Chapter 14: Accounting for Uncollectible Accounts Receivable: Chapter Overview

Accounting for Uncollectible Accounts Receivable: Chapter Objectives

Learning Objectives

After studying Chapter 14, in addition to defining key terms, you will be able to:

LO1 Explain the purpose of the allowance method for recording losses from uncollectible accounts.

LO2 Estimate uncollectible accounts expense using an aging of accounts receivable.

LO3 Record the adjusting entry for the allowance for uncollectible accounts.

LO4 Write off an uncollectible account receivable.

LO5 Account for the collection of an account receivable that was written off.

LO6 Record the acceptance of a note receivable.

LO7 Account for the collection of a note receivable.

LO8 Account for a dishonored note receivable.

Accounting for Uncollectible Accounts Receivable: Accounting in the Real World: Delta Air Lines

Imagine you are booking a flight on Delta.com . You identify the date and destination of your flight. Then you select your seats. Next is your personal information. To pay for your ticket, can you click the “Sales on Account” button? No! Individual travelers booking flights on Delta must pay for their tickets when making reservations. So why does Delta have over $1.3 billion in accounts receivable?

In its annual report, Delta reports that its accounts receivable includes amounts due from credit card companies. Delta also sells aircraft maintenance and cargo transportation services on account to selected customers. Delta's accounts receivables also include amounts other

companies and airlines owe Delta for frequent-flyer program transactions.

Any business that sells on account faces the risk that some customers will not pay their accounts. Some of Delta's aircraft maintenance and cargo transportation customers, even other airlines, may go out of business before paying their accounts. Delta refers to these amounts as uncollectible accounts. For many businesses, the expense of their uncollectible accounts can significantly reduce net income.

Fortunately for Delta, it considers the amount of these uncollected accounts to be “immaterial. ” An immaterial amount is too small to be reported individually on its income statement. According to generally accepted accounting principles (GAAP), Delta is required to report an estimate of uncollectible accounts on its balance sheet. The airline estimates that $47 million of its $1.3 billion accounts receivable may never be collected. Forty seven million is a lot of money. However, the amount is “immaterial” when compared to Delta's $43.5 billion in total assets.

Critical Thinking

1. What percent of Delta's total assets is the estimate of its uncollectible accounts?
2. Do you believe the GAAP requirement that Delta report its estimate of uncollectible accounts provides useful information for the reader of its financial statements?

Accounting for Uncollectible Accounts Receivable: Key Terms

- uncollectible accounts
- allowance method
- book value
- book value of accounts receivable
- net realizable value
- percent of sales method
- percent of accounts receivable method
- aging of accounts receivable
- writing off an account
- direct write-off method
- promissory note
- note payable
- note receivable
- maker of a note
- payee
- principal
- interest rate
- maturity date
- time of a note
- maturity value
- interest income
- dishonored note

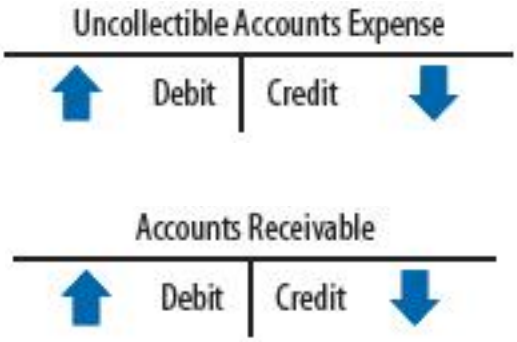
Lesson 14-1: Uncollectible Accounts Receivable

- LO1 Explain the purpose of the allowance method for recording losses from uncollectible accounts.
- LO2 Estimate uncollectible accounts expense using an aging of accounts receivable.
- LO3 Record the adjusting entry for the allowance for uncollectible accounts.

Allowance Method of Recording Losses from Uncollectible Accounts LO1

ThreeGreen uses terms of 2/10, n/30 when selling to customers on account. The company expects customers to pay in full within 30 days. ThreeGreen begins sending customers periodic reminders when their accounts are more than 30 days past due. More serious actions may be taken if a customer account is not paid within 90 days. ThreeGreen may stop selling on account to a customer until payment is received. ThreeGreen is aware that a small percentage of its customers will never pay their account in full.

With each sale on account, a business takes the risk that the customer will never pay the amount owed. This risk is an expense of doing business. The expense must be recorded in the same accounting period that the revenue is earned. Accurate financial reporting requires that expenses be recorded in the fiscal period in which the expenses contribute to earning revenue. [CONCEPT: Matching Expenses with Revenue]



Accounts receivable that cannot be collected are called uncollectible accounts . The expense is recorded in Uncollectible Accounts Expense. Some businesses refer to uncollectible accounts as bad debts and use the account title Bad Debt Expense.

A business cannot know the amount of money it will fail to collect from uncollectible accounts. Generally accepted accounting principles (GAAP) require a business to record an estimate of its uncollectible accounts. Estimating uncollectible accounts expense at the end of a fiscal period records the expense of uncollectible accounts in the same period as the related revenue.

The adjusting entry to record estimated uncollectible accounts affects two general ledger accounts. The amount is debited to Uncollectible Accounts Expense and credited to an account titled Allowance for Uncollectible Accounts. Allowance for Uncollectible Accounts is a contra account to its related asset account, Accounts Receivable.

Crediting the estimated value of uncollectible accounts to a contra account is called the allowance method of recording losses from uncollectible accounts. The difference between an asset's account balance and its related contra account balance is called book value . The difference between the balance of Accounts Receivable and its contra account, Allowance for Uncollectible Accounts, is called the book value of accounts receivable . The book value of accounts receivable, reported on the balance sheet, represents an estimate of the total amount of accounts receivable the business expects to collect in the future. The amount of accounts receivable a business expects to collect is called the net realizable value .

A contra account is usually assigned the next number of the account number sequence after its related account in the chart of accounts. ThreeGreen's Accounts Receivable account is numbered 1130. The contra account, Allowance for Uncollectible Accounts, is numbered 1135.

Methods of Estimating Uncollectible Accounts Receivable LO2

Two methods are commonly used to estimate uncollectible accounts receivable:

1. The percent of sales method assumes that a percent of credit sales will become uncollectible. For example, a business might estimate that 0.5% of its sales on account

will become uncollectible. A business with credit sales of $700,000.00 would estimate that $3,500.00 will not be collectible ($700,000.00 × 0.5% = $3,500.00).

2. The percent of accounts receivable method uses an analysis of accounts receivable to estimate the amount that will be uncollectible.

Percents are usually based on past experience. A business that has experienced a 1.0% rate of uncollectible accounts can reasonably expect that 1.0% of future accounts receivable will become uncollectible. However, the business may have valid reasons to change its estimate. For example, an economic downturn could cause more customers than before to be unable to pay their accounts. Or, the business might tighten its credit policy so only customers with good credit scores are allowed to buy on account.

