

On December 31, 1993, ABC Company's records showed the following results for the year:

Cash sales	165,000
Credit sales	210,000

In addition, the unadjusted trial balance included the following items:

Accounts Receivable	68,000 Debit
Allowance for doubtful accounts	3,200 Debit

Required:

1. Prepare the adjusting entry needed on the books of ABC Company to recognize bad debts under each of the following independent assumptions:
 - a. Bad debts are estimated to be 1.5 % of total sales
 - b. Bad debts are estimated to be 3 % of credit sales
 - c. It is estimated that 8 % of outstanding receivables at December 31 will be uncollectible.
2. Show how Accounts Receivable and the Allowance for Doubtful Accounts would appear on the December 31, 1993 Statement of Financial Position (Balance Sheet) given the facts in 1b.
3. Show how Accounts Receivable and the Allowance for Doubtful Accounts would appear on the December 31, 1993 Statement of Financial Position (Balance Sheet) given the facts in 1c.

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	ACCOUNT	DEBIT	CREDIT
a)			
	Explain:		
b)			
	Explain:		
c)			
	Explain:		

Part 2

Accounts Receivable		
Less Allowance for Doubtful Accounts		

Part 3

Accounts Receivable		
Less Allowance for Doubtful Accounts		

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DATE	ACCOUNT	DEBIT	CREDIT
1a)	Bad Debt Expense	5,625	
	Allowance for Doubtful Accounts		5,625
	Explain: $(165,000 + 210,000) \times 1.5\%$		
1b)	Bad Debt Expense	6,300	
	Allowance for Doubtful Accounts		6,300
	Explain: $210,000 \times 3\%$		
1c)	Bad Debt Expense	8,640	
	Allowance for Doubtful Accounts		8,640
	Explain: $68,000 \times 8\% = 5,440$ Credit, the required ending balance of the Allowance Account. Current balance 3,200 Debit		

Part 2

Accounts Receivable	68,000	
Less Allowance for Doubtful Accounts	<u>3,100</u>	64,900

Part 3

Accounts Receivable	68,000	
Less Allowance for Doubtful Accounts	<u>5,440</u>	62,560