

## **1-2F: Estimating and Recording Uncollectible Accounts**

### **Assignment (20 Marks)**

Record your answers in an Excel file and upload to Moodle for marking.

1. On January 1, we sold merchandise to Yikes Company on account (charge sale) for \$1000 with terms 3/15, n/30. On January 10, they return \$900 of that sale. Yikes Company sends us a cheque, dated on the last possible day, to pay off the full amount owing minus the allowed discount.
  - a) Prepare the journal entry to record the payment. Include an explanation as part of your journal entry.  
(Application - 4 marks total – 1 mark for the date, ½ marks for account names, amounts)
2. Super Company will use the Balance Sheet method to estimate its uncollectible accounts receivables for the December 31 year-end. The aged receivables report and expected uncollectible percentages are summarized below:

Current	30-60 Days	60-90 Days	90-120 Days	120+ Days	Total
\$216,000	\$14,500	\$4,600	\$3,500	\$2,400	\$241,000
1.5%	20%	40%	60%	80%	

The current balance in the Allowance for Bad Debts account is \$2,000 debit.

- a) Calculate the estimated ending balance for the Allowance for Bad Debts account. Show all your work.  
(Application - 3 marks total – ½ mark for each calculation)
  - b) Prepare the journal entry to record the answer found in part a) above. Include an explanation as part of your journal entry.  
(Application - 4 marks total – 1 each mark for account names, amounts and explanation)
  - c) Explain what a debit balance means in the Allowance account.  
(Thinking - 1 mark)
3. Continuing from the previous question, Super Company is considering changing the estimation method to the Income Statement method. The following information is collected by the accountant:
  - Sales for the year were \$3,000,000
  - Charge sales were \$2.4M and cash sales were \$600,000
  - a) Calculate the estimated uncollectible expense.  
(Application – 1 mark)

- b) Prepare the journal entry to record the Bad Debts Expense if the accountant estimates that  $\frac{1}{2}\%$  of charge sales will be uncollectible. Include an explanation as part of your journal entry.  
*(Application - 3 marks total –  $\frac{1}{2}$  mark for account names, amounts and explanation)*
- c) If total sales, rather than charges sales, are used in the calculation, what percentage should the accountant use?  
*(Thinking - 1 mark)*
4. On April 1 the following year, Super Company learns that the company that owed the \$2,400 (120+ days overdue) at year-end is confirmed as uncollectible.
- a) Prepare the journal entry to write off the account.  
*(Application - 3 marks total –  $\frac{1}{2}$  mark for each account name and amount)*