**Problem 7:**

On January 1, 2021, Stingy Kee Neiw Company had Accounts receivable $70,000 and allowance for doubtful accounts $1,800. Stingy Kee Neiw Company prepares financial statements annually. During the year the following selected transactions occurred.

|  |  |
| --- | --- |
| Jan. 1 | Wrote-offs of accounts receivable- Goodrich deemed uncollectible $2,000. |
| Jan. 5 | Sold $58,000 of merchandise to Soo Company, terms 2/10, n/30. |
| Jan. 6 | Soo Company returned $5,000 of the merchandise purchased on Jan. 5. |
| Feb. 2 | Accepted a $700, 2- month, 10% promissory note from Newnew Company for the balance due. |
| May 1 | Sold goods $20,000 for a promissory note, 12%, 2 months. Maker of the note is Blue Co. |
| July 1 | Cash collection from Blue Company. |
| Sept. 30 | Recovery of bad debts previously written off (Account of Mr. Qui) as uncollectible $1,300. |
| Dec 31 | Wrote off the note received from Newnew Company. |
| Dec. 31 | Prepare adjusting entry to record bad debts expense, assuming bad debts are expected (estimated) to be 10% of accounts receivable. |

***Instructions:*** Prepare the journal entries for the year 2021.

Jan 1: Dr. Allowances for Doubtful Accounts 2,000

Cr. Accounts Receivable – Goodrich 2,000

Jan 5: Dr. Accounts Receivable – Soo 58,000

Cr. Sales Revenue 58,000

Jan 6: Dr. Sales Returns and Allowances 5,000

Cr. Accounts Receivable – Soo 5,000

Feb 2: Dr. Notes Receivable – Newnew 700

Cr. Accounts Receivable- Newnew 700

May 1: Dr. Notes Receivable – Blue 20,000

Cr. Sales Revenue 20,000

July 1: Dr. Cash 20,400

Cr. Notes Receivable-Blue 20,000

Interest Revenue 400

(20,000 x 12% x 2/12 = 400)

Sept 30: Dr. Accounts Receivable – Mr. Qui 1,300

Cr. Allowances for Doubtful Accounts 1,300

Dr. Cash 1,300

Cr. Accounts Receivable – Mr. Qui 1,300

Dec 31: Dr. Allowances for Doubtful Accounts 700

Cr. Notes Receivable – Newnew 700

Dec 31: Dr. Bad Debt Expense 11,630

Cr. Allowances for Doubtful Accounts 11,630

How much is AR Balance?

Accounts Receivable

70,000 2,000

58,000 5,000

1,300 700

1,300

Bal. 120,300

Estimate 10% of AR

(70,000 – 2,000 + 58,000 – 5,000 – 700 +1,300 – 1,300 = 120,300 x 10% = 12,030)

How much is the balance of Allowance for Doubtful Accounts before adjustment?

Allowances for Doubtful Accounts

2,000 1,800

700 1,300

Bal before adj. 400

Adjusting 11,630

Adjusted bal. 12,030 (10% of AR)