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Current Assets Exercises III

Larry M. Walther; Christopher J. Skousen

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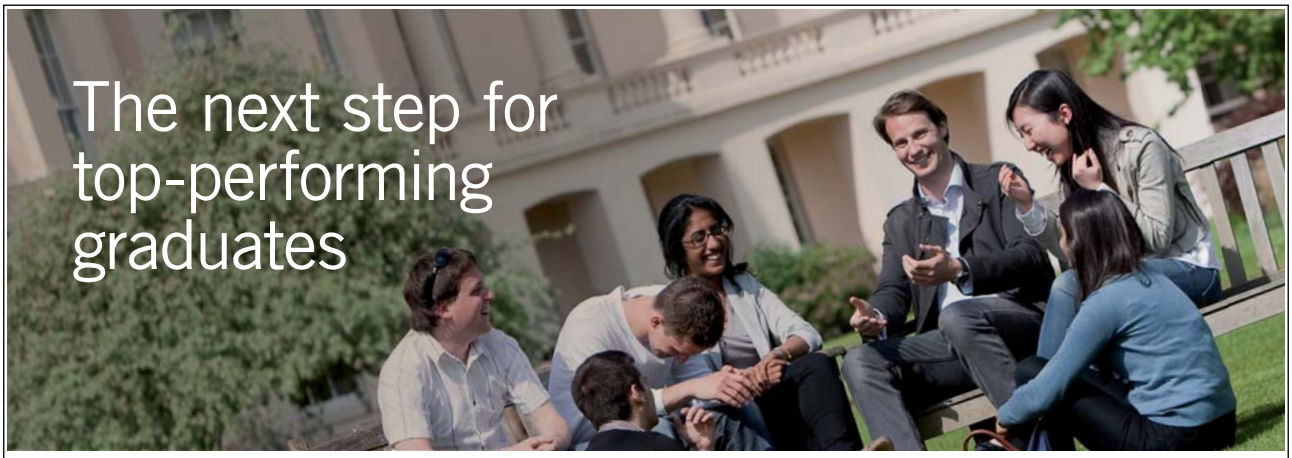

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Problem 1

Alpine Medical Corporation (AMC) accepts credit card payments from its patients. Following are the batched transactions for May 19.

1) Total charges on MoreMoney and Wind credit cards were $42,000. These cards are “bank cards” and AMC receives daily cash settlement directly to its bank account, net of service charges of 1.5%.

2) Total charges on EuropeanExpress cards were $6,000. This card is not a bank card, and settlement does not occur until approximately two weeks following the date of the transaction. EuroExpress is known to charge a 4% fee, and this amount is recorded on the day of sale.

Prepare journal entries for the credit card transactions. Be sure to include a separate entry for the eventual collection of the EuroExpress charges.

Worksheet 1

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
19-May			
	Sold merchandise on "bank card;" same day funding, net of fee of 1.5% assessed by bank		
19-May			
	Sold merchandise on "nonbank card," recorded 4% fee		
2-Jun			
	Collected amount due from credit card company		

Solution 1

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
19-May	Cash	41,370	
	Service Charge	630	
	Sales		42,000
	Sold merchandise on "bank card;" same day funding, net of fee of 1.5% assessed by bank		
19-May	Accounts Receivable	5,760	
	Service Charge	240	
	Sales		6,000
	Sold merchandise on "nonbank card," recorded 4% fee		
2-Jun	Cash	5,760	
	Accounts Receivable		5,760
	Collected amount due from credit card company		

Problem 2

ThermoGlare distrubutes customized parts for sports cars. The company has a broad customer base, and routinely sells on credit. Annually, the company reviews and updates its allowance for uncollectible accounts. Periodic write-offs against the allowance account are made throughout the year when individual accounts are deemed to be worthless. Following are relevant facts for the current year:

