

CHAPTER 6: REPORTING AN INTERPRETING SALES REVENUE, RECEIVABLES, AND CASH

Exercise 1: Sales Journal Entries

Part A: Prepare journal entries to record the following transactions.

March 2	Gooddeal.com sold merchandise for \$4,000. Customer A paid by credit card. The credit card company charged a 3% service fee.
March 5	Gooddeal.com sold merchandise to Customer B for \$2,500, terms 2/10 n/30.
March 12	Customer B paid for the merchandise purchased on March 5, taking advantage of the permitted discount.
March 16	Customer B returned \$1,250 (or one-half) of the merchandise that was purchased back on March 5.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
Mar	2	Cash	3,880	
		Credit card discounts (+XREV, -REV)	120	
		Sales (+REV, +E)		4,000
Mar	5	Accounts receivable (+A)	2,500	
		Sales (+REV, +E)		2,500
Mar	12	Cash [2,500 x 98%]	2,450	
		Sales discounts (+XREV, -REV) [2,500 x 2%]	50	
		Accounts receivable		2,500
Mar	16	Sales returns and allowances (+XREV, -REV)	1,250	
		Cash		1,250

Part B: Calculate "net sales" from the above transactions.

Sales revenue		6,500	
<u>Less</u> Credit card discounts	120		
Sales discounts	50		
Sales returns and allowances	1,250	1,420	
Net Sales		5,080	

Exercise 2: Accounts Receivable Journal Entries

Part A: Prepare journal entries to record the following transactions.

- a. On December 15, 2013, Vandolay Industries recorded \$150,000 sales on credit.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit
Dec	15	Accounts receivable (A+)	150,000	
		Sales (REV+, SE+)		150,000

- b. On December 31, 2013, the company estimated bad debt expenses of \$15,000.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit
Dec	31	Bad debt expense (EXP+, SE-)	15,000	
		Allowance for doubtful accounts (XA+, A-)		15,000

- c. On January 12, 2014, the company collected \$100,000 worth of accounts receivable.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit
Jan	12	Cash (A+)	100,000	
		Accounts receivable (A-)		100,000

- d. After many collection attempts, the company determined on May 15, 2014 that it would not collect \$10,000 in accounts receivables from Pendant Publishing. It decided to write-off this account.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit
May	15	Allowance for doubtful accounts (XA-, A+)	10,000	
		Accounts receivable (A-)		10,000

- e. On August 16, 2014, Pendant Publishing called to say that they have had financial problems but can afford to pay \$7,000 to settle their \$10,000 debt in full. The company agreed to these terms, and reversed \$7,000 of the prior write-off. It received a \$7,000 check from Pendant the next day.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit
Aug	16	Accounts receivable (A+)	7,000	
		Allowance for doubtful accounts (XA+, A-)		7,000
		[To partially reverse the write-off made on May 15]		
Aug	17	Cash (+)	7,000	
		Accounts receivable (A-)		7,000
		[To record the collection from Pendant Publishing]		

Part B: Post the above entries to the following T-accounts.

+ Accounts Receivable (A) -				- Allowance for Doubtful Accounts (XA) +			
Dec 15, 13	150,000					Dec 31, 13	15,000
Jan 1, 14	150,000	Jan 12, 14	100,000	May 15, 14	10,000	Jan 1, 14	15,000
Aug 16, 14	7,000	May 15, 14	10,000			Aug 16, 14	7,000
		Aug 17, 14	7,000				
Dec 31, 14	40,000					Dec 31, 14	12,000

Part C: Show all revenue-related accounts in the following statement of financial position (partial) and statement of income (partial) as of December 31, 2013 and 2014.

VANDOLAY INDUSTRIES INC.	
Statement of Financial Position (partial)	
As of December 31, 2013	
Accounts receivable	\$ 150,000
<u>Less: Allowance for doubtful accounts</u>	<u>(15,000)</u>
Accounts receivable - net	<u>135,000</u>
VANDOLAY INDUSTRIES INC.	
Statement of Income (partial)	
For the year ended December 31, 2013	
Bad debt expenses	\$ 15,000

VANDOLAY INDUSTRIES INC.	
Statement of Financial Position (partial)	
As of December 31, 2014	
Accounts receivable	40,000
<u>Less: Allowance for doubtful accounts</u>	<u>(12,000)</u>
Accounts receivable - net	<u>28,000</u>
VANDOLAY INDUSTRIES INC.	
Statement of Income (partial)	
For the year ended December 31, 2014	
Bad debt expenses	-

Exercise 3: Estimation and Recording of Bad Debt Expense – Percentage of Sales Method

Part A: Prepare the required adjusting journal entry.

During 2014, Vandolay Industries reported \$300,000 in sales. The company’s allowance for doubtful accounts has an **unadjusted CREDIT balance of \$12,000 at December 31, 2014**. Based on prior experience, management estimates that 2.5% of sales will result in bad debts.

