Work4Me

Algorithmic Version

1st Web-Based Edition

Problem Ten

Accounting for Bad Debts
## CHART OF ACCOUNTS

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>101  Cash</td>
<td>401  Sales</td>
</tr>
<tr>
<td>105  Accounts Receivable</td>
<td>402  Sales Returns and Allowances</td>
</tr>
<tr>
<td>106  Allowance for Doubtful Accounts</td>
<td>403  Sales Discounts</td>
</tr>
<tr>
<td>109  Notes Receivable</td>
<td></td>
</tr>
<tr>
<td>113  Interest Receivable</td>
<td></td>
</tr>
<tr>
<td>115  Merchandise Inventory</td>
<td></td>
</tr>
<tr>
<td>121  Prepaid Insurance</td>
<td>501  Cost of Goods Sold</td>
</tr>
<tr>
<td>123  Prepaid Rent</td>
<td></td>
</tr>
<tr>
<td>125  Prepaid Advertising</td>
<td></td>
</tr>
<tr>
<td>127  Store Supplies</td>
<td></td>
</tr>
<tr>
<td>129  Office Supplies</td>
<td>601  Salaries and Wages Expense</td>
</tr>
<tr>
<td>131  Store Equipment and Fixtures</td>
<td>602  Store Supplies Expense</td>
</tr>
<tr>
<td>132  Accum. Depre., Store Equip. and Fix.</td>
<td>603  Office Supplies Expense</td>
</tr>
<tr>
<td>135  Office Equipment</td>
<td>604  Advertising Expense</td>
</tr>
<tr>
<td>136  Accum. Depre., Office Equipment</td>
<td>606  Delivery Expense</td>
</tr>
<tr>
<td>136  Delivery Vehicles</td>
<td>608  Vehicle Operating Expense</td>
</tr>
<tr>
<td>150  Land</td>
<td>612  Depre. Exp., Office Equip.</td>
</tr>
<tr>
<td></td>
<td>615  Depre. Exp., Delivery Vehicles</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>201  Accounts Payable</td>
<td>621  Rent Expense</td>
</tr>
<tr>
<td>203  Short-term Notes Payable</td>
<td>622  Insurance Expense</td>
</tr>
<tr>
<td>205  Sales Tax Payable</td>
<td>623  Professional Services Expense</td>
</tr>
<tr>
<td>209  Salaries &amp; Wages Payable</td>
<td>624  Electric and Gas Expense</td>
</tr>
<tr>
<td>212  Dividends Payable</td>
<td>625  Telephone Expense</td>
</tr>
<tr>
<td>215  Interest Payable</td>
<td>626  Property Tax Expense</td>
</tr>
<tr>
<td>218  Property Tax Payable</td>
<td>627  Bank Service Charges</td>
</tr>
<tr>
<td>221  Revenue Received In Advance</td>
<td>628  Bad Debts Expense</td>
</tr>
<tr>
<td>231  Income Taxes Payable</td>
<td>629  Miscellaneous Expense</td>
</tr>
<tr>
<td>251  Long-term Notes Payable</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>STOCKHOLDERS’ EQUITY</strong></td>
</tr>
<tr>
<td>301  Common Stock</td>
<td>701  Bad Debts Recovered</td>
</tr>
<tr>
<td>305  Retained Earnings</td>
<td>711  Interest Earned</td>
</tr>
<tr>
<td>310  Cash Dividends Declared</td>
<td></td>
</tr>
<tr>
<td><strong>INCOME SUMMARY</strong></td>
<td><strong>OTHER REVENUE</strong></td>
</tr>
<tr>
<td>901  Income Summary</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>OTHER EXPENSES</strong></td>
</tr>
<tr>
<td></td>
<td>711  Interest Earned</td>
</tr>
<tr>
<td></td>
<td>811  Interest Expense</td>
</tr>
<tr>
<td></td>
<td>821  Income Taxes Expense</td>
</tr>
<tr>
<td></td>
<td><strong>INCOME SUMMARY</strong></td>
</tr>
</tbody>
</table>
PROBLEM TEN
Accounting for Bad Debts

In this problem your work will deal with the recognition of bad debts, writing off and reinstating bad debt write-offs, bad debt recoveries, and the year-end adjustment for bad debts for a business that uses the allowance method of recognizing bad debts expense. Note that the only “adjusting entry” in this problem will be for bad debt (or uncollectible accounts) expense. No other adjustments will be required.

