(1)

The journal entries are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Particulars | Debit | Credit |
| 1 Jan  2011 | Accounts Receivables  Bad Debts Expense  To Sales  To Allowance for Debts | 120,000  10,000 | 120,000  10,000 |
| 31 Dec  2011 | Cash  Accounts Receivables  To Sales  (Being sales of goods of that year) | 550,000  600,000 | 1,150,000 |
| 31 Dec  2011 | Bad Debts Expense  To Allowance for Debts  (Being allowance method) | 12,000 | 12,000 |
| 31 Dec  2011 | Allowance for Debts  To Accounts Receivables  (Being confirmation of debt, as a write off) | 9,000 | 9,000 |
| 31 Dec 2011 | Cash  To Accounts Receivables  (Being collection of accounts) | 560,000 | 560,000 |

(2)

Ending balances are as follows:

|  |  |
| --- | --- |
| Particulars | Amount |
| Accounts Receivables | 160,000 |
| Cash | 1,110,000 |
| Sales | 1,270,000 |
| Bad Debts Expenses | 22,000 |
| Allowance for Debts | 13,000 |

(3)

In that year, out of $600,000 worth of sales, $40,000 was not collected so it would appear as a debt. However, this is almost ~6.7% of the debts not being collected, which is much higher than the 2% as stated by CEO.

This means that Mr. President should revise the amount of debts that they would potentially incur.