

# Practice Set

# ACCOUNTING FOR RECEIVABLES

Instructions: For all Parts make the Journal Entry given the transaction description.

## I. ACCOUNTING FOR BAD DEBTS

Linda's Video Showcase allowed customers to charge and pay monthly. To estimate bad debts they chose the percentage of receivable sales method. First year receivable sales were \$20,000, and industrial data indicated 2% would go bad.

		DR.		CR.
Dec. 31	Bad Debt Expense	400		
	Allowance for Bad Debts			400
READ FIRST--> To record 1996 bad debt expense.				
March 23	Allowance for Bad Debts	25		
	Accounts Receivable, A. Company			25
	To write off A. Company for \$25.			
Aug. 20	Allowance for Bad Debts	130		
	Accounts Receivable, B. Company			130
	To write off B. Company for \$130.			
Oct. 14	Allowance for Bad Debts	250		
	Accounts Receivable, C. Company			250
	To write off C. Company for \$250.			
Nov. 20	Accounts Receivable, A. Company	25		
	Allowance for Bad Debts			25
	A. Company, previously written off, made good on their debt.			
Nov. 20	Cash	25		
	Accounts Receivable, A. Company			25
	Cash received from A. Company.			
Dec. 31	Bad Debt Expense	440		
1996	Allowance for Bad Debts			440
	To record bad debt expense estimated at \$440 for 1997 (2% of \$22,000).			

Allowance For Bad Debts	
25	400
130	<u>25</u>
250	425
405	<u>405</u>
	20 Bal.
	<u>440</u>
	460

Hint: On Jan. 1, 1997, the Allowance for Bad Debt Account had a balance of \$460.

Question: How was the allowance for bad debts reported on the Balance Sheet?  
The Allowance for Bad Debts is subtracted from Accounts Receivable.

## II. CREDIT CARD SALES

The Video Showcase dealt with two types of credit card companies: one electronically tied to the company's cash register and paid immediately, the other delayed payment until receipts were received and processed. Both charged 4%. Record the Journal Entry for a credit sale of \$100.

### CASH RECEIVED IMMEDIATELY

		DR.		CR.
Jan. 5	Cash	96		
	Credit Card Expense	4		
	Sales			100

### CREDIT CARD COMPANY BILLED

Jan. 5	Accounts Receivable	100		
	Sales			100
Jan. 25	Cash	96		
	Credit Card Expense	4		
	Accounts Receivable			100