

ACCTG 215 Fall 09
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Quiz 3 – Olivia's Orange Shop

Olivia provides you with the following information about her Halloween shop's performance:

Credit Sales in 2007: \$160,000
 Net Accounts Receivable as of January 1, 2008 – \$50,000
 Allowance for doubtful accounts as of January 1, 2008 – \$5,000 (Credit Balance)
 Credit sales in 2008 – \$225,000
 Collections of accounts receivable in 2008 – \$206,800
 Write offs in 2008 – \$5,200

1) Assuming Olivia used the % of accounts receivable method to provide for bad debts for 2007, what rate did she use in 2007 (rounded to the nearest percent)? (2 points)

- a. 9%
 b. 10%
 c. 11%
 d. 12%
 e. It is not possible to tell with the information given

2) True or ~~false~~ (circle one). Since the beginning balance in 2008 in the allowance for doubtful accounts is \$5,000, bad debt expense in 2007 was \$5,000. (2 points)

3) Assume that Olivia believes that 10% of her accounts receivable at the end of 2008 are uncollectible (this may or may not be the answer to question 1). **Either fill out the T-accounts below or make the journal entry to record bad debt expense. If you do both, I will only grade the journal entry.** Fill out the T-Accounts listed below (be sure to include beginning and ending balances) as of the end of 2008? (4 points)

Accounts Receivable	
55,000	206,800
225,000	5,200
68,000	

$$68,000 \times 10\% = 6,800$$

Allow. For Doubtful Accounts	
5,200	5,000
	? = 7,000
	6,800

Journal Entry:

Bad Debt Expense

Allowance For Uncollectible Accounts

Dr.	Cr.
7,000	
	7,000

3) Disregard question 2. Assume instead that Olivia believes that 3% of her credit sales are uncollectible (note – this is not the answer to question 1). Fill out the allowance for doubtful accounts T-Account (be sure to include the beg. and ending balance) and make the journal entry to record bad debt expense at the end of 2008? (4 points)

$$225,000 \times 0.03 = 6,750$$

Journal entry to record bad debt expense:

Bad Debt Expense	Dr.	Cr.
	6,750	
Allowance for Uncollectible Accounts		6,750

Allow. For Doubtful Accounts

Dr.	Cr.
5,200	5,000
	6,750
	6,550

4) On January 10, 2009, Olivia receives \$300 from an account that she previously wrote off. Make the journal entry or entries to record this transaction. (3 points)

Accounts Receivable	Dr.	Cr.		Dr.	Cr.
	300		→	Cash	
Allowance for Uncollectible Accounts		300			Accounts Receivable
				300	300

P5-2A Outdoor Expo provides guided fishing tours. The company charges \$200 per person but offers a 10% discount to parties of four or more. Consider the following transactions during the month of May. (5 points)

- May 2 Charlene books a fishing tour with Outdoor Expo for herself and four friends at the group discount price ($900 = 180 \times 5$). The tour is scheduled for May 7.
- May 7 The fishing tour occurs. Outdoor Expo asks that payment be made within 30 days of the tour and offers a 5% discount for payment within 15 days.
- May 9 Charlene is upset that no one caught a single fish and asks management for a discount. Outdoor Expo has a strict policy of no discounts related to number of fish caught.
- May 15 Upon deeper investigation, management of Outdoor Expo discovers that Charlene's tour was led by a new guide who did not take the group to some of the better fishing spots. In concession, management offers a sales allowance of 40% of the amount due.
- May 20 Charlene pays for the tour after deducting the sales allowance.

Record the necessary transactions for Outdoor Expo on each date. (If there is no journal entry on a particular date, state this rather than just ignoring that date).

May 2	No Entry	Dr.	Cr.
May 7	Accounts Receivable	900	
	Service Revenue		900
May 9	No Entry		
May 15	Sales Allowance	360	
	Accounts Receivable		360
May 20	Cash	513	
	Sales Discount	27	
	Accounts Receivable		540