

In-Class Practice

S8-6 Applying the allowance method (percent-of-sales) to account for uncollectibles

During its first year of operations, Signature Lamp Company earned net credit sales of \$314,000. Industry experience suggests that bad debts will amount to 4% of net credit sales. At December 31, 2016, accounts receivable total \$45,000. The company uses the allowance method to account for uncollectibles.

Requirements

1. Journalize Signature's Bad Debts Expense using the percent-of-sales method.
2. Show how to report accounts receivable on the balance sheet at December 31, 2016.

S8-8 Applying the allowance method (aging-of-receivables) to account for uncollectibles

World Class Work Shoes had the following balances at December 31, 2016, before the year-end adjustments:

Accounts Receivable	Allowance for Bad Debts
78,000	1,060

The aging of accounts receivable yields the following data:

	Age of Accounts Receivable		
	0-60 Days	Over 60 Days	Total Receivables
Accounts Receivable	\$ 73,000	\$ 5,000	\$ 78,000
Estimated percent uncollectible	× 2%	× 24%	

Requirements

1. Journalize World Class's entry to record bad debts expense for 2016 using the aging-of-receivables method.
2. Prepare a T-account to compute the ending balance of Allowance for Bad Debts.

S8-9 Computing interest amounts on notes receivable

A table of notes receivable for 2016 follows:

	Principal	Interest Rate	Interest Period During 2016
Note 1	\$ 30,000	4%	3 months
Note 2	8,000	5%	180 days
Note 3	28,000	12%	90 days
Note 4	110,000	10%	6 months

For each of the notes receivable, compute the amount of interest revenue earned during 2016. Round to the nearest dollar.

S8-10 Accounting for a note receivable

On June 6, Southside Bank & Trust lent \$90,000 to Samantha Michael on a 60-day, 6% note.

Requirements

1. Journalize for Southside the lending of the money on June 6.
2. Journalize the collection of the principal and interest at maturity. Specify the date.

S8-11 Accruing interest revenue and recording collection of a note

On December 1, Kole Corporation accepted a 120-day, 6%, \$17,000 note receivable from J. Peterman in exchange for his account receivable.

Requirements

1. Journalize the transaction on December 1.
2. Journalize the adjusting entry needed on December 31 to accrue interest revenue.
3. Journalize the collection of the principal and interest at maturity. Specify the date.

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Requirement 1

Date	Accounts and Explanation	Debit	Credit
2014 Dec. 31	Bad Debts Expense ($\$322,000 \times 2\%$) Allowance for Bad Debts <i>Recorded bad debts expense for the period.</i>	6,440	6,440

Requirement 2

SPRING GARDEN PLANS Balance Sheet–Partial December 31, 2014			
Assets			
Current Assets:			
Accounts Receivable		\$ 36,000	
Less: Allowance for Bad Debts		<u>(6,440)</u>	\$ 29,560

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Requirement 1

	Age of Accounts Receivable		
	0 – 60 Days	Over 60 Days	Total Receivables
Accounts Receivable	\$75,000	\$3,000	\$78,000
Percent uncollectible	$\times 4\%$	$\times 24\%$	
Estimated total uncollectible	\$3,000	\$720	\$3,720 (Target Balance)

Date	Accounts and Explanation	Debit	Credit
2014 Dec. 31	Bad Debts Expense Allowance for Bad Debts ($\$3,720 - \$1,900 = \$1,820$)	1,820	1,820

Requirement 2

Allowance for Bad Debts

	1,900	Balance
	1,820	expense
	3,720	Balance

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	Principal	Interest Rate	Interest Period	Interest Revenue Earned
Note 1	\$ 30,000	× 0.08	× 4/12 =	\$ 800
Note 2	10,000	× 0.11	× 45/360 =	138
Note 3	19,000	× 0.10	× 75/360 =	396
Note 4	100,000	× 0.07	× 10/12 =	5,833

S8-10**Requirement 1**

Date	Accounts and Explanation	Debit	Credit
June 6	Notes Receivable—Michael Cash <i>Lent money to Samantha Michael.</i>	110,000	110,000

Requirement 2

Date	Accounts and Explanation	Debit	Credit
Sep. 4	Cash (\$110,000 + \$2,475) Notes Receivable—Michael Interest Revenue (\$110,000 × 0.09 × 90/360) <i>Collected note receivable plus interest.</i>	112,475	110,000 2,475

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Requirement 1

Date	Accounts and Explanation	Debit	Credit
Dec. 1	Notes Receivable—Oliver Accounts Receivable—Oliver <i>Accepted note receivable in exchange for an account receivable.</i>	4,000	4,000

Requirement 2

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Interest Receivable Interest Revenue ($4,000 \times 0.06 \times 30/360$) <i>Accrued interest earned.</i>	20	20

Requirement 3

Date	Accounts and Explanation	Debit	Credit
Mar. 31	Cash ($\$4,000 + \$20 + \$60$) Notes Receivable—Oliver Interest Receivable Interest Revenue ($\$4,000 \times 0.06 \times 90/360$) <i>Collected note receivable plus interest.</i>	4,080	4,000 20 60