When conditions change, should the business raise its estimate of uncollectible accounts to 1.5% or 2.0%? Should the estimate be reduced to 0.5%? There is no correct answer. Historically, accountants have used conservative estimates when preparing financial statements. Using 2.0% rather than 1.5% would be a more conservative approach. The higher percentage increases the estimate of uncollectible accounts, which decreases net income.

A business must not, however, change its estimate to achieve some other goal, such as reducing net income to avoid income taxes. The book value of accounts receivable in the financial accounts must be a reasonable and unbiased estimate of the money a business expects to collect in the future. The accounting concept Neutrality is applied when the process of making accounting estimates is free from bias. [CONCEPT: Neutrality]

A business may use either the percent of sales or the percent of accounts receivable method to estimate its uncollectible accounts. Regardless of the method used, the business must ensure that it reports a reasonable and unbiased estimate of future uncollectible accounts.

ThreeGreen

Estimating Uncollectible Accounts Expense

Accounts Receivable as of December 31, 20--						
			Days Account Balance Past Due			
Customer	Account Balance	Current	1–30	31–60	61–90	Over 90
Belk & Jensen	$ 3,247.36	$ 1,495.18	$1,752.18			
Edmonds Hospital	639.88		167.48	$195.36	$277.04	
Lake Automotive	3,757.82	3,151.50	606.32			
Mason City Schools	2,489.64	2,489.64				
Skinner College	2,578.35					$2,578.35
Triangle Health	3,154.48	3,154.48				
Wells Apartments	4,514.28	1,483.21	3,031.07			
	$20,381.81	$11,774.01	$5,557.05	$195.36	$277.04	$2,578.35
Percent		1.0%	4.0%	12.0%	30.0%	80.0%

The first step in using the percent of accounts receivable method is to total accounts by “age” groups. Analyzing accounts receivable according to when they are due is called the aging of accounts receivable . Most businesses group accounts in 30-day periods, such as 31–60 days past due.

ThreeGreen uses past cash receipts data to estimate the percent of each age group that will become uncollectible in the future. For example, the company estimates that 4.0% of its accounts 1–30 days overdue will become uncollectible.

Age Group	Amount	Percent	Uncollectible
Current	$11,774.01	1.0%	$ 117.74
1–30	5,557.05	4.0%	222.28
31–60	195.36	12.0%	23.44
61–90	277.04	30.0%	83.11
Over 90	2,578.35	80.0%	2,062.68
	$20,381.81		$2,509.25
Current Balance of Allowance for Uncollectible Accounts			125.15
Estimated Addition to Allowance for Uncollectible Accounts			$2,384.10

1 Compute an estimate of each age group

2 Compute the total estimate

3 Compute the addition to the allowance account

The percent for each age group is used to calculate the total estimate of uncollectible accounts. Of the total accounts receivable on December 31, $20,381.81, the company estimates that $2,509.25 will become uncollectible.

ThreeGreen's general ledger shows that Allowance for Uncollectible Accounts has a $125.15 credit balance. This balance is what remains of estimates made in prior fiscal periods. To bring the balance up to the new estimate, the current balance must be increased by a $2,384.10 credit. Allowance for Uncollectible Accounts is increased by $2,384.10 to equal the new balance of $2,509.25.

Estimating Uncollectible Accounts Expense

1. Compute the estimate for each age group. Multiply the amount of each age group by the estimated uncollectible percent.
2. Compute the total of the uncollectible estimates, $2,509.25.
3. Subtract the current balance, $125.15, from the total estimate, $2,509.25, to determine the addition to the allowance account, $2,384.10. (If the allowance account has a debit balance, add the current balance to the total estimate.)

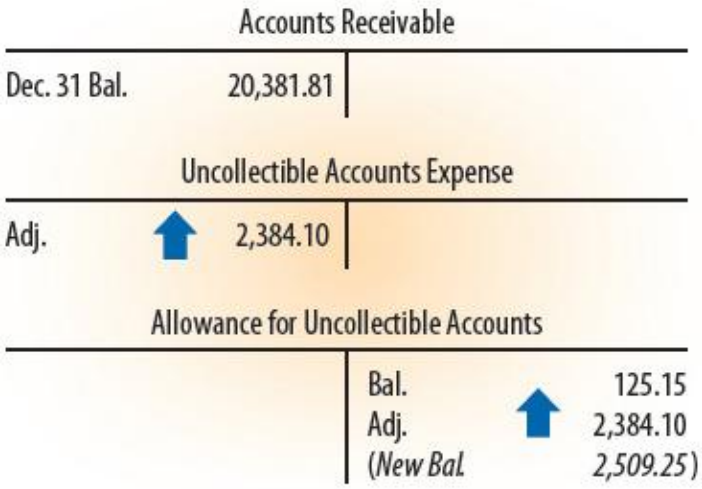
Adjusting Entry for Allowance for Uncollectible Accounts LO3

At the end of a fiscal period, some general ledger accounts need to be brought up to date before financial statements are prepared. In Part 1, Delgado Web Services recorded adjusting entries to bring Supplies and Prepaid Insurance up to date.

ThreeGreen has estimated that $2,509.25 of its accounts receivable will become uncollectible. ThreeGreen needs to record an adjusting entry to bring its Allowance for Uncollectible Accounts balance to a $2,509.25 credit. (Other adjusting entries will be presented in the next chapter.)

The general ledger balance of Allowance for Uncollectible Accounts is a $125.15 credit. This balance is the unused allowance estimate from the prior fiscal period. That is, it was not needed to cover any uncollectible accounts.

When the allowance account has a previous credit balance, the amount of the adjusting entry, $2,384.10, is added to the previous balance. The new account balance, $2,509.25, is the estimated amount of uncollectible accounts.



Four questions are asked to analyze the adjustments for the allowance for uncollectible accounts.

1. What is the balance of the account being adjusted? Allowance for Uncollectible Accounts, $125.15
2. What should the balance be for this account? Allowance for Uncollectible Accounts, $2,509.25
3. What must be done to correct the account balance? Increase $2,384.10 ($2,509.25 – $125.15)
4. What adjusting entry is made? Debit Uncollectible Accounts Expense, $2,384.10Credit Allowance for Uncollectible Accounts, $2,384.10

This new balance of the allowance account, subtracted from Accounts Receivable, $20,381.81, is the book value of accounts receivable. ThreeGreen estimates that it will collect $17,872.56 from its outstanding accounts receivable.

