

On December 31, 1993, ABC Company's records showed the following results for the year:

Cash sales	300,000
Credit sales	500,000

In addition, the unadjusted trial balance included the following items:

Accounts Receivable	260,000 Debit
Allowance for doubtful accounts	2,000 Debit

Required:

1. Prepare the adjusting entry needed on the books of ABC Company to recognize bad debts under each of the following independent assumptions:
 - a. Bad debts are estimated to be 2% of total sales
 - b. Bad debts are estimated to be 3% of credit sales
 - c. It is estimated that 6% of outstanding receivables at December 31 will be uncollectible.
2. Show how Accounts Receivable and the Allowance for Doubtful Accounts would appear on the December 31, 1993 Statement of Financial Position (Balance Sheet) given the facts in 1b.
3. Show how Accounts Receivable and the Allowance for Doubtful Accounts would appear on the December 31, 1993 Statement of Financial Position (Balance Sheet) given the facts in 1c.

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	ACCOUNT	DEBIT	CREDIT
a)			
	Explain:		
b)			
	Explain:		
c)			
	Explain:		

Part 2

Accounts Receivable		
Less Allowance for Doubtful Accounts		

Part 3

Accounts Receivable		
Less Allowance for Doubtful Accounts		

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	ACCOUNT	DEBIT	CREDIT
Dec 31	Bad Debts Expense	16,000	
	Allowance for Doubtful Accounts		16,000
	Explain: $(300,000 + 500,000) \times 2\%$		
Dec 31	Bad Debts Expense	15,000	
	Allowance for Doubtful Accounts		15,000
	Explain: $500,000 \times 3\%$		
Dec 31	Bad Debts Expense	17,600	
	Allowance for Doubtful Accounts		17,600
	Explain: $260,000 \times 6\% = 15,600$ Credit, the required ending balance of the Allowance Account. Current balance 2,000 Debit		

Part 2

Accounts Receivable	260,000	
Less Allowance for Doubtful Accounts	<u>13,000</u>	247,000

Part 3

Accounts Receivable	260,000	
Less Allowance for Doubtful Accounts	<u>15,600</u>	244,400