1. Go to [www.pklsoftware.com](http://www.pklsoftware.com), select Work4Me, and log in.

2. From the Menu Bar of the Data Entry page, select Problem 10, Accounting for Bad Debts.

3. Print a copy of the Trial Balance.

4. Print a copy of the Schedule of Accounts Receivable and All Customers.

5. Click on Daily JE and begin the recording process of the transactions for the balance of December.

Journal entries have been recorded and posted for December 1 to December 22. Your job will be to record the daily entries for December 23-31.

TRANSACTIONS FOR DECEMBER 23 to 31

December 23

From the printout of All Customers:
1) Find the balance of the Clinker’s Plumbing (10760) account and write the balance here: $_______________

2) Find the balance of the Kathy Taylor (11250) account and write the balance here: $_______________

3) Find the balance of the Robert Wise (11330) account and write the balance here: $_______________

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December 23

Record the write off of Clinker’s Plumbing account receivable balance. The account number 10760 is dated August 5 of this year. Invoice Number: WROFF (for Write off).
Transactions for December 23 to 31 continued…

December 24
Record a credit sale to Folsom School District for $12,500.00, plus sales tax of 8%. A second journal entry to update the Cost of Goods Sold account and the Merchandise Inventory account is NOT required at this time. For this problem a summary entry for the merchandise and merchandise return activity will be made at the end of the month. Invoice Number: MB456. Customer Number: 10830.

December 24
A certified check was received from Alex Anderson for $3,000.00. His account was written off on December 16, using the allowance method of accounting for bad debts. Record the two required entries for partial recovery of an account within the same accounting period in which it was written off. Invoice Number: RECOV (for Recovery). Customer Number: 10350.

December 26
Record a cash sale of $6,450.00, plus sales tax of 8%. A second entry to update the Cost of Goods account and the Merchandise Inventory account is not required at this time. Invoice Number: MB457.

December 27
A certified check for $6,500.00 was received from the settlement of Bob’s Auto Repair bankruptcy proceedings. The account was written off in a prior accounting period. Two entries are required: (1) reinstate (debit) the account receivable, which will include a credit to account 701, Bad Debts Recovered (this credit to a revenue account will offset the prior period expense) and (2) debit Cash and credit Accounts Receivable for the amount of the cash received. Invoice Number: RECOV. Customer Number: 10440.
Transactions for December 23 to 31 continued…

December 28
Record the collection of $17,600.00 from customer Ernie Young for full settlement of his account. Invoice Number: MB279. Customer Number: 11475.

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December 28
Record the credit sale of $8,748, which includes 8% sales tax, to Marshal Motors. A second entry to the Cost of Goods Sold is not required at this time. Invoice Number: MB458. Customer Number: 10900.

************************************************

December 28
Record the receipt of a check for 1/2 of the balance of the Clinker’s Plumbing account receivable, which was written off on December 23. Invoice Number: RECOV. Customer Number: 10760.

Remember to record the reinstatement entry and then the collection of the account balance.

************************************************

December 29
Building supplies were sold on credit to Marshal Motors for $75,600.00, plus sales tax. A second entry is not required. Invoice Number: MB459. Customer Number: 10900.

************************************************

December 30
Merchandise Inventory was purchased for $81,000.00 cash. Check Number: 11222. Invoice Number: 57777.

************************************************

December 30
Transactions for December 23 to 31 continued…

Student Analysis

December 31
Kathy Taylor paid one-half (1/2) of her account balance. Invoice Number: MB260. Customer Number: 11250.

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December 31
The summary entry for total of the Cost of Goods Sold requires a debit to Cost of Goods Sold (501) and a credit to Merchandise Inventory (115) for $51,325.00. Invoice Number: CGSLD (for Cost of Merchandise Sold).

*******************************************************************************

This Concludes the Daily Entries Problem Ten – Accounting for Bad Debts

The Adjusting Entry for Bad Debts Expense

December 31
The allowance for doubtful accounts is based on an aging of accounts receivable. Based on past experience, a computer analysis of all the individual accounts receivable indicates a probability that $6,500.00 of the current balance of accounts receivable will not be collected in the future. Record the appropriate adjusting entry required to adjust the Allowance for Doubtful Accounts account to this estimated balance.