GENERAL JOURNAL			
Date		Account Titles and Explanation	
Dec	31	Bad debt expense (EXP+, SE-)	7,500
		Allowance for doubtful accounts (XA+, A-)	7,500
		$[300,000 \times 2.5\% = 7,500]$	

+ Bad Debt Expense (E) -		- Allowance for Doubtful Accounts (XA) +	
Dec 31	7,500	Beg. Bal.	12,000
		Dec 31	7,500
End Bal.	7,500	End Bal.	19,500

VANDOLAY INDUSTRIES INC.	
Statement of Financial Position (partial)	
As of December 31, 2014	
Accounts receivable	\$ 150,000
Less: Allowance for doubtful accounts	<u>(19,500)</u>
Accounts receivable - net	<u>130,500</u>
VANDOLAY INDUSTRIES INC.	
Statement of Income (partial)	
For the year ended December 31, 2014	
Bad debt expenses	<u>\$ 7,500</u>

The statement of income approach focuses on estimating the bad debt expense to be reported on the statement of income for the period.

Part B: Prepare the required adjusting journal entry.

Assume instead that the company's allowance for doubtful accounts has an **unadjusted DEBIT balance of \$400 at December 31, 2014.**

GENERAL JOURNAL					
Date		Account Titles and Explanation		Debit	Credit
Dec	31	Bad debt expense (EXP+, E-)		7,500	
		Allowance for doubtful accounts (XA+, A-)			7,500
		[300,000 x 2.5% = 7,500]			

+ Bad Debt Expense (E) -				- Allowance for Doubtful Accounts (XA) +			
Dec 31	7,500			Beg. Bal.	400		
						Dec 31	7,500
End Bal.	7,500					End Bal.	7,100

VANDOLAY INDUSTRIES INC.	
Statement of Financial Position (partial)	
As of December 31, 2014	
Accounts receivable	\$ 150,000
Less: Allowance for doubtful accounts	<u>(7,100)</u>
Accounts receivable - net	<u>142,900</u>
VANDOLAY INDUSTRIES INC.	
Statement of Income (partial)	
For the year ended December 31, 2014	
Bad debt expenses	<u>\$ 7,500</u>

Same here

Exercise 4: Estimation and Recording of Bad Debt Expense – Aging of Accounts Receivable Method

Part A: Prepare the required adjusting journal entry.

During 2014, Vandolay Industries reported \$300,000 in sales. The company’s allowance for doubtful accounts has an **unadjusted CREDIT balance of \$12,000 at December 31, 2014**. Vandolay Industries accountants prepared the following Aging of Accounts Receivable:

Customer	Total	Number of Days Unpaid			
		0-30	30-60	60-90	Over 90
Alpha Sales	\$ 700		\$ 700		
Gamma Manufacturing Co.	1,900	\$ 1,900			
Delta Shipping Corp.	2,200			\$ 2,200	
Epsilon Industries	6,000				\$ 6,000
Theta Manufacturing	1,800		1,800		
Zeta Industries	600		600		
Other customers	136,800	88,100	26,900	9,800	12,000
Totals	\$150,000	\$90,000	\$30,000	\$12,000	\$18,000
% Uncollectible		5%	10%	20%	40%
Total	\$17,100	4,500	3,000	2,400	7,200

Vandolay accountants believe that receivables 0-30 days old have a 5% chance of non-collection. Receivables 30-60 days old have a 10% chance of non-collection. Receivables 60-90 days old have a 20% chance of non-collection. Receivables over 90 days old have a 40% chance of non-collection.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit
Dec 31	Bad debt expense (EXP+, E-)	5,100	
	Allowance for doubtful accounts (XA+, A-)		5,100

+ Bad Debt Expense (E) -			- Allowance for Doubtful Accounts (XA) +		
Dec 31	5,100			Beg. Bal.	12,000
				Dec 31	5,100
End Bal.	5,100			End Bal.	17,100

This method is sometimes called the statement of financial position approach because the method emphasizes the proper statement of financial position valuation of accounts receivable.

VANDOLAY INDUSTRIES INC. Statement of Financial Position (partial) As of December 31, 2014	
Accounts receivable	\$ 150,000
Less: Allowance for doubtful accounts	(17,100)
Accounts receivable - net	132,900
VANDOLAY INDUSTRIES INC. Statement of Income (partial) For the year ended December 31, 2014	
Bad debt expenses	\$ 5,100

From previous page

Part B: Assume instead that the company's allowance for doubtful accounts has an **unadjusted DEBIT balance of \$400 at December 31, 2014.**

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
Dec	31	Bad debt expense (EXP+, E-)	17,500	
		Allowance for doubtful accounts (XA+, A-)		17,500

+ Bad Debt Expense (E) -				- Allowance for Doubtful Accounts (XA) +			
Dec 31	17,500			Beg. Bal.	400		
						Dec 31	17,500
End Bal.	17,500					End Bal.	17,100

VANDOLAY INDUSTRIES INC.
Statement of Financial Position (partial)
As of December 31, 2014

Accounts receivable	\$ 150,000
Less: Allowance for doubtful accounts	(17,100)
Accounts receivable - net	132,900

VANDOLAY INDUSTRIES INC.
Statement of Income (partial)
For the year ended December 31, 2014

Bad debt expenses	\$ 17,500
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