**Exercise 7-1 (25 minutes)**

Part 1

**GENERAL LEDGER**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accounts Receivable** |  | **Sales** |  | **Sales Returns and Allowances** |
| **Nov. 5** | **4,615** | **Nov. 21** | **209** |  |  |  | **Nov. 5** | **4,615** |  |  **Nov. 21** | **209** |  |  |
| **10** | **1,350** |  |  |  |  |  | **10** | **1,350** |  |  |  |  |  |
| **13** | **832** |  |  |  |  |  | **13** | **832** |  |  |  |  |  |
| **30** | **2,713** |  |  |  |  |  | **30** | **2,713** |  |  |  |  |  |
| **Bal.** | **9,301** |  |  |  |  |  |  |  |  |  |  |  |  |

**ACCOUNTS RECEIVABLE LEDGER**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ski Shop** |  | **Welcome Enterprises** |  | **Zia Natara** |
| **Nov. 5** | **4,615** |  |  |  | **Nov. 10** | **1,350** |  |  |  | **Nov. 13** | **832** | **Nov. 21** | **209** |
| **30** | **2,713** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Bal.** | **7,328** |  |  |  |  |  |  |  |  | **Bal.** | **623** |  |  |

***Part 2***

|  |
| --- |
| **Vail Company****Schedule of Accounts Receivable****November 30** |
| **Ski Shop**  | **$7,328** |
| **Welcome Enterprises**  | **1,350** |
| **Zia Natara**  |  **623** |
| **Total**  | **$9,301** |
|  |  |

**Comparison: The total of the Schedule of Accounts Receivable ($9,301) is proved with the balance of the Accounts Receivable controlling T-account from Part 1 ($9,301).**

**Exercise 7-2 (20 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Apr. 8** | Cash  | **8,064** |  |
|  | **Credit Card Expense\***  | **336** |  |
|  |  **Sales**  |  | **8,400** |
|  |  ***Record credit card sales less 4% fee. \*($8,400 x 0.04)*** |  |  |
|  |  |  |  |
| **8** | **Cost of Goods Sold**  | **6,000** |  |
|  |  **Merchandise Inventory**  |  | **6,000** |
|  |  ***Record cost of sales.*** |  |  |
|  |  |  |  |
| **12** | **Cash**  | **5,460** |  |
|  | **Credit Card Expense\***  | **140** |  |
|  |  **Sales**  |  | **5,600** |
|  |  ***Record credit card sales less 2.5% fee. \*($5,600 x .025)*** |  |  |
|  |  |  |  |
| **12** | **Cost of Goods Sold**  | **3,500** |  |
|  |  **Merchandise Inventory**  |  | **3,500** |
|  |  ***Record cost of sales.*** |  |  |

**Exercise 7-3 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Apr. 30** | Accounts Receivable  | **1,000** |  |
|  |  **Sales**  |  | **1,000** |
|  |  ***Record own-store credit card sales.*** |  |  |
|  |  |  |  |
| **30** | **Cost of Goods Sold**  | **650** |  |
|  |  **Merchandise Inventory**  |  | **650** |
|  |  ***Record cost of sales.*** |  |  |
|  |  |  |  |
| **May 31** | Accounts Receivable  | **4** |  |
|  |  **Interest Revenue**  |  | **4** |
|  | ***Interest earned from its own-store credit card.*** |  |  |

Exercise 7-4 (15 minutes)

|  |  |  |  |
| --- | --- | --- | --- |
| **March 11** | Bad Debts Expense  | **45,000** |  |
|  |  **Accounts Receivable—Leer Co.**  |  | **45,000** |
|  |  ***Write off an account.*** |  |  |
|  |  |  |  |
| **March 29** | **Accounts Receivable—Leer Co.**  | **45,000** |  |
|  |  **Bad Debts Expense**  |  | **45,000** |
|  |  ***Reinstate an account previously written off.*** |  |  |
|  |  |  |  |
| **March 29** | **Cash**  | **45,000** |  |
|  |  **Accounts Receivable—Leer Co.**  |  | **45,000** |
|  |  ***Record cash received on account.*** |  |  |

Exercise 7-5 (20 minutes)