Accounts Receivable	–	Balance of Allowance for Uncollectible Accounts	=	Book Value of Accounts Receivable
$20,381.81	–	$2,509.25	=	$17,872.56

Journalizing an Adjusting Entry for the Allowance for Uncollectible Accounts

1. Write the heading, Adjusting Entries, in the middle of the general journal's Account Title column. This heading explains all of the adjusting entries that will follow. Indicating a source document is unnecessary. The first adjusting entry is recorded on the first two lines under the heading.
2. Write the date, Dec. 31, in the Date column.
3. Write the account title, Uncollectible Accounts Expense, in the Account Title column.
4. Write the amount, $2,384.10, in the Debit column.
5. On the next line indented about one centimeter, write Allowance for Uncollectible Accounts in the Account Title column.
6. Write the amount, $2,384.10, in the Credit column of the second line.

End of Lesson Review

- LO1 Explain the purpose of the allowance method for recording losses from uncollectible accounts.
- LO2 Estimate uncollectible accounts expense using an aging of accounts receivable.
- LO3 Record the adjusting entry for the allowance for uncollectible accounts.

Terms Review

- uncollectible accounts
- allowance method
- book value
- book value of accounts receivable
- net realizable value
- percent of sales method
- percent of accounts receivable method
- aging of accounts receivable

Audit Your Understanding

- What general ledger accounts are used to account for uncollectible accounts receivable?
- Explain why an adjustment for uncollectible accounts is an application of the Matching Expenses with Revenue concept.
- What are the two methods used to estimate uncollectible accounts receivable?
- How is Accounts Receivable affected by the estimate of uncollectible accounts?

Work Together 14-1

Journalizing the adjusting entry for Allowance for Uncollectible Accounts

The aging of accounts receivable for Brett Company as of December 31 of the current year and estimated percentages of uncollectible accounts by age group are presented in the Working Papers. Use page 13 of a general journal, also given in the Working Papers. Your instructor will guide you through the following examples.

1. Calculate the estimate of uncollectible accounts expense. The balance of Allowance for Uncollectible Accounts on December 31, before the adjusting entry is recorded, is a $236.89 credit.
2. Journalize the adjusting entry for Allowance for Uncollectible Accounts.

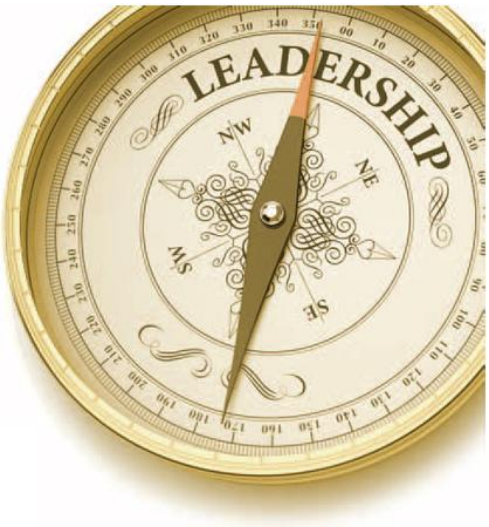
On Your Own 14-1

Journalizing the adjusting entry for Allowance for Uncollectible Accounts

The aging of accounts receivable for PCZ Corporation as of December 31 of the current year and estimated percentages of uncollectible accounts by age group are presented in the Working Papers. Use page 13 of a general journal, also given in the Working Papers. Work this problem independently.

1. Calculate the estimate of uncollectible accounts expense. The balance of Allowance for Uncollectible Accounts on December 31, before the adjusting entry is recorded, is a $1,841.63 credit.
2. Journalize the adjusting entry for Allowance for Uncollectible Accounts.

Ethics in Action: A Farewell Performance



Janice opened an envelope stamped “Secret and Confidential” and began to cry as she read the letter. For six years, she had enjoyed sailing the Caribbean working as a dancer for the nightly shows on the Merriment, a cruise ship of the Vibrance Cruise Line. Janice knew the

ship was scheduled for renovation in four months. The company even found her a temporary spot in a Las Vegas show while the ship was in dry dock. But she never expected the news contained in the letter.

“The cruise industry is experiencing radical changes. The size and services offered by the new mega ships have made the Merriment obsolete. Renovation of the ship is no longer a financially viable option. Vibrance has no choice but to decommission the Merriment at the end of this season. As a result, we regret that your contract will not be renewed.”

Sitting in her cabin, she pulled out her notebook computer and logged on to her favorite social networking site. Janice felt the need to share her unknown future with her family and friends. Her post read: “I'm in tears. Just learned this is my last season on the Merriment. ☹The ship is being scrapped.”

Instructions

Determine whether Janice acted ethically when she posted the message on her social networking site. Use the Code of Business Conduct and Ethics of Carnival Corporation as a guide. Go to www.Carnival.com , find “ About Carnival,” select “Investor Relations,” then “Corporate Governance.”

Forensic Accounting: McKesson and Robbins

McKesson Corporation is one of the world's largest health care companies with over $100 billion in annual revenues. McKesson distributes medicines and installs technology solutions. The company has experienced both good and bad times since its founding in 1833. One of the worst chapters in its history began in 1926 when the company, then known as McKesson & Robbins, was sold to Frank Coster.

Frank Coster was actually Phillip Musica. As a young man, Musica had twice been convicted and jailed for illegal business activities. Beginning in 1919, Musica, using his new name, founded two drug

companies. The companies produced legitimate alcohol-based health and drug products. However, Coster's best customers were bootleggers. During prohibition, these bootleggers distilled the alcohol out of his products. Coster used his new wealth to purchase control of McKesson & Robbins.

With the help of his brothers, Coster began a fraud to skim profits from McKesson & Robbins. The brothers set up a division in Canada to make international sales. They created false documents to show the purchase and sale of merchandise. In 1937, the Canadian division reported having $10 million of inventory and $9 million in accounts receivable. The division made up a large portion of McKesson & Robbins' $87 million in assets. In reality, it owned little more than the typewriters used to prepare the false documents.

Beginning in 1932, the Securities and Exchange Commission began requiring publicly traded companies to have annual audits. McKesson & Robbins' stock was traded on the New York Stock Exchange. So why didn't its auditors detect the fraud? In that day, auditors conducted audits in their offices. Corporations brought their accounting records and source documents to the auditors. The fraud was discovered in 1938 by the company's treasurer. He began to question certain transactions and discovered forged documents.

This fraud led the accounting profession to change how audits are conducted. New rules were set up to improve the quality of audits. Auditors now must physically observe inventory. They must confirm accounts receivable with customers. Auditors now perform audits at their clients' offices.

Activity

Jesse Dawkins, the treasurer of Naper Distribution, has become suspicious of his credit manager. He overheard the credit manager instruct an accounts receivable clerk to write off an account. What surprised him was the customer's name, Jenkins Construction. Jesse remembered seeing a transaction to write off the same customer account several months ago. “Why would we be selling to that account again?” he wondered.

