

Problem 8-4A (30 minutes)

Part 1

BRANCH COMPANY Bank Reconciliation July 31, 2017			
Bank statement balance	\$27,233	Book balance	\$27,497
Add		Add	
Deposit of July 31	<u>11,514</u>	Proceeds of note less	
	38,747	collection charge	<u>7,955</u>
			35,452
Deduct		Deduct	
Checks No. 3031 \$1,482		NSF check	\$ 805
3065 382		Service charge	25
3069 <u>2,281</u>	<u>4,145</u>	Error (Check 3056) .	<u>20</u>
Adjusted bank balance	<u>\$34,602</u>	Adjusted book balance	<u>\$34,602</u>

Part 2

July 31	Rent Expense	20	
	Cash		20
	<i>Correct an entry error.</i>		
July 31	Cash	7,955	
	Collection Expense	45	
	Notes Receivable		8,000
	<i>Record note collection less fees.</i>		
July 31	Accounts Receivable—E. Shaw	805	
	Cash		805
	<i>Charge account for NSF check plus fees.</i>		
July 31	Miscellaneous Expenses	25	
	Cash		25
	<i>Record bank service fee.</i>		

Problem 8-4A (Concluded)

Part 3

- a. If the company's Cash account balance of \$27,497 is listed on the bank reconciliation as \$27,947 then:
 - (i) The final balance that results from adjusting the bank statement balance will not be affected by the error; and
 - (ii) The final balance that results from adjusting the book balance of cash will be overstated by \$450 ($\$27,947 - \$27,497$), and the bank reconciliation will not balance.

- b. The bank's collection of the \$8,000 note less the \$45 collection fee should have been added to the book balance of cash. Instead, it was added to the bank statement balance. As a result:
 - (i) The final balance that results from adjusting the bank statement balance will be overstated by \$7,955; and
 - (ii) The final balance that results from adjusting the book balance will be understated by \$7,955.

Problem 9-2A (35 minutes)

Part 1

- a. Expense is 1.5% of credit sales

Dec. 31	Bad Debts Expense.....	85,230	
	Allowance for Doubtful Accounts		85,230
	<i>Record estimated bad debts</i>		
	<i>[\$5,682,000 x .015].</i>		

- b. Expense is 1% of total sales

Dec. 31	Bad Debts Expense.....	75,870	
	Allowance for Doubtful Accounts		75,870
	<i>Record estimated bad debts</i>		
	<i>[(\$1,905,000 + \$5,682,000) x .01].</i>		

- c. **Allowance is 5% of accounts receivable**

Dec. 31	Bad Debts Expense.....	80,085	
	Allowance for Doubtful Accounts		80,085
	<i>Record estimated bad debts.*</i>		
	* Unadjusted balance	\$16,580	debit
	Estimated balance (\$1,270,100 x 5%)	<u>63,505</u>	credit
	Required adjustment	<u>\$80,085</u>	credit

Part 2

Current assets

Accounts receivable.....	\$1,270,100	
Less allowance for doubtful accounts	<u>(68,650)*</u>	\$1,201,450

Or: Accounts receivable (net of \$68,650*
uncollectible accounts) \$1,201,450

* Adjustment to the allowance	\$85,230	credit
Unadjusted allowance balance	<u>16,580</u>	debit
Adjusted balance.....	<u>\$68,650</u>	credit

Part 3

Current assets

Accounts receivable.....	\$1,270,100	
Less allowance for doubtful accts.....	<u>(63,505)**</u>	\$1,206,595

Or: Accounts receivable (net of \$63,505**
uncollectible accounts) \$1,206,595

** See computations in Part 1c.

Problem 9-3A (35 minutes)

Part 1

Calculation of the estimated balance of the allowance for uncollectibles

Not due:	\$830,000 x .0125 =	\$10,375
1 to 30:	254,000 x .0200 =	5,080
31 to 60:	86,000 x .0650 =	5,590
61 to 90:	38,000 x .3275 =	12,445
Over 90:	12,000 x .6800 =	<u>8,160</u>
		<u>\$41,650</u> credit

Part 2

Dec. 31	Bad Debts Expense.....	27,150	
	Allowance for Doubtful Accounts		27,150
	<i>Record estimated bad debts.*</i>		

* Unadjusted balance	\$14,500 credit
Estimated balance	<u>41,650</u> credit
Required adjustment	<u>\$27,150</u> credit

Part 3

Writing off the account receivable in 2018 will not directly affect year 2018 net income. The entry to write off an account involves a debit to Allowance for Doubtful Accounts and a credit to Accounts Receivable, both of which are balance sheet accounts. Net income is affected only by the annual recognition of the estimated bad debts expense, which is journalized as an adjusting entry. Net income for Year 2017 (the year of the original sale) included an estimated expense for write-offs such as this one.

Problem 9-4A (35 minutes)

2016

a.	Accounts Receivable	1,345,434	
	Sales		1,345,434
	<i>Record sales on account.</i>		
	Cost of Goods Sold	975,000	
	Merchandise Inventory		975,000
	<i>Record cost of sales.</i>		
b.	Allowance for Doubtful Accounts.....	18,300	
	Accounts Receivable		18,300
	<i>Write off accounts.</i>		
c.	Cash.....	669,200	
	Accounts Receivable		669,200
	<i>Record cash received on account.</i>		
d.	Bad Debts Expense.....	28,169	
	Allowance for Doubtful Accounts		28,169
	<i>Record estimated bad debts.*</i>		

*Beginning receivables	\$	0	
Credit sales		1,345,434	
Collections		(669,200)	
Write-offs.....		<u>(18,300)</u>	
Ending receivables		657,934	
Percent uncollectible.....		<u>x 1.5%</u>	
Required ending allowance.....		9,869**	Cr.
Unadjusted balance		<u>18,300</u>	Dr.
Adjustment to the allowance	\$	<u>28,169</u>	Cr.

**** rounded to nearest dollar**

Problem 9-4A (Concluded)

2017

e.	Accounts Receivable	1,525,634	
	Sales		1,525,634
	<i>Record sales on account.</i>		
	Cost of Goods Sold.....	1,250,000	
	Merchandise Inventory		1,250,000
	<i>Record cost of sales.</i>		
f.	Allowance for Doubtful Accounts	27,800	
	Accounts Receivable		27,800
	<i>Record write-off of accounts.</i>		
g.	Cash	1,204,600	
	Accounts Receivable		1,204,600
	<i>Record cash received on account.</i>		
h.	Bad Debts Expense.....	32,199	
	Allowance for Doubtful Accounts		32,199
	<i>Record estimated bad debts.*</i>		

*Beginning receivables	\$ 657,934	
Credit sales.....	1,525,634	
Collections.....	(1,204,600)	
Write-offs	<u>(27,800)</u>	
Ending receivables	951,168	
Percent uncollectible	<u>x 1.5%</u>	
Required ending allowance	14,268**	Cr.
Unadjusted balance		
Beginning (Cr.)	\$ 9,869	
Write-offs (Dr.)	<u>27,800</u>	
Adjustment to the allowance.....	<u>17,931</u>	Dr.
	<u>\$ 32,199</u>	Cr.

** rounded to nearest dollar