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | **Bad Debts Expense**  | **4,875** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **4,875** |
|  |  ***Record estimated bad debts expense  (.005 x $975,000).*** |  |  |
|  |  |  |  |
| **Feb. 1** | Allowance for Doubtful Accounts  | **580** |  |
|  |  **Accounts Receivable—P. Park**  |  | **580** |
|  |  ***Write off an account.*** |  |  |
|  |  |  |  |
| **June 5** | **Accounts Receivable—P. Park**  | **580** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **580** |
|  |  ***Reinstate an account.*** |  |  |
|  |  |  |  |
| **June 5** | **Cash**  | **580** |  |
|  |  **Accounts Receivable—P. Park**  |  | **580** |
|  |  ***Record cash received on account.*** |  |  |

**Exercise 7-6 (15 minutes)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** |  |  |  |  |
| **Dec. 31** | **Bad Debts Expense**  | **685** |  |
|  |  **Allowance for Doubtful Accounts\***  |  | **685** |
|  |  ***Record estimated bad debts expense.*** |  |  |
| ***\*Unadjusted balance*** | ***= $ 415 credit*** |
|  ***Estimated balance ($55,000 x .02)*** | ***= 1,100 credit*** |
|  ***Required adjustment*** | ***= $ 685 credit*** |
| **b.** |  |  |  |  |
| **Dec. 31** | **Bad Debts Expense**  | **1,391** |  |
|  |  **Allowance for Doubtful Accounts\*\***  |  | **1,391** |
|  |  ***Record estimated bad debts expense.*** |  |  |
| ***\*\* Unadjusted balance*** | ***= $ 291 debit***  |
|  ***Estimated balance ($55,000 x .02)*** | ***= 1,100 credit*** |
|  ***Required adjustment*** | ***= $1,391 credit*** |

**Exercise 7-7 (30 minutes)**

**a. Computation of the estimated balance of the allowance for uncollectibles:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Not due:** |  | **$396,000 x 0.01 =** | **$ 3,960** |  |
|  **1 to 30:** |  | **90,000 x 0.02 =** | **1,800** |  |
| **31 to 60:** |  | **36,000 x 0.05 =** | **1,800** |  |
| **61 to 90:** |  | **18,000 x 0.07 =** | **1,260** |  |
| **Over 90:** |  | **30,000 x 0.10 =** |  **3,000** |  |
|  |  |  | **$11,820** | **credit** |

**Exercise 7-7 (*Concluded*)**

**b.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **8,220** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **8,220** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$ 3,600 credit** |  |
|  |  **Estimated balance**  |  **11,820 credit** |  |
|  |  **Required adjustment**  | **$ 8,220 credit** |  |

**c.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **11,920** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **11,920** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$ 100 debit** |  |
|  |  **Estimated balance**  |  **11,820 credit** |  |
|  |  **Required adjustment**  | **$11,920 credit** |  |

**Exercise 7-8 (25 minutes)**

**a. Computation of the estimated balance of the allowance for uncollectibles:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **$570,000 x 0.045 =** | **$25,650** | **credit** |

**b.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **13,650** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **13,650** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$12,000 credit** |  |
|  |  **Estimated balance**  |  **25,650 credit** |  |
|  |  **Required adjustment**  | **$13,650 credit** |  |

**c.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **26,650** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **26,650** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$ 1,000 debit** |  |
|  |  **Estimated balance**  |  **25,650 credit** |  |
|  |  **Required adjustment**  | **$26,650 credit** |  |

Exercise 7-9 (20 minutes)

|  |  |  |  |
| --- | --- | --- | --- |
| **Feb. 1** | Allowance for Doubtful Accounts  | **6,800** |  |
|  |  **Accounts Receivable—Oakley Co**  |  | **900** |
|  |  **Accounts Receivable—Brookes Co**  |  | **5,900** |
|  |  ***Write off specific accounts.*** |  |  |
|  |  |  |  |
| **June 5** | **Accounts Receivable—Oakley**  | **900** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **900** |
|  |  ***Reinstate an account.*** |  |  |
|  |  |  |  |
| **June 5** | **Cash**  | **900** |  |
|  |  **Accounts Receivable—Oakley**  |  | **900** |
|  |  ***Record cash received on account.*** |  |  |