> Prior to recording any year-end adjustments, the total balance of all accounts receivable amounted to $1,150,000. The existing Allowance for Uncollectible Accounts had a balance of $9,000. No entry was made during the year to increase this account, but $20,000 of uncollectible accounts were written off against the allowance during the year.

a) What was the beginning-of-year balance for the Allowance for Uncollectible Accounts?
b) Prepare a summary journal entry that reflects the $20,000 of write-offs already recorded by Pablo's.
c) Assuming that the year-end allowance should equal 3% of outstanding receivables, what end-of-year adjusting entry is needed?
d) How will the accounts receivable and allowance appear on the balance sheet?
e) How much expense will appear in the annual income statement as uncollectible accounts expense?

Worksheet 2

a)

b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
various			
	To record the write off of uncollectible accounts		

c)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Dec. 31			
	To adjust the allowance account from a $9,000 balance to the target balance of _____		

d)

Accounts Receivable
Less: Allowance for Uncollectible Accounts

e)

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Solution 2

a) The beginning balance in the Allowance for Uncollectible Accounts was $29,000. This is simply the existing ending balance ($9,000) plus the amounts written off against the allowance ($20,000) during the year.

b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
various	Allowance for Uncollectible Accounts	20,000	
	Accounts Receivable		20,000
	To record the write off of uncollectible accounts		

c)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Dec. 31	Uncollectible Accounts Expense	25,500	
	Allowance for Uncollectible Accounts		25,500
	To adjust the allowance account from a $9,000 balance to the target balance of $34,500 ($1,150,000 X 3%)		

d)

Accounts Receivable	$ 1,150,000	
Less: Allowance for Uncollectible Accounts	(34,500)	$ 1,115,500

e) The expense will equal the $25,500 recorded in (c) above. The process of writing off specific accounts against an allowance (in (b) above) does not impact income.

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Problem 3

Duchetti Corporation utilizes an accounting software package that is capable of producing a detailed aging of outstanding accounts receivable. Following is the aging schedule as of December 31, 20X5.

AGE	AMOUNT OUTSTANDING
0 to 30 days	$ 3,600,000
31 to 60 days	2,100,000
61 to 120 days	600,000
Over 120 days	75,000

Bruno Duchetti has owned and operated Duchetti Corporation for many years and has a very good sense of the probability of collection of outstanding receivables, based on an aging analysis. The following table reveals the likelihood of collection:

AGE	PROBABILITY OF COLLECTION
0 to 30 days	97%
31 to 60 days	85%
61 to 120 days	70%
Over 120 days	50%

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a) Prepare an aging analysis and show how accounts receivable and the related allowance for uncollectibles should appear on the balance sheet at December 31.

b) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a $45,000 credit.

c) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a $15,000 debit. How could the allowance account have contained a debit balance?

Worksheet 3 (a)

a)

AGE	BALANCE	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days			
31 to 60 days			
61 to 120 days			
Over 120 days			

Accounts Receivable
Less: Allowance for Uncollectible Accounts

Worksheet 3 (b)

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			

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Solution 3 (a)

a)

AGE	BALANCE	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days	$ 3,600,000	3%	$ 108,000
31 to 60 days	2,100,000	15%	315,000
61 to 120 days	600,000	30%	180,000
Over 120 days	75,000	50%	37,500
	$ 6,375,000		$ 640,500

Accounts Receivable	$	6,375,000
Less: Allowance for Uncollectible Accounts		(640,500)
	$	5,734,500

Solution 3 (b)

b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Dec. 31	Uncollectible Accounts Expense	595,500	
	Allowance for Uncollectible Accounts		595,500
	To adjust the allowance account from a $45,000 (cr) balance to the target balance of $640,500 (cr)		

c)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Dec. 31	Uncollectible Accounts Expense	655,500	
	Allowance for Uncollectible Accounts		655,500
	To adjust the allowance account from a $15,000 (dr) balance to the target balance of $640,500 (cr)		

The allowance account is a contra account to accounts receivable and would normally have a credit balance. A debit balance would be created if more accounts were actually written off against the account than was its balance. The situation would be rectified with an end-of-period adjustment, as shown. The debit balance might suggest that insufficient estimates of anticipated write-offs were previously established.

