## E6-3

**Reporting Net Sales with Credit Sales, Sales Discounts, Sales Returns, and Credit Card Sales**

The following transactions were selected from among those completed by Bennett Retailers in November and December:

| | | |
|---|---|---|
| Nov. | 20 | Sold 20 items of merchandise to Customer B at an invoice price of $5,500 (total); terms 3/10, n/30. |
| | 25 | Sold two items of merchandise to Customer C, who charged the $400 (total) sales price on her Visa credit card. Visa charges Bennett Retailers a 2 percent credit card fee. |
| | 28 | Sold 10 identical items of merchandise to Customer D at an invoice price of $9,000 (total); terms 3/10, n/30. |
| | 29 | Customer D returned one of the items purchased on the 28th; the item was defective and credit was given to the customer. |
| Dec. | 6 | Customer D paid the account balance in full. |
| | 20 | Customer B paid in full of the invoice of November 20. |

*Required:*
Assume that Sales Returns and Allowances, Sales Discounts, and Credit Card Discounts are treated as contra-revenues; compute net sales for the two months ended December 31.

## E6-10

**Recording Bad Debt Expense Estimates and Write-Offs Using the Percentage of Credit Sales Method**

During the current year, Sun Electronics, Incorporated, recorded credit sales of $5,000,000. Based on prior experience, it estimates a 2 percent bad debt rate on credit sales.

*Required:*

Prepare journal entries for each transaction:

a. On November 13 of the current year, an account receivable for $98,000 from a prior year was determined to be uncollectible and was written off.

b. At year-end, the appropriate bad debt expense adjustment was recorded for the current year.

## E6-21

**Recording, Reporting, and Evaluating a Bad Debt Estimate Using the Percentage of Credit Sales Method**

During the current year, Robby's Camera Shop had sales revenue of $170,000, of which $75,000 was on credit. At the start of the current year, Accounts Receivable showed a $16,000 debit balance and the Allowance for Doubtful Accounts showed a $900 credit balance. Collections of accounts receivable during the current year amounted to $60,000.

Data during the current year follow:

a. On December 31, an Account Receivable (J. Doe) of $1,700 from a prior year was determined to be uncollectible; therefore, it was written off immediately as a bad debt.

b. On December 31, on the basis of experience, a decision was made to continue the accounting policy of basing estimated bad debt losses on 1.5 percent of credit sales for the year.

*Required:*

1. Give the required journal entries for the two items on December 31, the end of the accounting period.
2. Show how the amounts related to Accounts Receivable and Bad Debt Expense would be reported on the income statement and balance sheet for the current year. Disregard income tax considerations.
3. On the basis of the data available, does the 1.5 percent rate appear to be reasonable? Explain.

## E6-26

**Interpreting the Effects of Sales Declines and Changes in Receivables on Cash Flow from Operations**

Tupperware Brands Corporation is engaged in the marketing, manufacture, and sale of design-centric preparation, storage and serving solutions for the kitchen and home and beauty products through international brands. Assume that two recent years produced a combination of declining sales revenue and net income, culminating in a net income of only $12,400 (all numbers in thousands). Yet Tupperware was able to report positive cash flows from operations in the current year of $87,400. Contributing to that positive cash flow was the change in accounts receivable. The current and prior years' balance sheets reported the following:

| | Amounts in thousands | |
|---|---|---|
| | Current year | Prior year |
| Accounts receivable, net of allowance | $110,700 | $144,700 |

*Required:*

1. On the current year's cash flow statement (indirect method), how would the change in accounts receivable affect cash flow from operations? Explain why it would have this effect.
2. Explain how declining sales revenue often leads to (a) declining accounts receivable and (b) cash col lections from customers being higher than sales revenue.