**1-4D: Receivables Assignment (60 marks)**

1. Record the following journal entries for Friendly Company.
2. On September 1, Friendly Co. sold merchandise on account to Meanly Company for $20,000, terms 2/10, n/30. On September 8, Meanly Company returned merchandise worth $4000 to us. On the final possible date, Meanly Co. paid their bill and took the discount. Prepare only the final journal entry, the one to record the payment by Meanly Co.

(*Application – 7 marks total – 1 mark for each of the date, accounts, and amounts)*

1. The following invoices were missed before running the December 31, Aged Receivable report: invoice #218 dated Sept. 14, for $7,450; and invoice #568 dated Nov. 9 for $3,175. Correct this Aged Accounts Receivable report by adding the invoices to the correct columns.

(*Thinking – 2 marks)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Not Yet Due | 1 – 30 Days Past Due | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Over 90 Days Past Due | Total |
| $50,000 | $20,000 | $10,000 | $10,000 | $10,000 | $100,000 |
|  |  |  |  |  |  |

1. Happy Company has prepared the following chart summarizing the Aged Receivables and historical uncollectible percentages to estimate the doubtful accounts using the Balance Sheet method. They tell you that the Allowance account currently has a balance of $8000 credit.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Not Yet Due | 1 – 30 Days Past Due | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Over 90 Days Past Due | Total |
| $458,975 | $236,700 | $108,350 | $22,500 | $36,600 | $863,125 |
| ½ % | 2% | 20% | 50% | 75% |  |

1. Calculate the estimated amount of uncollectible accounts. Show all your calculations.

(*Application – 3 marks total – ½ mark for each calculation and the total)*

1. Prepare the December 31, 2001 journal entry to bring the Allowance for Bad Debts account to the correct balance.

(*Application – 5 marks total – 1 mark each for the accounts, amount and explanation)*

1. Calculate the **net** Accounts Receivable that would appear on the Balance Sheet. Show your calculation.

(*Thinking – 1 mark)*

1. On January 10, of the following year (2002), an account receivable or $15,398.88 was deemed worthless because the customer, Unhappy Company, is bankrupt. Write off the account.

(*Application – 4 marks total – 1 mark each for the accounts, amounts and explanation)*

1. On June 22, 2002, the bankruptcy specialist who was liquidating Unhappy Company sends your company a cheque for $2,390.83 which represents $0.15 on every dollar owed. Record this bad debt recovery.

(*Application – 5 marks total – 1 mark each for the accounts and explanation)*

1. On December 1, 2002, the boss of Happy Company tells you that she has a feeling it has been a bad year for customers going bankrupt. You notice the Allowance for Bad Debts account has a debit balance of $33,000. She asks you to explain to her whether or not she is correct, and whether something should be done when estimating the Allowance account for the upcoming year.

(*Thinking – 4 marks)*

1. Wonderful Company received from their customer, Excellent Company, a 90-day, 9% note for $30,000 in settlement of an account receivable due today, November 1, 2001.
2. Record the journal entry to record the Note Receivable.

(*Application – 4 marks total – 1 each for the accounts, amounts and explanation)*

1. Record the journal entry to adjust for the interest owed by Excellent Co. on December 31, 2001.

(*Application – 5 marks total – 1 each for the accounts, amount and explanation)*

1. Record the journal entry to record the collection of principal and interest on February 1, 2002.

(*Application – 9 marks total – 1 each for the accounts, amounts, and explanation)*

1. Prepare the Balance Sheet Current Asset section with information that follows. (*Application – 5 marks total – for correct formatting, column usage, order of liquidity)*

|  |  |
| --- | --- |
| Accounts Receivable | $83,000 |
| Allowance for Doubtful Accounts | $6,000 |
| Bank | $3,000 |
| Interest Receivable | $2,000 |
| Inventory | $240,000 |
| Notes Receivable | $40,000 |
| Prepaid Expenses | $55,000 |

1. When a customer takes their discount upon payment, the Discounts Taken account is debited. Discuss whether this account is an expense or a contra-revenue and declare the section in which you would include it.

(*Thinking – 4 marks total – accounting substantiated argument)*

1. Music Plus Co sells stereo equipment. Traditionally, the company’s sales are 25% cash, 35% credit cards, 45% charge sales (accounts receivable). Uncollectible accounts were about 1% of net sales. Music Plus uses the Direct Write-off method.

Two months ago, the company offered “Double Zero” terms: no down payment and no interest. The accounts are collected over 12 months in equal payments.

Sales have increased, but cash flow has decreased and now Music Plus is struggling to pay its bills on time.

The bookkeeper has prepared the following chart of information:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | BeforeDouble Zero | LastMonth |
| Sales: |  |  |
|  | Cash Sales | $12,500 | $5,000 |
|  | Credit Card Sales | 17,500 | 10,000 |
|  | Charge Sales (due in 30 days) | 20,000 | 0 |
|  | Double Zero Sales | 0 | 75,000 |
|  | TOTAL MONTHLY SALES | $50,000 | $90,000 |
| Expenses | 40,000 | 65,000 |
| Net Income | $10,000 | $25,000 |
|  |  |  |
| Cash Receipts: |  |  |
|  | Cash Sales | $12,500 | 5,000 |
|  | Credit Card Sales | 17,500 | 10,000 |
|  | Charge Sales (due in 30 days) | 19,500 | 0 |
|  | Double Zero Sales | 0 | 11,250 |
|  | TOTAL MONTHLY CASH RECEIPTS | $49,500 | $26,350 |
| Accounts written off as uncollectible | $500 | 0 |
| Accounts Receivable at month-end (\*includes 2 months) | $20,000 | $122,000\* |

The accountant says, “Double Zero is killing us. We’ve increased our receivables six-fold, but our cash receipts are down by half and we need cash so we can pay our bills before we have to declare bankruptcy.” The boss says, “This is the best thing that’s ever happened – our sales and profits have doubled, and uncollectibles are zero!”

1. Clearly explain how the Double Zero initiative is increasing sales and profits, eliminating uncollectible accounts, while also causing a decline in cash.

*(Communication – 5 marks total – sound accounting-based logic)*

1. Recommend a course of action for the immediate future.

*(Thinking – 2 marks total)*