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Problem 4

Allen Corporation follows generally accepted accounting principles in accounting for uncollectibles. Wang received notification from a bankruptcy court that its customer, Spandex Limited, had been adjudicated and released from all claims presently pending against it by Allen Corporation. Clint Allen, owner of Allen Corporation, was not at all pleased with this decision. Clint had anticipated recovering at least $75,000 from Spandex Limited, and that balance remained in the Accounts Receivable accounts of Allen Corporation. Because Allen Corporation has no further remedies for collection, Clint directed the accounting department to prepare a journal entry to write off the account of Spandex Limited.

a) Prepare the journal entry to write off the Spandex Limited account.

c) Suppose Spandex Limited recovered from its bankruptcy and eventually voluntarily paid the $75,000 "owed" to Allen. Prepare Allen's journal entries to record the unexpected recovery.

Worksheet 4

a) - c)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**

Solution 4

a) - c)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
	Allowance for Uncollectible Accounts	75,000	
	Accounts Receivable		75,000
	To record the write-off of the Spandex Limited receivable		
	Accounts Receivable	75,000	
	Allowance for Uncollectible Accounts		75,000
	To restore the Spandex Limited receivable		
	Cash	75,000	
	Accounts Receivable		75,000
	To record the collection of the Spandex Limited receivable		

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Problem 5

Prepare journal entries for each of the following transactions:

On July 1, 20X7, Ching received a 5%, 1-year, note receivable from Harris. This note was issued in payment for a $36,000 outstanding account receivable.

On July 31, 20X7, Ching recorded an end-of-year adjusting entry to record accrued interest on the note receivable.

On June 30, 20X8, Harris paid Ching the full amount due on the note receivable.

How would the June 30 entry differ if Harris defaulted on the payment?

Worksheet 5

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
July 1			
	To record issuance of 5%, 1-year note, in exchange for outstanding receivable		
July 31			
	To accrued interest on note ($36,000 X 5% X 1/12)		
June 30			
	To record interest income (11 months) and collection of note receivable and previously accrued interest		

Solution 5

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
July 1	Notes Receivable	36,000	
	Accounts Receivable		36,000
	To record issuance of 5%, 1-year note, in exchange for outstanding receivable		
July 31	Interest Receivable	150	
	Interest Income		150
	To accrued interest on note ($36,000 X 5% X 1/12)		
June 30	Cash	37,800	
	Accounts Receivable		1,650
	Interest Receivable		150
	Notes Receivable		36,000
	To record interest income (11 months) and collection of note receivable and previously accrued interest		

If Harris did not make payment on November 30, but Ching still anticipated collecting the amount due, then the debit would be to Accounts Receivable rather than Cash.

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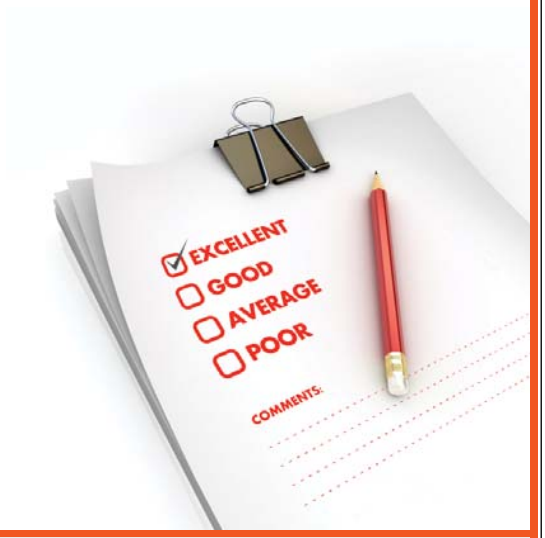

