UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

BUSI 1130—Introductory Financial Accounting

Winter 2020

**Face-to-face hand-in assignment #5**

**Submission Requirements**

* You must hand in your face-to-face submissions at the start of class. Late submissions will not be accepted.
* Face-to-face assignments must be typed.
* You must attempt to answer all questions, including any required calculations, in order to receive a passing grade.
* YOU MUST WORK ON YOUR OWN. INSTANCES OF PLAIGARISM WILL BE TAKEN SERIOUSLY.

**Part I – Leon’s Financial statements**

1. *What was the amount for accounts (Trade) receivable for the 2017 and 2018 year?*

The amount for trade receivable was $122,131,000 for 2018 and $138,516,000 for 2017.

1. *How are accounts (trade) receivables measured at in the financial statements? Where did you find this information?*

The information regarding how trade receivables are measured is in the Notes to the Consolidated Financial Statements. The trade receivables are measured initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. This means that these assets with fixed payments are recorded with gains and losses in net income when the asset can no longer be recognized or becomes impaired.

1. *Calculate the following using Leon’s Financial Statements:*
   1. Current Ratio: 661,253/607,520 = 1.088(~1.09)
   2. Quick Ratio: (661,253,000 - 1,214,147) / 607,520,000= 1.086 (~1.09)
   3. Accounts receivable turnover (Use Trade Receivables from Leon’s statements):

Average AR: 122,131 + 138,516/2 = 130,323.50

Accounts Receivable turnover: 268,378/130,323.5 = 2.059

* 1. Average Collection period: 365/2.059= 177.27

1. *Based on your calculations how can you improve the Accounts receivable turn over and average collection period?*

In order to improve the Accounts receivable turn over, you need to increase the net sales of the company. This can be done by increasing the price or inventory of their product to a point that it would increase their net sales. In order to improve the average collection period, you need to improve the account receivable turn over.

**Part II:**

**Q1**

Jackson Company completed an aging of their accounts receivable and came up with an estimated amount of $6,342. The credit sales for the period are $85,000. The balance in the Allowance for Doubtful Accounts is a debit of $817.

1. If Brandon uses 5% of credit sales as their estimating uncollectible accounts, how much will the credit be to the Allowance for Doubtful Accounts if Brandon uses the percentage of credit sales as its method of estimating uncollectible accounts?

5% of credit sales: 85,000 \* 0.05 = $4250

The credit on Allowance for Doubtful Accounts: 4250 - 817 = $3,433

1. Prepare the journal entry to record the bad debt expense.

February 24, 2020 Bad Debt Expense Dr. $4250.00

Allowance for Doubtful Accounts Cr. $4250.00

**Q2**

Timber Company has given you the following information from its aging of accounts receivable. Using this information, determine the ending balance of the allowance for doubtful accounts and prepare the journal entry to record bad debt expense. Current amount in the allowance for doubtful accounts is a $958 credit.

|  |  |  |
| --- | --- | --- |
| Current | $24,400 | 2% uncollectible |
| 31-60 days | 7,350 | 8% uncollectible |
| 61-90 days | 3,380 | 15% uncollectible |
| 91 and up | 1,220 | 30% uncollectible |

Total Amount: (24,400\*.02) + (7,350\*.08) + (3,380\*.15) + (1,220\*.3) = 1949

**Therefore, the ending balance would be: $2907**

February 24, 2020 Bad Debt Expense Dr. $1949.00

Allowance for Doubtful Accounts Cr. $1949.00