## 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

Accounts Receivable—Ray Company
b. Notes Receivable

Accounts Receivable—Ray Company Interest Revenue
c. Notes Receivable

Interest Receivable
Accounts Receivable-Ray Company
Interest Revenue

10,150

10,150

10,150
10,000
150

10,000
150
10,000
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 $\$ \mathbf{\$ , 0 0 0}$ 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

1. Strickman Company uses the allowance method for estimating uncollectible accounts. Prepare journal entries to record the following transactions:

January 5 Sold merchandise to Sue Land for $\$ 1,800$, terms $\mathrm{n} / 15$.
April 15 Received $\$ 400$ from Sue Land on account.
August 21 Wrote off as uncollectible the balance of the Sue Land account when she declared bankruptcy.
October 5 Unexpectedly received a check for $\$ 650$ from Sue Land.

|  | Date | Debit | Credit |
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2. Compute the maturity value as indicated for each of the following notes receivable.
A. A $\$ 9,000,6 \%, 3$-month note dated July 20.

Maturity value \$ $\qquad$ .
B. $\quad \mathrm{A} \$ 16,000,9 \%, 150$-day note dated August 5 .

Maturity value $\$$ $\qquad$ .
3. Merry Co. sells Christmas angels. Merry determines that at the end of December, they have the following aging schedule of Accounts Receivable:

(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 |
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(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?

## 5. Prepare journal entries to record the following transactions entered into by the Merando

 Company:20X1
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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6. 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:

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

|  | Estimated Percentage <br> Uncollectible |
| ---: | :---: |
| $\$ 170,000$ | $1 \%$ |
| 15,000 | $3 \%$ |
| 12,000 | $6 \%$ |
| 5,000 | $15 \%$ |
| 9,000 | $30 \%$ |
| $\underline{\$ 211,000}$ |  |

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

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| :--- | :--- | :---: | :---: |
|  | Date | Debit | Credit |
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(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 |
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## Chapter 8 Solutions

## Multiple Choice Solutions

1. B
2. D
3. A
4. D
5. A
6. C
7. $\mathbf{A}$
8. D
9. B
10. B
11. B
12. B
13. A
14. C
15. C

## Exercise Solutions

1. 

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

## Chapter 8 Solutions

## Exercise Solutions (Cont.)

2. 

A. Maturity value: $\mathbf{\$ 9 , 1 3 5}$

Interest $=\$ 9,000 \times 6 \% \times(3 / 12)=\$ 135$
$\$ 135+\$ 9,000=\$ 9,135$ (Face val. $+($ Face val. $\times 6 \% \times 3 / 12)$
B. Maturity value: $\mathbf{\$ 1 6 , 6 0 0}$

Interest $=\$ 16,000 \times 9 \% \times(150 / 360)=\$ 600$
$\$ 600+\$ 16,000=\$ 16,600$ (Face val. $+($ Face val. $\times 9 \% \times 150 / 360$ )
3.

| Customer | Total | Not yet | Number of Days Past 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 <br> Uncollectible <br> Amounts | (a) \$143 | \$3 | \$15 | \$25 | \$ 50 | \$50 |

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

## Chapter 8 Solutions

## Exercise Solutions (Cont.)

4. (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) |  |  |
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## Chapter 8 Solutions

## Exercise Solutions (Cont.)

(b.)

Percentage of receivables basis:

| 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 |
| Bal. | 815,000 | 8,000 |  |  |  |
| Required balance (\$815,000 $\times .06$ ) |  |  |  |  | \$48,900 |
| Balance before adjustment |  |  |  |  | 6,000 |
| Adjustment required |  |  |  |  | \$42,900 |

Dec. 31

5.

|  | 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 ( $\mathbf{1 3 , 0 0 0 \times 0 . 0 2 \text { ) }}$ | 20X1 | 260 |  |
| Accounts Receivable-Barlow, Inc. (sales - ret.) × (1-.02) |  |  | 13,000 |
| Interest Receivable | Dec. 31 | 350 |  |
| Interest Revenue ( $\mathbf{\$ 1 0 , 0 0 0 \times 6 \% \times ( 7 \div 1 2 ) = \$ 3 5 0 )}$ | 20x1 |  | 350 |
| Cash | Jun. 1 | 10,600 |  |
| Notes Receivable | 20X2 |  | 10,000 |
| Interest Receivable |  |  | 350 |
| Interest Revenue ( $\mathbf{1 0 , 0 0 0 \times 6 \% \times ( 5 \div 1 2 ) = \$ 2 5 0 )}$ |  |  | 250 |
|  |  |  |  |

6. 

|  |  | Estimated Percentage Uncollectible | Estimated Uncollectible |
| :---: | :---: | :---: | :---: |
| Current Accounts | \$170,000 | 1\% | \$1,700 |
| 1-30 days past due | 15,000 | 3\% | 450 |
| 31-60 days past due | 12,000 | 6\% | 720 |
| $61-90$ days past due | 5,000 | 15\% | 750 |
| Over 90 days past due | 9,000 | 30\% | 2,700 |
| Total Accounts Receivable | \$211,000 |  | \$6,320* |
| **(A/R amounts $\times$ est. uncoll. \%) |  |  |  |


| (a) | Bad Debt Expense | 6,020 | 6,020 |
| :---: | :---: | :---: | :---: |
|  | Allowance for Doubtful Accounts (\$6,320 - \$300) $\qquad$ <br> (To adjust the allowance account to total estimated uncollectible) (Est. uncoll. amount - end. ADA bal.) |  |  |
| (b) | Bad Debt Expense | 6,620 |  |
|  | Allowance for Doubtful Accounts $(\$ 6,320+\$ 300)$ $\qquad$ <br> (To adjust the allowance account to total estimated uncollectible) |  | 6,620 |