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Problem 6

Kassie Jensen was recently hired as the chief financial officer for Haggen Corporation. At the time Kassie was hired, the company had just completed the accounting cycle for the year ending December 31, 20X7. Kassie began her new job by reviewing the following information about sales and receivables activity during the year:

Beginning accounts receivable	$	2,250,000
Beginning allowance for uncollectibles		60,000
Sales on account		9,000,000
Collections on account		7,200,000
Sales Discounts		102,000
Accounts written-off		49,500
Additions to allowance for uncollectible accounts		2% of net sales

a) Based on her review, Kassie prepared some handwritten notes in journal entry form summarizing the above sales, collections, discounts, write-offs, and additions to the allowance. She wanted to compare her entries to what had actually been recorded by the company. How should her summary entries appear?

b) After completing her review, Kassie concluded that beginning in 20X8, the company would switch to a balance sheet approach for providing for uncollectible accounts. She estimates that the Allowance for Uncollectible Accounts should include an end-of-year balance equal to 3% of total gross receivables. Prepare summary journal entries for 20X8 to capture the following information, and to update the allowance account from its beginning of year balance (see part (a) to determine the beginning balance).

Sales on account	9,900,000
Collections on account	8,850,000
Sales Discounts	132,000
Accounts written-off	79,500

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Worksheet 6

a)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
	To record sales on account		
	To record collections on account		
	To record sales discounts		
	To write-off uncollectible accounts		
	To increase allowance		

b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
	To record sales on account		
	To record collections on account		
	To record sales discounts		
	To write-off uncollectible accounts		
	To increase allowance (see calculations on next page)		

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CALCULATION OF ALLOWANCE FOR 20X8

	Receivables	Allowance
Beginning balance (20X7)	$ 1,500,000	$ 40,000
Sales on account (20X7)	-	-
Collections on account (20X7)	-	-
Sales discounts (20X7)	-	-
Accounts written off (20X7)	-	-
Additions to allowance (20X7)	-	-
Ending balance (20X7)	$ -	$ -

	Receivables	Allowance
Beginning balance (20X8)	$ -	$ -
Sales on account (20X8)	-	-
Collections on account (20X8)	-	-
Sales discounts (20X8)	-	-
Accounts written off (20X8)	-	-
Subtotals	$ -	$ -
Additions to allowance (20X8)	-	-
Ending balance (20X8)	$ -	$ -

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Solution 6

a)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
	Accounts Receivable	9,000,000	
	Sales		9,000,000
	To record sales on account		
	Cash	7,200,000	
	Accounts Receivable		7,200,000
	To record collections on account		
	Sales Discounts	102,000	
	Accounts Receivable		102,000
	To record sales discounts		
	Allowance for Uncollectible Accounts	49,500	
	Accounts Receivable		49,500
	To write-off uncollectible accounts		
	Uncollectible Accounts Expense	177,960	
	Allowance for Uncollectible Accounts		177,960
	To increase allowance by 2% of net sales (($9,000,000 - $102,000) X 2%)		

b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
	Accounts Receivable	9,900,000	
	Sales		9,900,000
	To record sales on account		
	Cash	8,850,000	
	Accounts Receivable		8,850,000
	To record collections on account		
	Sales Discounts	132,000	
	Accounts Receivable		132,000
	To record sales discounts		
	Allowance for Uncollectible Accounts	79,500	
	Accounts Receivable		79,500
	To write-off uncollectible accounts		
	Uncollectible Accounts Expense	81,420	
	Allowance for Uncollectible Accounts		81,420
	To increase allowance to equal 3% of gross receivables (see calculations below)		

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CALCULATION OF ALLOWANCE FOR 20X8