Jesse has asked you to analyze sales and transactions to write off accounts receivable. Provide him with answers to the following questions:

1. How many customers have had transactions written off?
2. Has the company sold merchandise to any customer after the customer's account has

been written off?

3. Which customer accounts would you examine first? Explain.

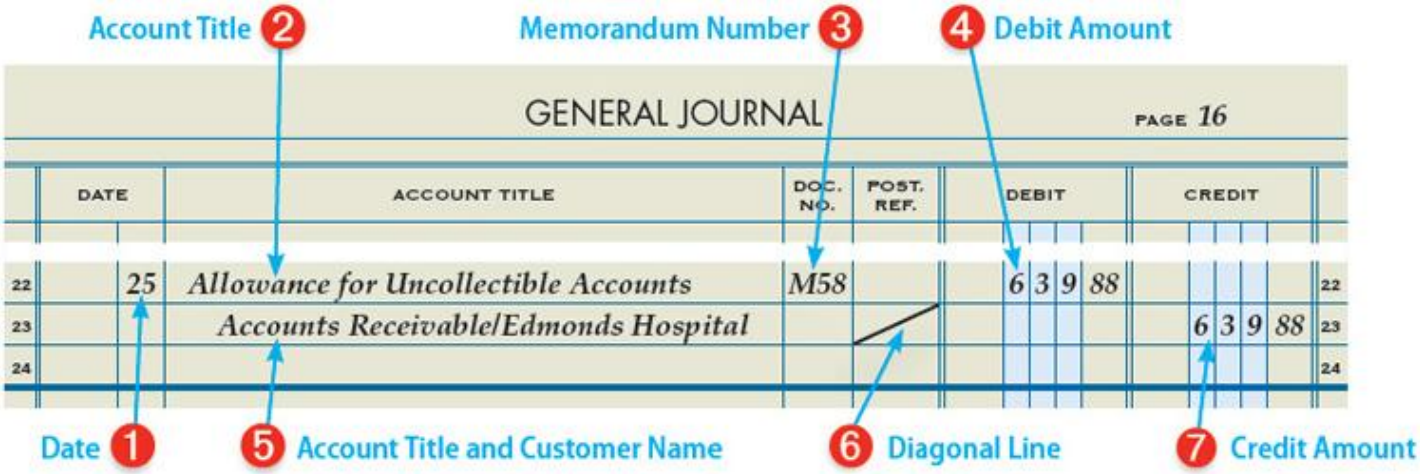
Instructions

Open the spreadsheet FA_CH14 and complete the steps on the Instructions tab.

Lesson 14-2: Writing Off and Collecting Uncollectible Accounts Receivable

- LO4 Write off an uncollectible account receivable.
- LO5 Account for the collection of an account receivable that was written off.

Journalizing the Writing Off of an Uncollectible Account Receivable LO4



When a customer account is determined to be uncollectible, a journal entry is made to cancel the uncollectible account. This entry cancels the uncollectible amount from Accounts Receivable in the general ledger as well as the customer account in the accounts receivable ledger. Canceling the balance of a customer account because the customer does not pay is called writing off an account . A customer should not be told that its account has been written off. A business should continue its efforts to collect the account.

After months of unsuccessful collection efforts, ThreeGreen decides that Edmonds Hospital is unable to pay its account.

January 25. Wrote off Edmonds Hospital's past due account as uncollectible, $639.88. Memorandum No. 58.

Because the account has been determined to be uncollectible, the $639.88 is now an actual uncollectible amount. The amount of the uncollectible account is deducted from the allowance account.

GENERAL LEDGER

Allowance for Uncollectible Accounts

Jan. 25	639.88	Bal.	2,509.25
		(New Bal.	1,869.37)

Accounts Receivable

Bal.	21,843.15	Jan. 25	639.88
(New Bal.	21,203.27)		

ACCOUNTS RECEIVABLE LEDGER

Edmonds Hospital

Bal.	639.88	Jan. 25	639.88
(New Bal.	0.00)		

Accounts Receivable is credited to reduce the balance due from customers. Edmonds Hospital is also credited to cancel the debit balance of the account. Edmonds Hospital's account is written off. Allowance for Uncollectible Accounts is debited to reduce the estimate of future uncollectible accounts.

The book value of accounts receivable is the same before and after writing off an uncollectible account. This is true because the same amount is deducted from both Accounts Receivable and Allowance for Uncollectible Accounts.

Journalizing the Writing Off of an Uncollectible Account Receivable

1. Write the date, 25, in the Date column.
2. Write the account title, Allowance for Uncollectible Accounts, in the Account Title column.
3. Write the memorandum number, M58, in the Doc. No. column.
4. Write the amount, $639.88, in the Debit column on the same line as the account title.
5. On the next line indented about one centimeter, write Accounts Receivable/Edmonds Hospital in the Account Title column. A diagonal line is placed between the two accounts.
6. Place a diagonal line in the Post. Ref. column to show that the single credit amount is

posted to the general ledger account, Accounts Receivable, and the accounts receivable ledger account, Edmonds Hospital.

7. Write the amount, $639.88, in the Credit column of the second line.

The allowance method does not recognize an expense when an account is written off. Some businesses use a different method of writing off uncollectible accounts. Recording uncollectible accounts expense only when an amount is actually known to be uncollectible is called the direct write-off method . Although this method is easier to apply, it does not match the expense to the revenue that is earned in the same period. As a result, the direct write-off method does not comply with GAAP.

Posting an Entry to Write Off an Uncollectible Account Receivable

The journal entry to write off an uncollectible account affects the two general ledger accounts and the customer account. The words Written off are written in the Item column of the customer account to show the full credit history for the customer.

Posting an Entry to Write Off an Uncollectible Account Receivable

1. Write the date, 25, in the Date column of the account.
2. Write the words Written off in the Item column of the customer account.
3. Write the general journal page number, G16, in the Post. Ref. column of the account.
4. Write each amount in the Debit or Credit column of the general ledger account.
5. For each account, calculate and write the new account balance in the Balance column.
6. Write the general ledger account number in the Post. Ref. column of each line of the journal entry. For the credit to Accounts Receivable, write 1130 to the left of the diagonal line. Write the customer account number, 120, to the right of the diagonal line.

