**Problem 4**

**(a)-(1) Use Aging Schedule, % of AR, or amount related to AR,**

In this problem, they say **11,750** of accounts receivable will be uncollectible

Dec 31, 2020: Dr. Bad Debt Expense 10,950

Cr. Allowances for Doubtful Accounts 10,950

Allowances for Doubtful Accounts

Dec 31, 20 800

Adjusting 10,950

**Adjusted bal. 11,750**

**(a)-(2) use % of sales (1% of sales)**

**(1% of 918,000 = 9,180)**

Dec 31, 2020: Dr. Bad Debt Expense 9,180

Cr. Allowances for Doubtful Accounts 9,180

Allowances for Doubtful Accounts

Dec 31, 20 800

Adjusting 9,180

**Adjusted bal. 9,980**

**(b)-(1) Aging Schedule of AR:** still says that $11,750 of accounts receivable will be uncollectible, except that unadjusted balance is 800 in Allowances for Doubtful Accounts is Debit.

Dec 31, 2020: Dr. Bad Debt Expense 12,550

Cr. Allowances for Doubtful Accounts 12,550

Allowances for Doubtful Accounts

Dec 31, 20 800

Adjusting 12,550

**Adjusted bal. 11,750**

**(b)-(2) 1% of credit sales**

Dec 31, 2020: Dr. Bad Debt Expense 9,180

**Cr. Allowances for Doubtful Accounts 9,180**

Allowances for Doubtful Accounts

Dec 31, 20 800

Adjusting 9,180

**Adjusted bal. 8,380**

When we come to the next accounting year period, and we are quite sure that we cannot collect money from some of our customers, we shall **write-off** the actual uncollectible accounts. It is the Write-off the actual uncollectible account under Allowance Method of accounting.

**(c)** Dr. Allowances for Doubtful Accounts 3,000

Cr. Accounts Receivable 3,000

(Write-off the actual uncollectible account)

Checking your understanding a little bit.

**Before write-off**

Roberto Co., Ltd.

Statement of Financial Position (Partial)

December 31, 2020

Assets

Current Assets:

Cash xxxxx

**Accounts Receivable 385,000**

Less: Allowances for Doubtful Accounts 11,750 **373,250\***

**After write-off**

**(c)** Dr. Allowances for Doubtful Accounts 3,000

Cr. Accounts Receivable 3,000

Allowances for Doubtful Accounts

Dec 31, 20 800

Adjusting 10,950

**Adjusted bal. 11,750**

**(c 3,000**

**New Balance 8,750**

Roberto Co., Ltd.

Statement of Financial Position (Partial)

January 31, 2021

Assets

Current Assets:

Cash xxxxx

**Accounts Receivable 382,000**

Less: Allowances for Doubtful Accounts 8,750 **373,250\***

Before write-off and after the write-off, the net realizable value of AR is the same.

One day in the future time, the uncollectible customer, whose account had been written-off, comes to clear its debt. You have to recover the account which has been written off before recording collection of money from this customer.

Dr. Accounts Receivable 3,000

Cr. Allowances for Doubtful Accounts 3,000

(Recovery of account which has been written off)

Dr. Cash 3,000

Cr. Accounts Receivable 3,000

(Collection from the customer)

**Allowance method of accounting for A/R VS. Direct write-off method**

1. **There is adjusting entry for estimated uncollectible accounts at the end of accounting period under the Allowance Method; while Direct write-off method, there is no adjusting entry.**

**Write-off the actual uncollectible accounts under Direct Write-off Method.**

1) The **Direct Write-off method** is used by the **small enterprises** who has a lot of cash sales, and a very small credit sales in each year.

2) Under Direct Write-off Method, there is no “**Allowance for Doubtful Accounts”**, and **no adjusting entry** at the end of accounting period for estimated uncollectible accounts.

3) In case the company is quite sure that they cannot collect money from the actual uncollectible customers, the company will record the **direct write-off** that account

**(d)** Dr. Bad Debts Expense 3,000

Cr. Accounts Receivable 3,000

**-End-**