Chapter 5 (week 6 lecture)

Tutorial question (P5-3A, P5-4A)

P5–3A The following events occur for The Underwood Corporation during 2024 and 2025, its first two years of operations.

June 12, 2024	Provide services to customers on account for $41,000.
September 17, 2024	Receive $25,000 from customers on account.
December 31, 2024	Estimate that 45% of accounts receivable at the end of the year will not be received.
March 4, 2025	Provide services to customer on account for $56,000.
May 20, 2025	Receive $10,000 from customers for service provided in 2024.
July 2, 2025	Write off the remaining amounts owed from services provided in 2024.
October 19, 2025	Receive $45,000 from customers for services provided in 2025.
December 31, 2025	Estimate that 45% of accounts receivable at the end of the year will not not be received.

Required:

1. Record transactions for each date.
2. Post transactions to the following accounts: Cash, Accounts Receivable, and Allowance for Uncollectible Accounts.
3. Calculate net accounts receivable reported in the balance sheet at the end of 2024 and 2025.

P5–4A Pearl E. White Orthodontist specializes in correcting misaligned teeth. During 2024, Pearl provides services on account of $590,000. Of this amount, $80,000 remains receivable at the end of the year. An aging schedule as of December 31, 2024, is provided below.

Age Group	Amount Receivable	Estimated Percent Uncollectible
Not yet due	$40,000	4%
0–90 days past due	16,000	20%
91–180 days past due	11,000	25%
More than 180 days past due	13,000	80%
Total	$80,000	

Required:

1. Calculate the allowance for uncollectible accounts.
2. Record the December 31, 2024, adjustment entry, assuming the balance of Allowance for Uncollectible Accounts before adjustment is $5,000 (*credit*).
3. On July 19, 2025, a customer's account balance of $8,000 is written off as uncollectible. Record the write-off.
4. On September 30, 2025, the customer whose account was written off in *Requirement* 3 unexpectedly pays the full amount. Record the cash collection.

Take-home question (E5-19, E5-20, RWP5-6)

E5–19 Suzuki Supply reports the following amounts at the end of 2024 (before adjustment).

Credit Sales for 2024	$260,000	
Accounts Receivable, December 31, 2024	55,000	
Allowance for Uncollectible Accounts, December 31, 2024	1,100	(*credit*)

Required:

1. Record the adjustment for uncollectible accounts using the percentage-of-receivables method. Suzuki estimates 12% of receivables will not be collected.
2. Record the adjustment for uncollectible accounts using the percentage-of-credit-sales method. Suzuki estimates 3% of credit sales will not be collected.
3. Calculate the effect on net income (before taxes) and total assets in 2024 for each method.

E5–20 Refer to the information in E5–19, but now assume that the balance of the Allowance for Uncollectible Accounts on December 31, 2024, is $1,100 *(debit)* (before adjustment).

Required:

1. Record the adjustment for uncollectible accounts using the percentage-of-receivables method. Suzuki estimates 12% of receivables will not be collected.
2. Record the adjustment for uncollectible accounts using the percentage-of-credit-sales method. Suzuki estimates 3% of credit sales will not be collected.
3. Calculate the effect on net income (before taxes) and total assets in 2024 for each method.

Ethics

RWP5–6 You have recently been hired as the assistant controller for Stanton Industries. Your immediate superior is the controller who, in turn, reports to the vice president of finance.

The controller has assigned you the task of preparing the year-end adjustments. For receivables, you have prepared an aging of accounts receivable and have applied historical percentages to the balances of each of the age categories. The analysis indicates that an appropriate balance for Allowance for Uncollectible Accounts is $180,000. The existing balance in the allowance account prior to any adjustment is a $20,000 credit balance.

After showing your analysis to the controller, he tells you to change the aging category of a large account from over 120 days to current status and to prepare a new invoice to the customer with a revised date that agrees with the new aging category. This will change the required allowance for uncollectible accounts from $180,000 to $135,000. Tactfully, you ask the controller for an explanation for the change and he tells you, “We need the extra income; the bottom line is too low.”

Required:

1. Understand the reporting effect: What is the effect on income before taxes of lowering the allowance estimate from $180,000 to $135,000 as requested by the controller?
2. Specify the options: If you do not make the change, how would the additional $45,000 of Allowance for Uncollectible Accounts affect total assets?
3. Identify the impact: Are investors and creditors potentially harmed by the controller's suggestion?
4. Make a decision: Should you follow the controller's suggestion?