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	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
22	25	Allowance for Uncollectible Accounts	M58	1135	6 3 9 88	
23		Accounts Receivable/Edmonds Hospital		1130/120		6 3 9 88
24						

Date 1 — 3 Journal Page Number — Account Number 6 — 4 Debit or Credit Amounts

ACCOUNT Accounts Receivable ACCOUNT NO. 1130

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
22		CR16		1 4 8 6 18	21 8 4 3 15	
25		G16		6 3 9 88	21 2 0 3 27	

5 Account Balance

ACCOUNT Allowance for Uncollectible Accounts ACCOUNT NO. 1135

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 1	Balance	✓				2 5 0 9 25
1 25	3	G16	6 3 9 88 4			5 1 8 6 9 37

CUSTOMER Edmonds Hospital CUSTOMER NO. 120 6

DATE	ITEM	POST. REF.	DEBIT	CREDIT	DEBIT BALANCE
Jan. 1	Balance	✓			6 3 9 88
1 25	Written off 3	G16		4 6 3 9 88	— 5

2 Written off

Reopening an Account Previously Written Off LO5

Account Title and Customer Name 2 — Memorandum Number 3 — 4 Diagonal Line

GENERAL JOURNAL PAGE 19

	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
10	9	Accounts Receivable/Edmonds Hospital	M71		6 3 9 88	
11		Allowance for Uncollectible Accounts				6 3 9 88
12						

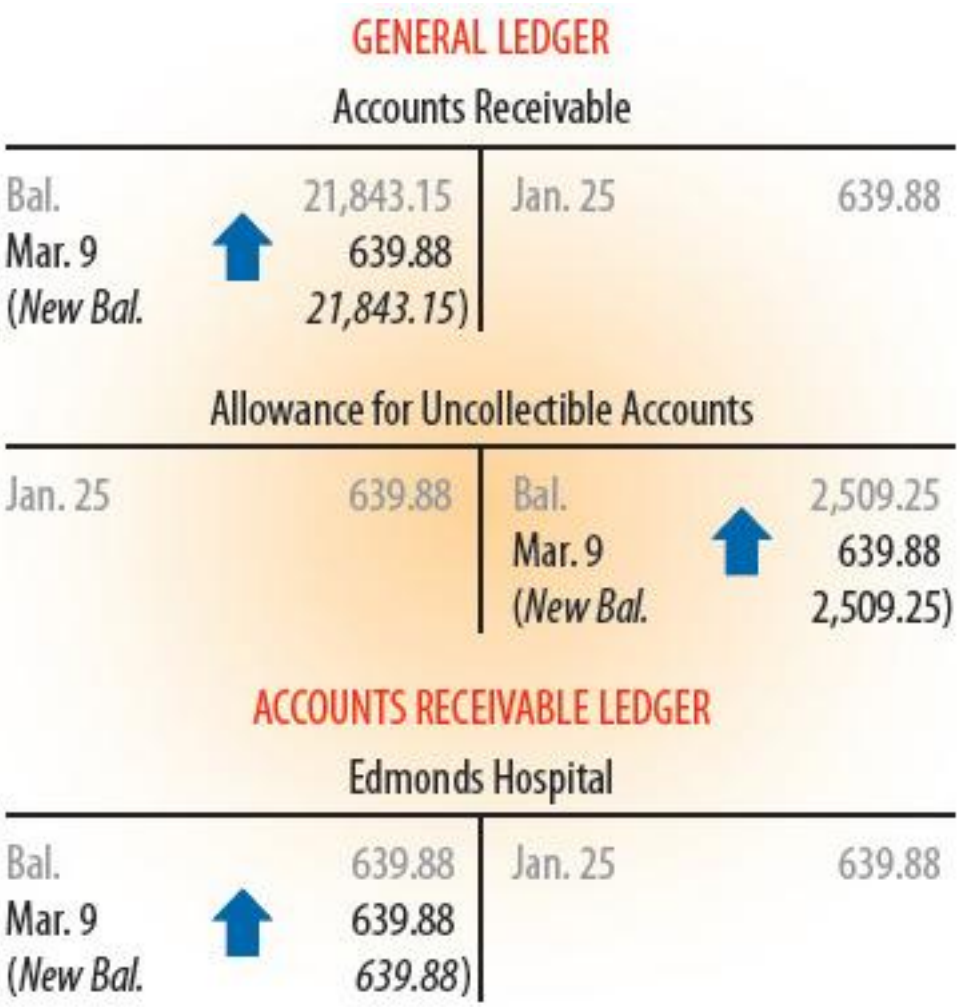
Date 1 — 6 Account Title — Debit Amount 5 — 7 Credit Amount

A business writes off a specific account receivable after determining it probably will not be collected. Sometimes, after an account has been written off, the customer pays the delinquent

account.

March 9. Received cash in full payment of Edmonds Hospital's account, previously written off as uncollectible, $639.88. Memorandum No. 71 and Receipt No. 695.

Several accounts must be changed to show that Edmonds Hospital paid its account. The accounts also should be changed to show a complete credit history of Edmonds Hospital with ThreeGreen. Two journal entries are recorded for the collection of a written-off account receivable. (1) A general journal entry reopens the customer account. (2) An entry in the cash receipts journal records the cash received on account.



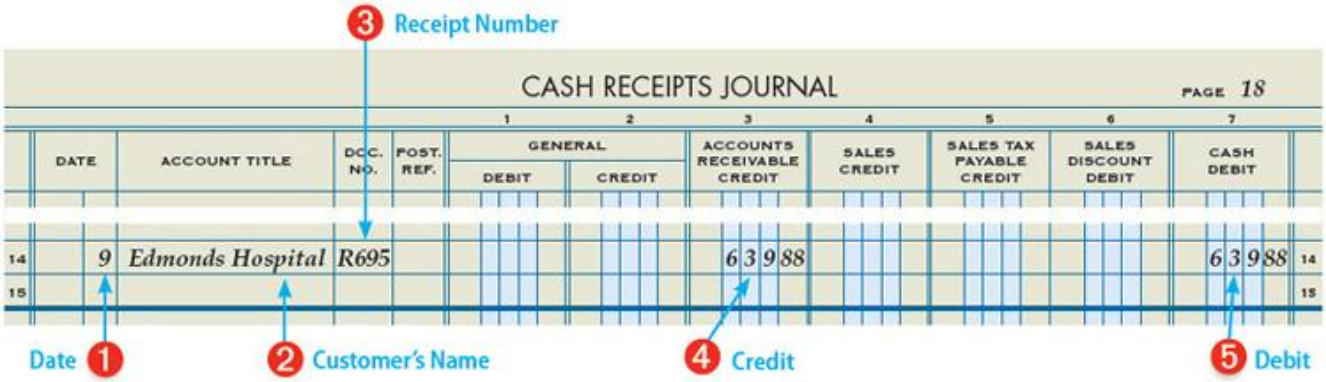
To show an accurate credit history, Edmonds Hospital is reopened. Accounts Receivable is debited for $639.88 to replace the amount previously written off in the general ledger account. Allowance for Uncollectible Accounts is credited for $639.88 to replace the amount that was removed when Edmonds Hospital's account was written off. Also, Edmonds Hospital's account in the accounts receivable ledger is debited for $639.88. This entry to reopen the account is the exact reverse of the entry to write off Edmonds Hospital's account.