	Receivables	Allowance
Beginning balance (20X7)	$ 2,250,000	$ 60,000
Sales on account (20X7)	9,000,000	
Collections on account (20X7)	(7,200,000)	
Sales discounts (20X7)	(102,000)	
Accounts written off (20X7)	(49,500)	(49,500)
Additions to allowance (20X7)	-	177,960
Ending balance (20X7)	$ 3,898,500	$ 188,460

	Receivables	Allowance
Beginning balance (20X8)	$ 3,898,500	$ 188,460
Sales on account (20X8)	9,900,000	
Collections on account (20X8)	(8,850,000)	
Sales discounts (20X8)	(132,000)	
Accounts written off (20X8)	(79,500)	(79,500)
Subtotals	$ 4,737,000	$ 108,960
Additions to allowance (20X8)	-	33,150
Ending balance (20X8)	$ 4,737,000	$ 142,110

* The allowance account should have a balance of $142,110 (3% of the gross receivables: ($4,737,000 X 3% = $142,110). The addition to the account ($33,150) is equal to the difference between the $108,960 balance before adjustment, and the targeted balance of $142,110.

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Problem 7

Hans' manufactures and sells customized work clothes and uniforms. Following is a list of accounts receivable as of December 31, 2009.

Customer	Date of Sale	Amount
Alpha Electronics	December 7, 2009	15,990
Benito Corp	November 8, 2009	6,500
Boonlert Consulting	December 23, 2009	45,110
Braun	August 14, 2009	19,247
Canyon Auto	August 11, 2009	20,852
Clip Click	December 5, 2009	28,470
Eastern Trade	September 15, 2009	11,687
Friendly Book	December 13, 2009	15,326
Harden System	October 21, 2009	29,003
Horatio	December 1, 2009	175,630
Igloo Pets	November 25, 2009	21,450
Master Car Care	December 17, 2009	331,500
Math Helpers	May 16, 2008	15,322
Neutral Zone	February 12, 2009	24,414
Quick Time	December 20, 2009	13,000
Ralphs Sausage	December 10, 2009	4,615
Slippery Slope	December 13, 2009	53,170
Talikai Travel	October 20, 2009	19,630
Tavita	December 7, 2009	4,810
WalShop	February 1, 2009	18,772
Window World	December 13, 2009	187,200

a) Sort the receivables list by age category and determine the estimated balance of uncollectible accounts. Walt's believes the following rates of noncollection will occur: 2% of receivables up to 30 days, 5% for 31 to 90 days, 15% for 91 to 180 days, and 50% of accounts over 180 days.

b) If the balance of Allowance for Uncollectible Accounts contained $25,000 (credit), what adjusting entry is needed to reflect the analysis from part (a).

c) If the balance of Allowance for Uncollectible Accounts contained $25,000 (debit), what adjusting entry is needed to reflect the analysis from part (a).

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Worksheet 7 (a)

Customer	Date of Sale	Age	Amount

AGE	BALANCE	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days		2%	$ -
31 to 90 days		5%	-
91 to 180 days		15%	-
Over 180 days		50%	-
			$ -

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Worksheet 7 (b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
(b)			
(c)			