**Exercise 7-10 (25 minutes)**

|  |  |  |
| --- | --- | --- |
| **a. Expense is 3.0% of credit sales** |  |  |
|  |  |  |  |
| **Dec. 31** | Bad Debts Expense  | **9,000** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **9,000** |
|  |  ***Record estimated bad debts  [$300,000 x .03].*** |  |  |
| **b. Expense is 1.0% of total sales** |  |  |
|  |  |  |  |
| **Dec. 31** | **Bad Debts Expense**  | **12,000** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **12,000** |
|  |  ***Record estimated bad debts  [($300,000 + $900,000) x .01].*** |  |  |
|  |  |  |  |
| **c. Allowance is 6% of accounts receivable** |  |  |
|  |  |  |  |
| **Dec. 31** | **Bad Debts Expense**  | **12,500** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **12,500** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  |  **$ 5,000 debit.**  |
|  |  **Estimated balance ($125,000 x 6%)**  |  **7,500 credit** |
|  |  **Required adjustment**  | **$12,500 credit** |

**Exercise 7-11 (10 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **2017** |  |  |  |
| **Dec. 13** | **Notes Receivable—M. Lee**  | **9,500** |  |
|  |  **Accounts Receivable—M. Lee**  |  | **9,500** |
|  |  ***Record receipt of note on account.*** |  |  |
|  |  |  |  |
| **Dec. 31** | **Interest Receivable**  | **38** |  |
|  |  **Interest Revenue**  |  | **38** |
|  |  ***Record interest earned [$9,500 x .08 x 18/360].*** |  |

**Exercise 7-12 (15 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018** |  |  |  |
| **Jan. 27** | **Cash**  | **9,595** |  |
|  |  **Interest Revenue\***  |  | **57** |
|  |  **Interest Receivable**  |  | **38** |
|  |  **Notes Receivable—M. Lee**  |  |  **9,500** |
|  |  ***Record cash received on note plus interest.***  ***\* [$9,500 x .08 x (45-18)/360 = $57]*** |  |  |
|  |  |  |  |
| **Mar. 3** | **Notes Receivable—Tomas Co.**  | **5,000** |  |
|  |  **Accounts Receivable-Tomas Co**  |  | **5,000** |
|  |  ***Record receipt of note on account.*** |  |  |
|  |  |  |  |
| **17** | **Notes Receivable—H. Cheng**  | **2,000** |  |
|  |  **Accounts Receivable—H. Cheng**  |  | **2,000** |
|  |  ***Record receipt of note on account.*** |  |  |
|  |  |  |  |
| **Apr. 16** | **Accounts Receivable—H. Cheng**  | **2,015** |  |
|  |  **Interest Revenue**  |  | **15** |
|  |  **Notes Receivable—H. Cheng**  |  | **2,000** |
|  |  ***Record receivable for dishonored  note plus interest [$2,000 x .09 x 30/360].*** |  |  |
|  |  |  |  |
| **May 1** | **Allowance for Doubtful Accounts**  | **2,015** |  |
|  |  **Accounts Receivable—H. Cheng**  |  | **2,015** |
|  |  ***Write off account.*** |  |  |
|  |  |  |  |
| **June 1** | **Cash**  | **5,125** |  |
|  |  **Interest Revenue**  |  | **125** |
|  |  **Notes Receivable—Tomas Co**  |  | **5,000** |
|  |  ***Record cash received on note with  interest [$5,000 x .10 x 90/360].*** |  |  |

**Exercise 7-13 (15 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Nov. 1** | Notes Receivable—K. White  | **6,000** |  |
|  |  **Accounts Receivable—K. White**  |  | **6,000** |
|  |  ***Record receipt of note on account.*** |  |  |
|  |  |  |  |
| **Dec. 31** | **Interest Receivable**  | **80** |  |
|  |  Interest Revenue  |  | **80** |
|  |  ***Record interest earned [$6,000 x .08 x 60/360].*** |  |  |
|  |  |  |  |
| **Apr. 30** | **Cash**  | **6,240** |  |
|  |  **Notes Receivable—K. White**  |  | **6,000** |
|  |  **Interest Revenue\***  |  | **160** |
|  |  **Interest Receivable**  |  | **80** |
|  |  ***Record cash received on note plus*** ***interest earned. \*[$6,000 x .08 x 120/360]*** |  |  |

**Exercise 7-14 (20 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Mar. 21** | Notes Receivable—T. Jackson  | **9,500** |  |
|  |  **Accounts Receivable—T. Jackson**  |  | **9,500** |
|  |  ***Record receipt of note on account.*** |  |  |
|  |  |  |  |
| **Sept. 17** | **Accounts Receivable—T. Jackson**  | **9,880** |  |
|  |  **Interest Revenue**  |  | **380** |
|  |  **Notes Receivable—T. Jackson**  |  | **9,500** |
|  |  ***Record note dishonored plus interest*** ***earned [$9,500 x .08 x 180/360 = $380].*** |  |  |
|  |  |  |  |
| **Dec. 31** | **Allowance for Doubtful Accounts**  | **9,880** |  |
|  |  **Accounts Receivable—T. Jackson**  |  | **9,880** |
|  |  ***Write off an account.*** |  |  |

