,000, terms 2/10, n/30.

**Nov. 5** Barlow, Inc., returned merchandise worth \$1,000.

**Nov.** 9 Received payment in full from Barlow, Inc.

**Dec. 31** Accrued interest on Gore's note.

#### 20X2

**June** 1 Dan Gore honored his promissory note by sending the face amount plus interest.

	Date	Debit	Credit
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<u>6.</u> Erickson Company had a \$300 credit balance in Allowance for Doubtful Accounts at December 31, 20XX, before the current year's provision for uncollectible accounts. An aging of the accounts receivable revealed the following:

		Estimated Percentage Uncollectible
Current Accounts	\$170,000	1%
1–30 days past due	15,000	3%
31–60 days past due	12,000	6%
61-90 days past due	5,000	15%
Over 90 days past due	9,000	30%
Total Accounts Receivable	\$211,000	

(a) Prepare the adjusting entry on December 31, 20XX, to recognize bad debts expense.

Date	Debit	Credit

**(b)** Assume the same facts as above except that the Allowance for Doubtful Accounts account had a \$300 debit balance before the current year's provision for uncollectible accounts. **Prepare the adjusting entry for the current year's provision for uncollectible accounts.** 

Date	Debit	Credit

### **Multiple Choice Solutions**

- 1. **B**
- 2. **D**
- 3. **A**
- 4. **D**
- 5. **A**
- 6. **C**
- 7. **A**
- 8. **D**
- 9. **B**
- 10. **B**
- 11. **B**
- 12. **B**
- 13. **A**
- 14. **C**
- 15. **C**

# **Exercise Solutions**

<u>1.</u>

	Date	Debit	Credit
Accounts Receivable – S. Land	Jan. 5	1,800	
Sales Revenue			1,800
Cash	Apr. 15	400	
Accounts Receivable- S. Land	1,000		400
Allowance for Doubtful Accounts	Aug. 21	1,400	
Accounts Receivable- S. Land			1,400
Accounts Receivable – S. Land	Oct. 5	650	
Allowance for Doubtful Accounts			650
Cash	Oct. 5	650	
Accounts Receivable- S. Land			650

#### **Exercise Solutions (Cont.)**

<u>2.</u>

A. Maturity value: \$9,135

Interest =  $$9,000 \times 6\% \times (3/12) = $135$ 

\$135 + \$9,000 = \$9,135 (Face val. + (Face val. × 6% × 3/12)

B. Maturity value: \$16,600

Interest = \$16,000 x 9% x (150/360) = \$600

\$600 + \$16,000 = \$16,600 (Face val. + (Face val. × 9% × 150/360))

3.

Customer	Total	Not yet due	Nur	Number of Days Past Due		Due
			1–30	31–60	61–90	Over 90
K. Brant	\$500		\$300	\$200		
D. Eaton	300	100			200	
S Klein	150			50		100
C. Sheen	200	200				
	1,150	300	300	250	200	_100
% uncollectible		1%	5%	10%	25%	50%
Total Estimated Uncollectible Amounts	(a) \$143	\$3	\$15	\$25	\$ 50	\$50

(b) \$1,150 - \$143 = \$1,007

# **Exercise Solutions (Cont.)**

# <u>4.</u> (a)

	Debit	Credit
Accounts Receivable	1,550,000	
Sales Revenue		1,550,000
(To record credit sales)		
Sales Returns and Allowances	100,000	
Accounts Receivable		100,000
(To record credits to customers)		
Cash	1,250,000	
Accounts Receivable		1,250,000
(To record collection of receivables)		
Allowance for Doubtful Accounts	35,000	
Accounts Receivable		35,000
(To write off specific accounts)		
Accounts Receivable	8,000	
Allowance for Doubtful Accounts		8,000
(To reverse write-off of account)		
Cash	8,000	
Accounts Receivable		8,000
(To record collection of account)		-

### **Exercise Solutions (Cont.)**

(b.)

Percentage of receivables basis:

				Allowance For Doubtful		
	Accounts Receivable			Accounts		
Bal.	650,000	100,000	35,000	Bal.	33,000	
	1,550,000	1,250,000			8,000	
	8,000	35,000		Bal.	6,000	
		8,000				
Bal.	815,000					
Required balance (\$815,000 × .06)					\$48,900 <u>6,000</u>	
<mark>Adjustı</mark>	Adjustment required					
ec. 31	Allowan	ensece for Doubtful Accounts		42,900	42,900	

#### <u>5.</u>

	Date	Debit	Credit
Notes Receivable	Jun. 1	10,000	
Accounts Receivable—D. Gore	20X1		10,000
Accounts Receivable—Barlow, Inc.	Nov. 1	14,000	
Sales Revenue	20X1		14,000
Sales Returns and Allowances	Nov. 5	1,000	
Accounts Receivable—Barlow, Inc.	20X1		1,000
Cash	Nov. 9	12,740	
Sales Discounts (\$13,000 x 0.02)	20X1	260	
Accounts Receivable—Barlow, Inc. (sales – ret.) × (1 – .02)			13,000
Interest Receivable	Dec. 31	350	
Interest Revenue (\$10,000 x 6% x (7 ÷ 12) = \$350)	20X1		350
Cash	Jun. 1	10,600	
Notes Receivable	20X2		10,000
Interest Receivable			350
Interest Revenue (\$10,000 x 6% x (5 ÷ 12) = \$250)			250

# <u>6.</u>

	Current Accounts 1–30 days past due 31–60 days past due 61–90 days past due Over 90 days past due Total Accounts Receivable **(A/R amounts × est. uncoll. %)	\$170,000 15,000 12,000 5,000 9,000 \$211,000	Estimated Percentage Uncollectible  1% 3% 6% 15% 30%	Estimated <u>Uncollectible</u> \$1,700 450 720 750 2,700 \$6,320*	
(a)	Bad Debt Expense	6,020 le)	6,020		
(b)	Bad Debt ExpenseAllowance for Doubtful Acc (To adjust the allowance	counts (\$6,32		6,620 le)	6,620