Reopening an Account Previously Written Off

1. Write the date, 9, in the Date column.

2. Write the account title, Accounts Receivable/Edmonds Hospital, in the Account Title column. A diagonal line is placed between the two accounts.
3. Write the memorandum number, M71, in the Doc. No. column.
4. Place a diagonal line in the Post. Ref. column to show that the single credit amount is posted to the general ledger account, Accounts Receivable, and the accounts receivable ledger account, Edmonds Hospital.
5. Write the amount, $639.88, in the Debit column on the same line as the account title.
6. On the next line indented about one centimeter, write Allowance for Uncollectible Accounts in the Account Title column.
7. Write the amount, $639.88, in the Credit column of the second line.

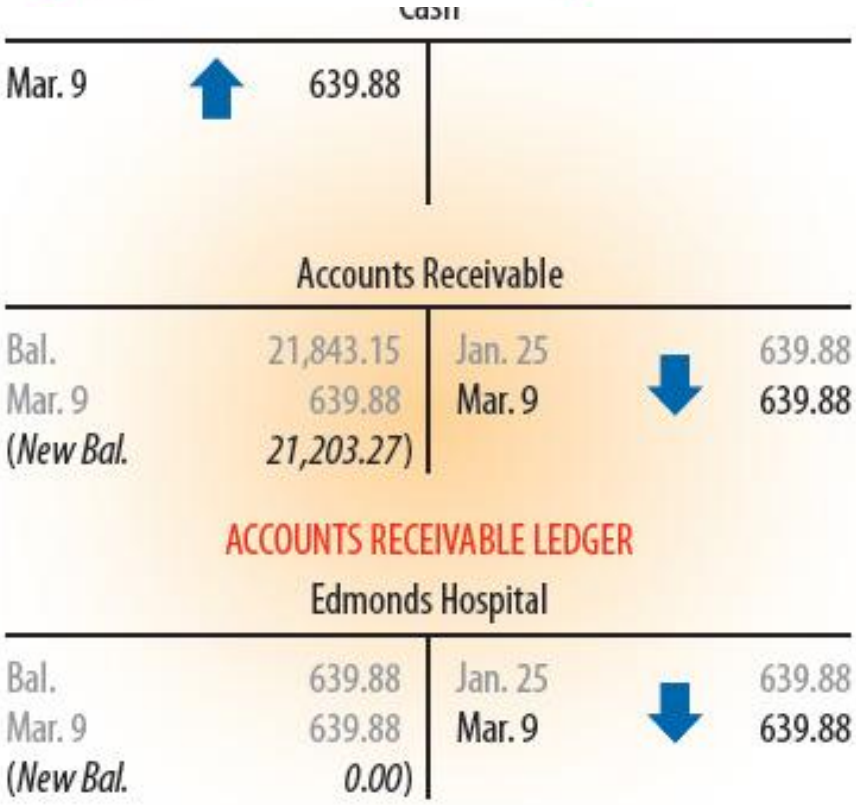
Recording Cash Received for an Account Previously Written Off



After the entry to reopen Edmonds Hospital's account is recorded, an entry is made to record the cash received on Edmonds Hospital's account.

March 9. Received cash in full payment of Edmonds Hospital's account, previously written off as uncollectible, $639.88. Memorandum No. 71 and Receipt No. 695.

