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

Problem 5-3A (LO 5-3, 5-4, 5-5)

Requirement 1

	Debit	Credit
June 12, 2024		
Accounts Receivable	**41,000**	
Service Revenue		**41,000**
(*Provide services on account*)		
September 17, 2024		
Cash	**25,000**	
Accounts Receivable		**25,000**
(*Receive cash on account*)		
December 31, 2024		
Bad Debt Expense	**7,200**	
Allowance for Uncollectible Accounts		**7,200**
(*Estimate future bad debts*)		
(*$16,000 x 45% = $7,200*)		
March 4, 2025		
Accounts Receivable	**56,000**	
Service Revenue		**56,000**
(*Provide services on account*)		
May 20, 2025		
Cash	**10,000**	
Accounts Receivable		**10,000**
(*Receive cash on account*)		
July 2, 2025		
Allowance for Uncollectible Accounts	**6,000**	
Accounts Receivable		**6,000**
(*Write off actual bad debts*)		
October 19, 2025		
Cash	**45,000**	
Accounts Receivable		**45,000**
(*Receive cash on account*)		
December 31, 2025		
Bad Debt Expense	**3,750**	
Allowance for Uncollectible Accounts		**3,750**
(*Estimate future bad debts*)		
[(*$11,000 x 45%*) − *$1,200 = $3,750*]		

Problem 5-3A (concluded)

Requirement 2

Cash

	Debit	Credit
	25,000	
Dec. 31, 2024	25,000	
	10,000	
	45,000	
Dec. 31, 2025	80,000	

Accounts Receivable

	Debit	Credit
	41,000	25,000
Dec. 31, 2024	16,000	
	56,000	10,000
		6,000
		45,000
Dec. 31, 2025	11,000	

Allow. for Uncol. Accts.

Debit	Credit	
	7,200	Dec. 31, 2024
6,000	3,750	
	4,950	Dec. 31, 2025

Requirement 3

	2024	2025
Total accounts receivable	$16,000	$11,000
Less: Allowance for uncollectible accounts	7,200	4,950
Net accounts receivable	$ 8,800	$ 6,050

Problem 5-4A (LO 5-4, 5-5)

Requirement 1

Age group	Amount receivable	Estimated percent uncollectible	**Estimated amount uncollectible**
Not yet due	$40,000	4%	**$ 1,600**
0-90 days past due	16,000	20%	**3,200**
91-180 days past due	11,000	25%	**2,750**
More than 180 days past due	13,000	80%	**10,400**
Total	$80,000		**$17,950**

Requirement 2

December 31, 2024	Debit	Credit
Bad Debt Expense	**12,950**	
Allowance for Uncollectible Accounts		**12,950**
(*Estimate future bad debts*)		
(*$17,950 − $5,000 = $12,950*)		

Requirement 3

July 19, 2025		
Allowance for Uncollectible Accounts	**8,000**	
Accounts Receivable		**8,000**
(*Write off actual bad debts*)		

Requirement 4

September 30, 2025		
Accounts Receivable	**8,000**	
Allowance for Uncollectible Accounts		**8,000**
(*Re-establish account previously written off*)		

September 30, 2025		
Cash	**8,000**	
Accounts Receivable		**8,000**
(*Receive cash on account*)		

Take-home questions (E5-19, E5-20, AP5-5)

Exercise 5-19 (LO 5-9)

Requirement 1

December 31, 2024	Debit	Credit
Bad Debt Expense	**5,500**	
Allowance for Uncollectible Accounts		**5,500**
(*Estimate future bad debts*)		
[*$5,500 = ($55,000 x 12%) − $1,100*]		

Requirement 2

December 31, 2024	Debit	Credit
Bad Debt Expense	**7,800**	
Allowance for Uncollectible Accounts		**7,800**
(*Estimate future bad debts*)		
(*$7,800 = $260,000 x 3%*)		

Requirement 3

	Percentage of receivables method	Percentage of credit sales method
Total assets	−$5,500	−$7,800
Net income	−$5,500	−$7,800

In this example, the amount of the adjustment is greater under the percentage of credit sales approach. This means that both assets and net income will be lower in 2024 under this approach.

Exercise 5-20 (LO 5-9)

Requirement 1

December 31, 2024	Debit	Credit
Bad Debt Expense	**7,700**	
Allowance for Uncollectible Accounts		**7,700**
(*Estimate future bad debts*)		
(*$7,700 = $55,000 x 12% + $1,100*)		

Requirement 2

December 31, 2024	Debit	Credit
Bad Debt Expense	**7,800**	
Allowance for Uncollectible Accounts		**7,800**
(*Estimate future bad debts*)		
(*$7,800 = $260,000 x 3%*)		

Requirement 3

	Percentage of receivables method	Percentage of credit sales method
Total assets	−$7,700	−$7,800
Net income	−$7,700	−$7,800

In this example, the amount of the adjustment is greater under the percentage of credit sales approach. This means that both assets and net income will be lower in 2024 under this approach.

Real-World Perspective 5-6

1. Increase income before taxes by $45,000.
If the balance of the allowance for uncollectible accounts before adjustment is $20,000 and the year-end estimate of future uncollectible accounts is $180,000, then an adjustment of $160,000 is needed. This adjustment has the effect of increasing the allowance for uncollectible accounts, which increases bad debt expense and therefore reduces net income and eventually retained earnings (stockholders' equity). By reducing the estimate of future bad debts to only $135,000, an adjustment of only $115,000 is needed. Therefore, the change requested by the controller has the effect of increasing income before taxes by $45,000.

2. Decrease total assets by $45,000.
Allowance for Uncollectible Accounts is a contra-asset to the Accounts Receivable account. By reporting the Allowance account for $45,000 higher, total assets are reduced.

3. Yes.
By making the change requested, net income and total assets will increase by $45,000. Overstating these amounts will make the company appear more profitable and less risky than it would have otherwise. This type of misreporting can fool investors and creditors into making suboptimal decisions. Preparing a new invoice does not change the age of the underlying account receivable, and the best estimate is the original amount estimated, $180,000. Next year, the large account may prove uncollectible and require a write off. When this occurs, investors and creditors (and potentially employees) could suffer financial damages because the company fails to receive cash that the receivables balances suggested it was going to collect.

4. No.
However, you are new to the position. You might not be sure that it's right for you to question any decision of your superior. It is clear that the superior is asking you to engage in fraudulent reporting.
Upsetting your superior may reduce your compensation, reduce the likelihood of promotion, and increase your chance of being fired. You may feel that as long as your boss told you to do it, then your agreement to go along is technically the superior's ethical dilemma; you are just following orders. However, you should agree that reporting inaccurate numbers is against your ethical standards. You would be partially responsible for any adverse outcomes to investors, creditors, employees, and others relying on those reports. Both your superior and you could incur legal penalties for this fraudulent reporting.