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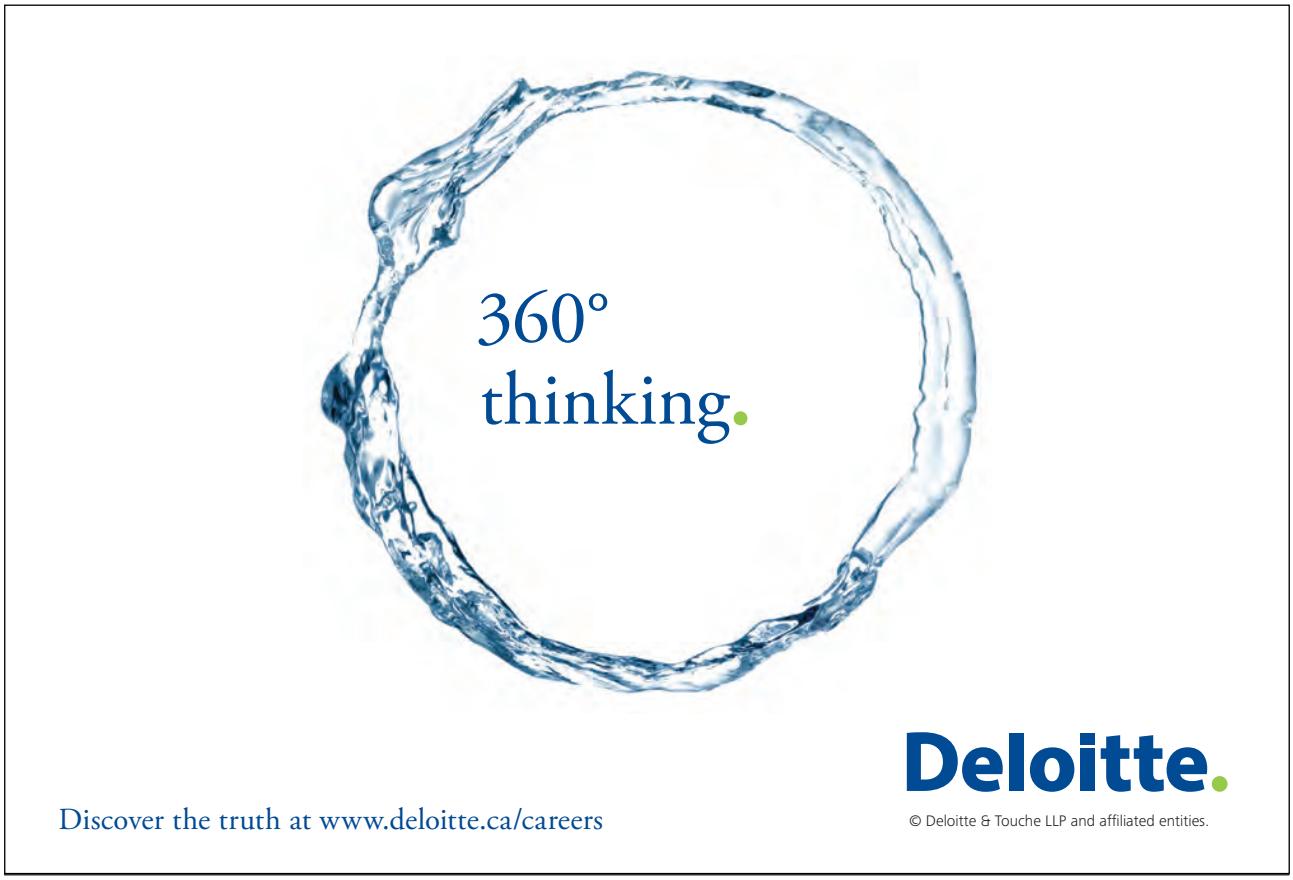

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Solution 7 (a)

Customer	Date of Sale	Age	Amount	
Math Helpers	May 16, 2008	594	15,322	
WalShop	February 1, 2009	333	18,772	
Neutral Zone	February 12, 2009	322	24,414	58,508
Canyon Auto	August 11, 2009	142	20,852	
Braun	August 14, 2009	139	19,247	
Eastern Trade	September 15, 2009	107	11,687	51,786
Talikai Travel	October 20, 2009	72	19,630	
Harden System	October 21, 2009	71	29,003	
Benito Corp	November 8, 2009	53	6,500	
Igloo Pets	November 25, 2009	36	21,450	76,583
Horatio	December 1, 2009	30	175,630	
Clip Click	December 5, 2009	26	28,470	
Alpha Electronics	December 7, 2009	24	15,990	
Tavita	December 7, 2009	24	4,810	
Ralphs Sausage	December 10, 2009	21	4,615	
Friendly Book	December 13, 2009	18	15,326	
Slippery Slope	December 13, 2009	18	53,170	
Window World	December 13, 2009	18	187,200	
Master Car Care	December 17, 2009	14	331,500	
Quick Time	December 20, 2009	11	13,000	
Boonlert Consulting	December 23, 2009	8	45,110	874,821