Recording Cash Received for an Account Previously Written Off

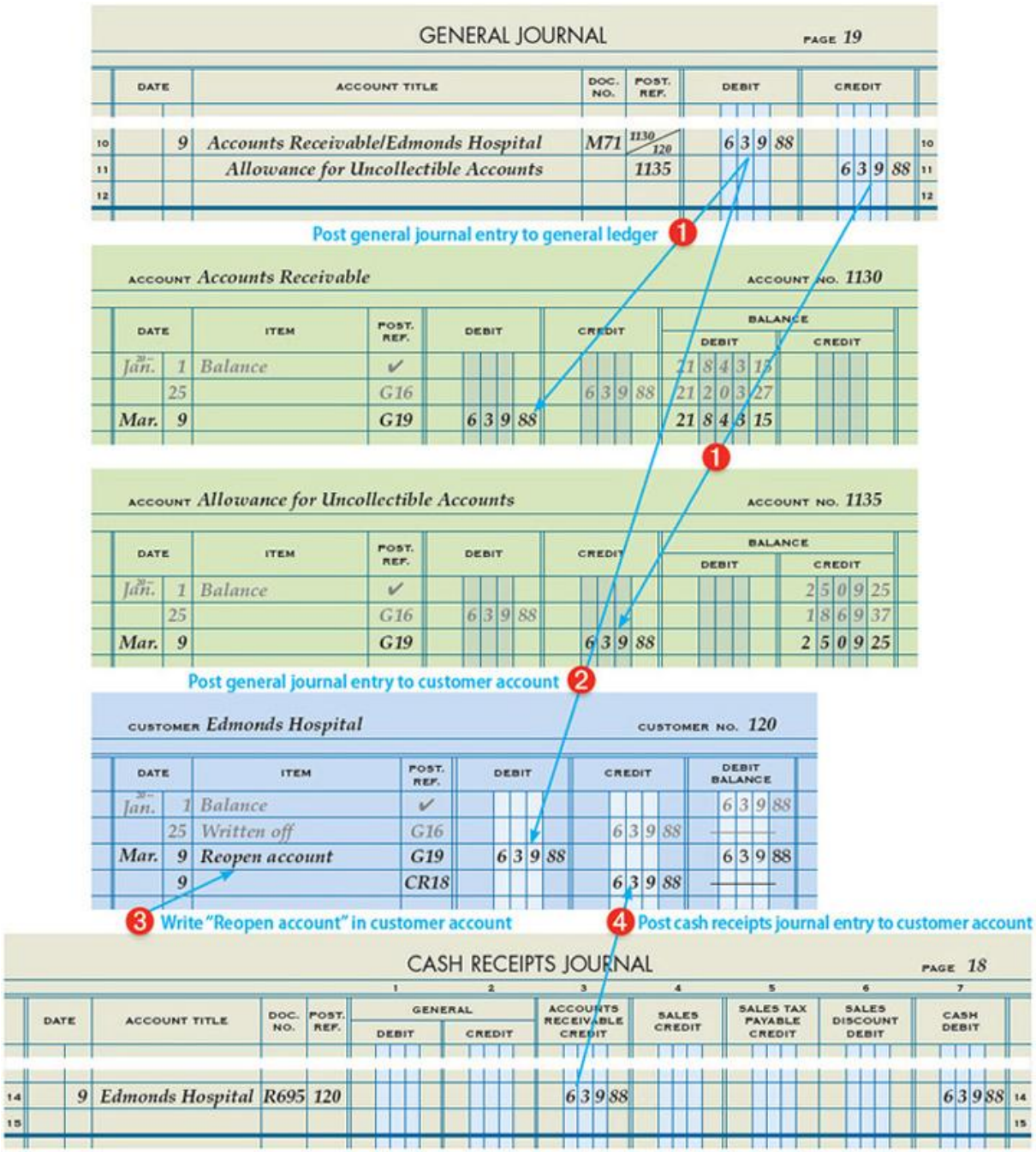


1. Write the date, 9, in the Date column.
2. Write only the customer's name, Edmonds Hospital, in the Account Title column. The debit and credit amounts are entered in special amount columns. Therefore, the titles of the two general ledger accounts do not need to be written in the Account Title column.
3. Write the receipt number, R695, in the Doc. No. column.
4. Write the credit amount, $639.88, in the Accounts Receivable Credit column.
5. Write the debit amount, $639.88, in the Cash Debit column.

Posting Entries for Collecting a Written-Off Account Receivable

Posting Entries for Collecting a Written-Off Account Receivable

1. Post the general journal entry to the general ledger.
2. Post the debit portion of the general journal entry to the customer account.
3. Write the words Reopen account in the Item column of the customer account.
4. Post the



cash receipts journal entry to the customer account.

End of Lesson Review

- LO4 Write off an uncollectible account receivable.
- LO5 Account for the collection of an account receivable that was written off.

Terms Review

- writing off an account
- direct write-off method
- Audit Your Understanding

1. Why is Allowance for Uncollectible Accounts debited when a customer account is written off?
2. Does the book value of accounts receivable differ before and after writing off an account? Explain.
3. Why is a customer account reopened when the account is paid after being previously written off?

Work Together 14-2

Recording entries related to uncollectible accounts receivable

Page 15 of a general journal, page 24 of a cash receipts journal, and selected ledger accounts for Olsen Company are given in the Working Papers. Your instructor will guide you through the following examples.

1. Journalize the following transactions completed during November and December of the current year. Post the transactions to the accounts receivable ledger when the transactions are recorded in the journals.

Transactions:

Nov. 4. Wrote off Mellon Corp.'s past-due account as uncollectible, $494.00. M145.

15. Wrote off Horne Co.'s past-due account as uncollectible, $1,548.00. M147.

Dec. 8. Received cash in full payment of Mellon Corp.'s account, previously written off as uncollectible, $494.00. M158 and R341.

14. Wrote off Fischer Industries' past-due account as uncollectible, $1,360.00. M161.

16. Received cash in full payment of Horne Co.'s account, previously written off as uncollectible, $1,548.00. M169 and R349.

Post general journal entries to the general ledger.

On Your Own 14-2

Recording entries related to uncollectible accounts receivable

Page 10 of a general journal, page 22 of a cash receipts journal, and selected ledger accounts for Hillside Company are given in the Working Papers. Work this problem independently.

1. Journalize the following transactions completed during October and November of the current year. Post the transactions to the accounts receivable ledger when the transactions are recorded in the journals.

Transactions:

Oct. 5. Wrote off Janice Harrell's past-due account as uncollectible, $527.00. M145.

26. Wrote off Daniel Pruitt's past-due account as uncollectible, $249.00. M147.

Nov. 12. Received cash in full payment of Tom Sloan's account, previously written off as uncollectible, $750.00. M151 and R213.

16. Wrote off Nancy Brown's past-due account as uncollectible, $428.00. M158.

23. Received cash in full payment of Janice Harrell's account, previously written off as uncollectible, $527.00. M161 and R225.

Post general journal entries to the general ledger.

Global Awareness: Doing Business in Russia

Until December 1991, Russia was part of the Union of Soviet Socialist Republics (USSR). The USSR was also called the Soviet Union. The Soviet Union was run by a centralized government in a planned economy. In a planned economy, the central government controls all resources and makes all decisions about their use. Enterprises are told what to produce in order to meet national objectives.

In December 1991, the USSR was dissolved. The former USSR became 15 independent countries. Russia, the largest of the countries, is approximately 6.5 million square miles. It covers nine time zones. The country has over 140 million consumers. Many foreign companies would like to enter a new market of that size.

But there are also many limiting factors foreign companies must consider. The transition away from central control has not been complete. The government still controls many industries. In industries not totally controlled by government, many new laws interfere with business matters. Most business is transacted in Russian. Therefore, interpreters must be hired. Most imports are subject to high tariffs and severe quotas.

In the United States, businesses follow generally accepted accounting principles (GAAP) to ensure fair and accurate financial reporting. Russian accounting rules are called Russian Accounting Standards (RAS). RAS are designed to support tax authorities. Therefore, they follow Russian tax laws.

Critical Thinking

1. Use the Internet to research Russia and International Financial Reporting Standards (IFRS). (IFRS were discussed in the Global Awareness feature in Chapter 10.)
2. List one area in which RAS differ from IFRS.

Why Accounting?: Yield Management

Assume you are going on a vacation. You paid $250 for a plane ticket. Now you are sitting on the plane waiting for takeoff. While talking to your seatmates, you learn that Maja paid $160 for her ticket. John paid $300 for his. You are glad you didn't have to pay $300. However, you also feel it is unfair that Maja only paid $160. What caused the difference in price?

It could be a concept called yield management, also referred to as revenue management. The goal of yield management is to maximize revenue by understanding and influencing consumer behavior. A company may charge different customers different prices for the same goods or services. Yield management is done by higher-level managers. It requires data from several areas of a business and executive decision making.

Yield management is often limited to goods and services which are considered perishable—meaning there is a limited time to sell the product or service. An airline ticket is considered perishable because once the plane takes off, all empty seats have no value.

Critical Thinking

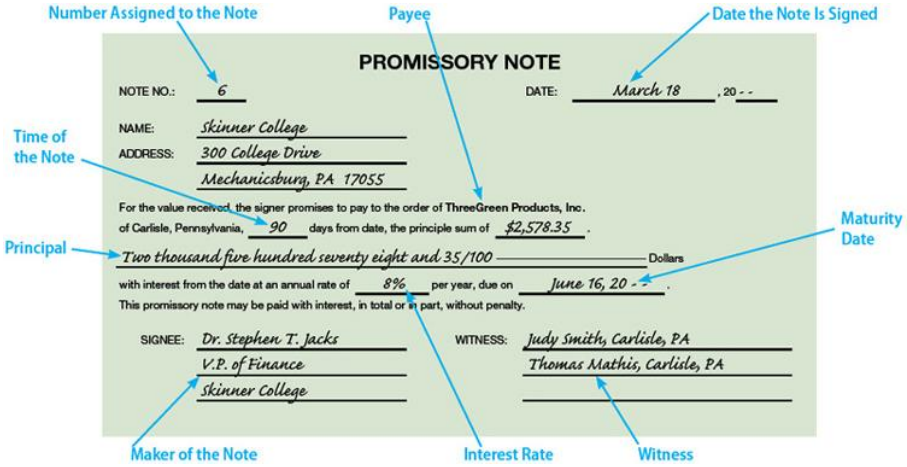
1. Name an additional industry that could implement yield management. Why would someone responsible for yield management benefit from accounting?

