

## A/R Homework - Solution

1.

*Solution:*

<i>Allowance for bad debts, beginning of 2013</i>	<i>\$2,200</i>
<i>Estimated new bad debts for 2013</i>	<i>9,100</i>
<i>Allowance for bad debts, ending of 2013</i>	<i><u>(1,500)</u></i>
<i>Actual amount written off during 2013</i>	<i><u><u>\$9,800</u></u></i>

2.

*Solution*

a.

<b>Category</b>	<b>Amount</b>	<b>Percentage</b>	<b>Total</b>
< 30	\$162,000	0.02	\$3,240
31 to 60	61,000	0.06	3,660
61 to 120	30,000	0.30	9,000
>120	2,000	0.60	<u>1,200</u>
<i>Estimated Uncollectable</i>			<i><u><u>\$17,100</u></u></i>

b.  $(255,000 - 17,100) = \$237,900$

3.

*Solution: \$9,000*

*Starting Allowance for Bad Debt = 1,000*  
*+ Bad Debt Expense for 2013 = 12,000*  
*- Ending Allowance for Bad Debt = 4,000*

$$1,000 + 12,000 - 4,000 = \$9,000$$

4.

*Solution*

% Credit sales method

$$\text{Bad Debts Expense} = 4\%(\$1,630,000) = \$65,200$$

% Receivables method

Allowance for Bad Debts (12/31) =  $12\% \times (\$245,000) = \$29,400$

Allowance for Bad Debts (12/31) = Allowance for Bad Debts (1/1) – Write-offs + Bad Debt Expense

$\$29,400 = \$22,400 - \$15,000 + \text{Bad Debt Expense}$

Bad Debts Expense =  $\$22,000$

Accounts Receivable		Allowance for Bad Debts	
210,000	returns collections write-offs	written off → 15,000	22,400 beg.
credit sales			<b>22,000</b> ← adjustment
			29,400 end. = $12\% \times (245,000)$
245,000			

5.

**What is the ending accounts receivable (A/R) balance for 2015?**

***Solution:***

Ending A/R = Beginning A/R + credit sales – sales returns and allowances – cash collections – write-offs

Ending A/R =  $\$120,000 + \$670,000 - \$20,000 - \$588,000 - \$15,000 = \$167,000$

**How much is bad debt expense (using the % of credit sales method and assuming 1.5% of credit sales are uncollectible)?**

***Solution:***

Bad debt expense = % credit sales X (net credit sales)

Bad debt expense =  $1.5\% \times \$650,000 = \$9,750$  (note: remember to remove sales returns and allowances from credit sales to get net credit sales).

What is the net realizable value (NRV) reported on the balance sheet for receivables?

Ending allowance for bad debts = Beginning allowance for bad debts – write-offs + bad debt expense

***Solution:***

Ending allowance for bad debts =  $\$12,000 - \$15,000 + \$9,750 = \$6,750$

NRV = A/R – Allowance for bad debts

NRV =  $\$167,000 - \$6,750 = \$160,250$

**How much is the bad debt expense and the net realizable value of receivables if the percentage of receivables method is used (assume 10% of ending receivables will be uncollectible)?**

***Solution:***

Ending A/R =  $\$167,000$

Ending allowance for bad debts =  $10\% \times \$167,000 = \$16,700$

$\$16,700 = \$12,000 - \$15,000 + \text{Bad debt expense}$

Bad debt expense =  $\$16,700 - \$12,000 + \$15,000 = \$19,700$

NRV =  $\$167,000 - \$16,700 = \$150,300$