December 31, 2009

AGE	BALANCE	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days	$ 874,821	2%	$ 17,496
31 to 90 days	76,583	5%	3,829
91 to 180 days	51,786	15%	7,768
Over 180 days	58,508	50%	29,254
			$ 58,347

Solution 7 (b)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
(b)	Uncollectible Accounts Expense	33,347	
	Allowance for Uncollectible Accounts		33,347
	To increase allowance ($58,347 - $25,000 = $33,347)		
(c)	Uncollectible Accounts Expense	83,347	
	Allowance for Uncollectible Accounts		83,347
	To increase allowance ($58,347 + $25,000 = $83,347)		

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Problem 8

ToGo Lighting Corporation sells customized stage lighting equipment for use in the entrainment industry. ToGo has a broad dealer network. One dealer, Boonlert-U-Thai, obtained a large contract with a ship builder to install an elaborate stage lighting system produced by ToGo. The new cruise ship was being promoted as the Broadway on the Water, and promised to offer the world's finest theatrical performances at sea.

In 20X2, ToGo sold the lighting equipment to Boonlert-U-Thai for RMB 22,500,000. Terms were 20% cash payment, and the balance in 75 days. The extended payment terms were necessary because Boonlert-U-Thai needed to collect from the ship builder before being able to pay ToGo.

Unfortunately, Boonlert-U-Thai experienced difficulties. It seems the floor of the stage was equipped with a sophisticated leveling system that caused it to move in counter-motion to the ship's rocking while at sea. This feature provided entertainers with a stable stage on which to perform. However, this attribute was not considered in the design of the lighting equipment. As a result, when the ship rocked, the beams from the lights moved all about on the stage. No one was happy, and the cruise ship delayed payment to Boonlert-U-Thai. Boonlert-U-Thai was not able to pay ToGo. All parties believed some resolution and payment would eventually occur, but the timing was uncertain.

a) Prepare ToGo 's journal entry to record the initial sale and down payment. Be sure to also record the cost of goods sold (assume the lighting equipment cost ToGo RMB 16,500,000 and the company uses a perpetual inventory system).

b) After 75 days, Boonlert-U-Thai paid an additional RMB 3,000,000 and executed a 180-day, 6%, promissory note for the unpaid balance. Prepare ToGo 's entry.

c) ToGo 's accounting year ended 60 days following the execution of the promissory note. Prepare the end-of-year adjusting entry.

d) 180 days following the execution of the promissory note, all matters had been resolved and Boonlert-U-Thai paid the full amount due on the promissory note. Prepare ToGo 's journal entry.

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Worksheet 8

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
(a)			
(b)			
(c)			
(d)			

Solution 8

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
(a)	Accounts Receivable	18,000,000	
	Cash	4,500,000	
	Sales		22,500,000
	To record the sale to Boonlert-U-Thai		
	Cost of Goods Sold	16,500,000	
	Inventory		16,500,000
	To record the cost of the lighting system		
(b)	Cash	3,000,000	
	Notes Receivable	15,000,000	
	Accounts Receivable		18,000,000
	To record conversion of an account receivable to a note receivable		
(c)	Interest Receivable	150,000	
	Interest Income		150,000
	To record accrued interest (RMB 15,000,000 X 6% X 60/360 = $100)		
(d)	Cash	15,450,000	
	Interest Income		300,000
	Interest Receivable		150,000
	Notes Receivable		15,000,000
	To record the collection of the note plus interest (interest income RMB 15,000,000 X 6% X 120/360)		