**Exercise 7-15 (20 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **July 4** | Accounts Receivable  | **7,245** |  |
|  |  **Sales**  |  | **7,245** |
|  |  ***Record sales on credit.*** |  |  |
|  |  |  |  |
| **4** | **Cost of Goods Sold**  | **5,000** |  |
|  |  **Merchandise Inventory**  |  | **5,000** |
|  |  ***Record cost of sales.*** |  |  |
|  |  |  |  |
| **9** | **Cash**  | **19,200** |  |
|  | Factoring Fee Expense\*  | **800** |  |
|  |  **Accounts Receivable**  |  | **20,000** |
|  |  ***Record sale of receivable. \*($20,000 x .04)*** |  |  |
|  |  |  |  |
| **17** | **Cash**  | **5,859** |  |
|  |  **Accounts Receivable**  |  | **5,859** |
|  |  ***Record cash received on account.*** |  |  |
|  |  |  |  |
| **27** | **Cash**  | **10,000** |  |
|  |  **Notes Payable**  |  | **10,000** |
|  |  ***Record cash from a loan.*** |  |  |
|  |  |  |  |

***Note to Financial Statements***

Accounts receivable in the amount of $12,500 are pledged

as security for a $10,000 note payable to Main Bank.

**Exercise 7-16 (15 minutes)**

**Year 2 accounts receivable turnover:**

**$335,280**

**($41,400 + $34,800)/2**

 **= 8.8 times**

**Year 3 accounts receivable turnover:**

**$405,140**

**($44,800 + $41,400)/2**

 **= 9.4 times**

***Analysis*: Raheem Company turned over its accounts receivable 0.6 (9.4 – 8.8) times more in Year 3 than in Year 2. This may indicate that the company has tightened its credit policy or has improved its collection efforts. Also, relative to competitors’ turnover of 11, Raheem is performing worse than average.**

**Exercise 7-17 (25 minutes)**

***(¥ in millions)***

|  |  |  |
| --- | --- | --- |
| **a. Expense is 0.4% of total revenues**  |  |  |
|  |  |  |  |
| **Dec. 31** | Bad Debts Expense  | **40,137** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **40,137** |
|  |  ***Record estimated bad debts  [10,034,305 x 0.004]. Rounded to nearest dollar.*** |  |  |
|  |  |  |  |
| **b. Allowance is 2.0% of trade receivables, gross** |  |  |
|  |  |  |  |
| **Dec. 31** | **Bad Debts Expense**  | **49,855** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **49,855** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **10,000 credit** |
|  |  **Estimated balance (2,992,770 x 0.02)**  | **59,855 credit \*\*** |
|  |  **Required adjustment**  | **49,855 credit** |

**\*\*Rounded to nearest dollar.**

**Exercise 7-18 (30 minutes)**

**a. Estimated balance of allowance for doubtful accounts:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Not due:** |  | **$80,000 x 0.01 =** | **$ 800** |  |
|  **1 to 30:** |  | **18,000 x 0.03 =** | **540** |  |
| **31 to 60:** |  | **7,200 x 0.05 =** | **360** |  |
| **61 to 90:** |  | **4,000 x 0.08 =** | **320** |  |
| **Over 90:** |  | **6,000 x 0.11 =** |  **660** |  |
|  |  |  | **$2,680** | **credit** |

**b.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **1,680** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **1,680** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$ 1,000 credit** |  |
|  |  **Estimated balance**  |  **2,680 credit** |  |
|  |  **Required adjustment**  | **$ 1,680 credit** |  |

**c.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | Bad Debts Expense  | **2,780** |  |
|  |  **Allowance for Doubtful Accounts**  |  | **2,780** |
|  |  ***Record estimated bad debts.\**** |  |  |
|  |  |  |
|  | **\* Unadjusted balance**  | **$ 100 debit** |  |
|  |  **Estimated balance**  |  **2,680 credit** |  |
|  |  **Required adjustment**  | **$2,780 credit** |  |