

Work4Me I Accounting Simulations

3rd Edition

Problem Ten

Accounting for Bad Debts

**Mike's Building Supplies, Incorporated
CHART OF ACCOUNTS**

ASSETS	REVENUE
101 Cash	401 Tools and Accessory Sales
105 Accounts Receivable	402 Sales Returns and Allowances
106 Allowance for Doubtful Accounts	403 Sales Discounts
109 Notes Receivable	
113 Interest Receivable	COST OF GOODS SOLD
115 Merchandise Inventory	
121 Prepaid Insurance	501 Cost of Goods Sold
123 Prepaid Rent	
125 Prepaid Advertising	OPERATING EXPENSES
127 Store Supplies	
129 Office Supplies	601 Salaries and Wages Expense
131 Store Equipment and Fixtures	602 Store Supplies Expense
132 Accum. Depre., Store Equip. and Fix.	603 Office Supplies Expense
135 Office Equipment	604 Advertising Expense
136 Accum. Depre., Office Equipment	606 Delivery Expense
136 Delivery Vehicles	608 Vehicle Operating Expense
140 Accum. Depre., Delivery Vehicles	610 Depre. Exp., Store Equip. and Fix.
150 Land	612 Depre. Exp., Office Equip.
	615 Depre. Exp., Delivery Vehicles
LIABILITIES	621 Rent Expense
	622 Insurance Expense
201 Accounts Payable	623 Professional Services Expense
203 Short-Term Notes Payable	624 Electric and Gas Expense
205 Sales Tax Payable	625 Telephone Expense
209 Salaries & Wages Payable	626 Property Tax Expense
212 Dividends Payable	627 Bank Service Charges
215 Interest Payable	628 Bad Debts Expense
218 Property Tax Payable	629 Miscellaneous Expense
221 Revenue Received In Advance	
231 Income Taxes Payable	OTHER REVENUE
251 Long-Term Notes Payable	
STOCKHOLDERS' EQUITY	701 Bad Debts Recovered
	711 Interest Earned
301 Common Stock	OTHER EXPENSES
305 Retained Earnings	
310 Cash Dividends Declared	811 Interest Expense
	821 Income Taxes Expense

INCOME SUMMARY

PROBLEM 10

Mike’s Building Supplies, Incorporated 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 expense**. **No other adjustments will be required.**

1. Go to 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**.

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.** When your trial balance totals match the “Check It Out” box, you will then enter the required adjusting entry estimating the Bad Debts Expense for the period ending December 31.

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

TRANSACTIONS FOR DECEMBER 23

Student Analysis

December 23

Record the write off of Clinker’s Plumbing accounts receivable balance of **\$500**. The account number **10760** is dated August 5 of this year. At the invoice prompt, type **WROFF**.

December 24

Record a credit sale to Folsom School District (**10830**) for **\$12,500**, plus sales tax of **8%**. The invoice number is **MB456**. **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.

TRANSACTIONS FOR DECEMBER 23

Student Analysis

December 24

Received a certified check from Alex Anderson (10350) for \$3,000. His account of \$4,550 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. At the invoice prompt type **RECOV**.

December 26

Record a cash sale of \$6,450, plus sales tax. The invoice number is **MB457**. A second entry to update the Cost of Goods account and the Merchandise Inventory account is not required at this time.

December 27

Received a certified check for \$6,500 from the settlement of Bob's Auto Repair bankruptcy proceedings. The account (10440), was written off in a prior accounting period. Two entries are required. For the first entry, to reinstate the accounts receivable balance, **credit account 701, Bad Debts Recovered. This will offset the prior period expense with a credit this period to an other revenue account.** At the invoice prompt enter **RECOV**. The second entry will account for the cash received.

December 28

Record the collection of \$17,600 from customer Ernie Young for full settlement of his account (11475). The invoice number is **MB279**.

December 28

Record the credit sale of \$8,748, which includes 8% sales tax, to Marshal Motors (10900). The invoice number is **MB458**. A second entry is not required.

TRANSACTIONS FOR DECEMBER 23

Student Analysis

December 28

Record the receipt of a check for 1/2 of the balance of the Clinker's Plumbing (**10760**) account receivable, which was written off on December 23. At the invoice prompt, type **RECOV**. Remember to record the reinstatement entry and then the collection of the account balance.

December 29

Sold on credit, \$75,600 in Building Supplies to Marshal Motors (**10900**). The invoice number is **MB459**. Remember to include the sales tax. A second entry is not required.

December 30

Purchased Merchandise Inventory for \$81,000 cash. The check number is **11222** and the invoice number for this transaction is **57777**.

December 30

Wrote off the Robert Wise account (**11330**) balance of \$10,560 as uncollectible. (Invoice number **WROFF**)

December 31

Kathy Taylor (**11250**) paid \$5,000 of her account balance. The invoice number is **MB260**.

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**. At the invoice prompt enter **CGSLD** for Cost of Merchandise Sold.

After completing the entries for December 23 to December 31, check your Trial Balance totals with the “Check It Out” box, below. If your balances match the check figures proceed to the Adjusting Entries at the bottom of this page. If your balances do not match the check figures, you must locate and correct your errors before you continue.

“CHECK IT OUT”		
101	Cash	\$ 30,537.00
105	Accounts Receivable	109,896.00
106	Allowance for Doubtful Accounts	190.00
205	Sales Tax Payable	8,212.00
401	Sales	252,050.00
501	Cost of Goods Sold	123,700.00
TRIAL BALANCE TOTAL		\$439,787.00

Adjusting Entry for Bad Debts.

If your Trial Balance totals match the “Check It Out” box figures, you are ready to record the adjusting entry for bad debts.

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** 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 will be the only adjusting entry for this problem. The Adjusted Trial Balance total after this entry has been recorded will be \$446,097.00.**

When you have matched the check figure above, print the following documents:

1. The General Journal
2. Adjusted Trial Balance
3. Schedule of Accounts Receivable
4. General Ledger accounts 106, 628, and 701.

Use your printed documents to answer the analysis questions for Problem 10.

WORK4ME I - PROBLEM TEN
ACCOUNTING FOR BAD DEBTS

NAME _____
CLASS DAY AND TIME _____ **DATE** _____

1. Does the balance of the Accounts Receivable account match the total of the schedule of Accounts Receivable? _____
Answer only Y for Yes or N for No.

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

3. What is the ending balance of Bad Debts Recovered? \$ _____

4. What is the 'net realizable value' of Accounts Receivable? \$ _____

5. The December 24 collection of a previously written off account included a credit to Allowance for Doubtful Accounts? _____
Answer only Y for Yes or N for No.

6. The December 27 collection of the account written off in a previous accounting period required a credit to Bad Debt Expense. _____
Answer only Y for Yes or N for No.

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? **Answer only Y for Yes or N for No.** _____

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 a current Accounts Receivable balance of \$200,000, the amount of the debit to the Bad Debt Expense account will be:
- A. **\$6,000**
 - B. **\$6,500**
 - C. **\$5,500**
 - D. **\$10,500**
 - E. **None of the above.**
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**