Be sure to record this entry in the Adjusting JE mode. This is the only adjusting entry for this problem.

*******************************************************************************
1. Move the pointer to Journal/Ledgers/Statements in the Menu Bar, move down to the General Ledger selection and click. The completed Trial Balance will appear on the screen. Print the trial balance.

2. Move the pointer to Check Figures in the Menu Bar. Select Problem Check Figures and Print the Check Figures for Problem Ten – Accounting for Bad Debts.

If ‘Your Balances” do not match the “Correct Balances” of the selected account totals in the Check Figures for Problem 10, you must correct the unmatched balances before answering the evaluation questions. Review instructions in How to Correct Journal Entries.

If ‘Your Balances” match the “Correct Balances” for the selected account totals in the Check Figures for Problem 10, then complete the adjusting entry on the next page, and answer the questions on the examination on the last page of this manual.

Print the following:

1. The General Journal
2. Adjusted Trial Balance
3. Schedule of Accounts Receivable
5. When all of the required documents have been printed, you have completed your computer work for Problem Ten – Accounting for Bad Debts. To exit this problem, click on Log Out. From the PKL software Home Page you may make another selection or exit the website by clicking on the Close button.

6. Use your printed documents to answer the questions to the examination on the next page. After you have filled in the answers, log in to Problem Ten – Accounting for Bad Debts, move the pointer to Evaluations and complete Exam 10: Accounting for Bad Debts. You may print the examination to hand in to your professor or, if required, email your examination to your professor.
1. What is the correct ending balance of Accounts Receivable?  
   $________________

2. What is the ending balance of the Allowance for Doubtful Accounts?  
   $________________

3. What is the ‘net realizable value’ of Accounts Receivable?  
   $________________

4. What is the ending balance of Bad Debts Recovered?  
   $________________

5. What was the amount of the credit to the Allowance for Doubtful Accounts for the December 24 collection of a previously written off account?  
   $________________

6. What was the amount of the credit to the Bad Debts Recovered account for the December 27 collection of the account written off in a previous accounting period?  
   $________________

7. The December 28 collection of 1/2 of the balance of a previously written off account required a credit to Allowance for Doubtful Accounts for the full amount?  
   A) True  
   B) False

8. If the Income Statement method of determining the Allowance for Doubtful accounts had been used, based on 4% of Net Sales, what would have been the dollar amount of the adjusting entry to record the bad debt expense?  
   $________________

9. The aging method used in Problem 10, gave $6,500 as the calculated balance of the Allowance for Doubtful Accounts account. If the allowance account had a debit balance of $1,300 before the adjusting entry, what would have been the dollar amount recorded for the adjusting entry?  
   $________________

10. Assume the business uses the Balance Sheet (or Accounts Receivable) method of estimating bad debts for the period and the Allowance for Doubtful Accounts account at the end of the period has a credit balance of $500. If the business estimates current bad debts at 3% of the correct current Accounts Receivable balance, what will be amount of the debit to the Bad Debt Expense account?  
    $________________
11. If the business is not using the allowance method for handling bad debts, it must be using the:
   A. Indirect method
   B. Direct Write-off method
   C. Closing method
   D. Aging method
   E. Receivable method

12. If the allowance method is not used, what account would be debited to write off a bad debt?
   A. Accounts Receivable
   B. Allowance for Doubtful Accounts
   C. Bad Debts Expense
   D. Accounts Payable
   E. None of the above

13. If the allowance method is not used, what account would be credited to write off a bad debt?
   A. Accounts Receivable
   B. Allowance for Doubtful Accounts
   C. Bad Debts Expense
   D. Accounts Payable
   E. None of the above

14. Which method of accounting for bad debts does the best job of matching the expenses of the period with the revenues of the same period?
   A. Cash method
   B. Direct Write-off method
   C. Indirect method
   D. Allowance method
   E. Inventory method

15. What account is debited when recording the adjusting entry for a business that uses the Direct Write-off Method?
   A. Bad Debts Expense
   B. Cash
   C. There is no adjusting entry required
   D. Allowance for Doubtful Accounts
   E. Both Accounts Receivable and Allowance for Doubtful Accounts