

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

| | |
|--------------|---------|
| Cash sales | 687,245 |
| Credit sales | 462,894 |

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

| | |
|---------------------------------|---------------|
| Accounts Receivable | 375,000 Debit |
| Allowance for doubtful accounts | 2,300 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 1.5 % of total sales
 - b. Bad debts are estimated to be 3 % of credit sales
 - c. It is estimated that 7.5 % 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.

GENERAL JOURNAL

| | 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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| DATE | ACCOUNT | DEBIT | CREDIT |
|------|---|-----------|-----------|
| 1a) | Bad Debt Expense | 17,252.09 | |
| | Allowance for Doubtful Accounts | | 17,252.09 |
| | Explain: $(687,245 + 462,894) \times 1.5\%$ | | |
| 1b) | Bad Debt Expense | 13,886.82 | |
| | Allowance for Doubtful Accounts | | 13,886.82 |
| | Explain: $462,894 \times 3\%$ | | |
| 1c) | Bad Debt Expense | 30,425.00 | |
| | Allowance for Doubtful Accounts | | 30,425.00 |
| | Explain: $375,000 \times 7.5\% = 28,125$ Credit, the required ending balance of the Allowance Account. Current balance 2,300 Debit | | |

Part 2

| | | |
|--------------------------------------|------------|------------|
| Accounts Receivable | 375,000.00 | |
| Less Allowance for Doubtful Accounts | 11,586.82 | 363,413.18 |

Part 3

| | | |
|--------------------------------------|---------|---------|
| Accounts Receivable | 375,000 | |
| Less Allowance for Doubtful Accounts | 28,125 | 346,875 |