Nikki's Products is undecided about which base to use in estimating uncollectible accounts. On December 31, 2013, the balance in Accounts Receivable was $680,000 and net credit sales amounted to $3,800,000 during 2013. The Credit Manager estimates that 6% of the receivables will not be collected. The Marketing Manager guesses that about 1% of net credit sales eventually are uncollectible.

**Instructions**

Prepare the adjusting entries to record estimated bad debts expense using the (1) percentage of sales basis and (2) the percentage of receivables basis under each of the following independent assumptions:

(a) Allowance for Doubtful Accounts has a credit balance of $3,200 before adjustment.

(b) Allowance for Doubtful Accounts has a debit balance of $730 before adjustment.

(c) The Managers get a bonus based on the company’s net income. If the Allowance for Doubtful Accounts has a debit balance of $730 (scenario b), which method will give them a bigger bonus?