Lesson 14-3: Promissory Notes

- LO6 Record the acceptance of a note receivable.
- LO7 Account for the collection of a note receivable.
- LO8 Account for a dishonored note receivable.

Understanding Promissory Notes

Cash is the primary medium of exchange for business transactions. [CONCEPT: Unit of Measurement] Cash is used to purchase merchandise and to pay salaries and other



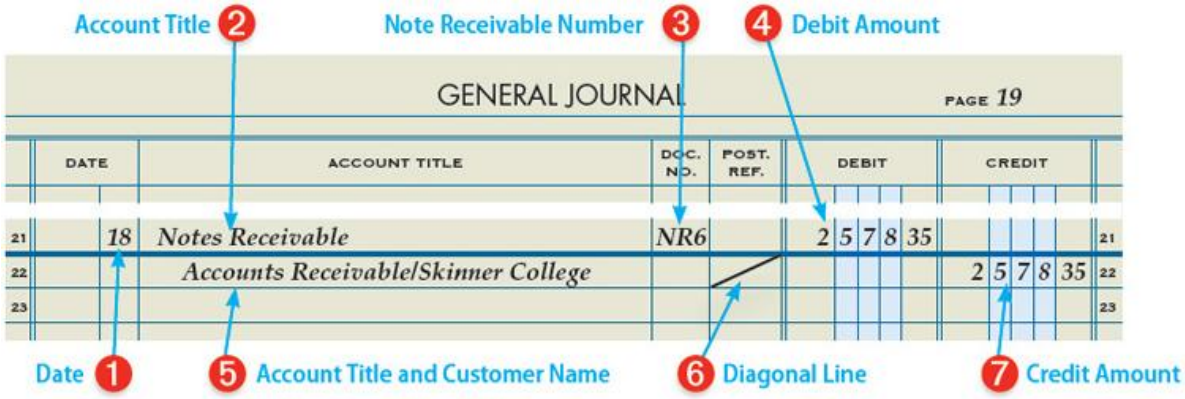
expenses. In turn, businesses receive cash when they sell their products or services and collect payment. The cash received can be used to purchase more merchandise and continue to pay salaries and other expenses.

Sometimes, the receipt of cash from sales does not occur at the same time and in amounts sufficient to pay for needed purchases and expenses. When this occurs, a business must make arrangements with its vendors to delay payments or to borrow additional cash. Generally, when a bank or business lends money to another business, a loan agreement is made in writing.

A written and signed promise to pay a sum of money at a specified time is called a promissory note . A person or business to whom a liability is owed is called a creditor. A promissory note signed by a business and given to a creditor is entered in the businesses books as a note payable . A promissory note that a business accepts from a customer is entered in the business's books as a note receivable . Notes payable and notes receivable are frequently referred to simply as notes.

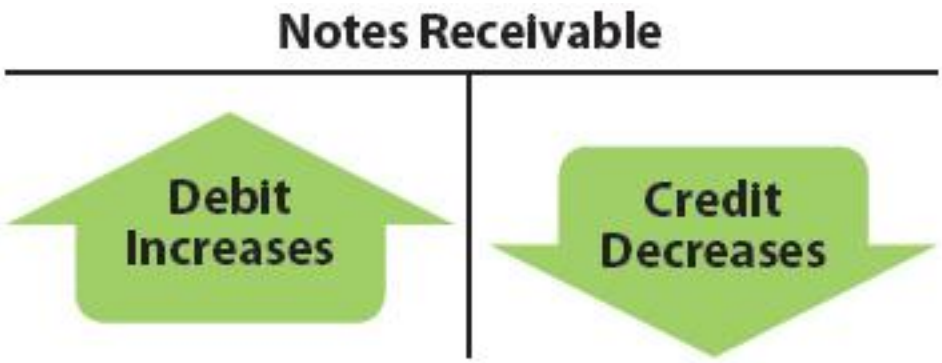
The person or business that signs a note, and thus promises to make payment, is called the maker of a note . The person or business to whom the amount of a note is payable is called the payee . The original amount of a note, sometimes referred to as the face amount, is called the principal . The percent of the principal that is due for the use of the funds secured by a note is called the interest rate . The date on which the principal of a note is due to be repaid is called the maturity date . The length of time from the signing date to the maturity date, usually expressed as the number of days, may be referred to as the time of a note , or term. To be legally enforceable, the signing of a promissory note must be witnessed by a person who is not a party to the agreement. The witness must also sign the note.

Accepting a Note Receivable from a Customer LO6



On occasion, a customer may be unable to pay an amount owed to a business by the due date and might request additional time. The business should require the customer to sign a promissory note. A note does not pay the amount the customer owes. However, the form of the asset is changed from an account receivable to a note receivable. Notes provide an advantage over oral promises and accounts receivable or payable. The note is a written confirmation of the amount owed that provides the business with legal evidence of the debt should it be necessary to go to court to collect.

When a customer signs a note, the principal amount is debited to an asset account titled Notes Receivable. Like Accounts Receivable, Notes Receivable is an asset with a normal debit balance. One asset, an account receivable, is replaced by another asset, a note receivable.



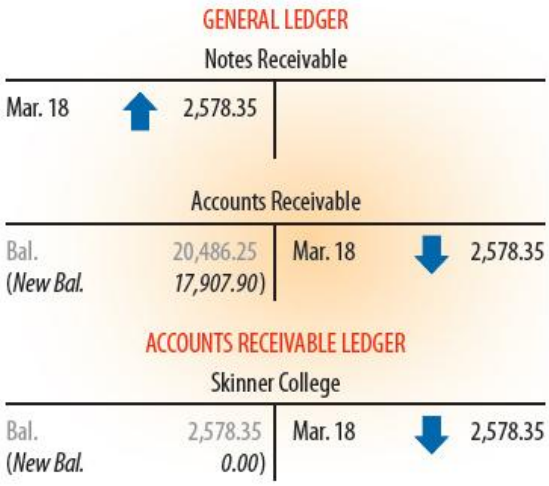
March 18. Accepted a 90-day, 8% note from Skinner College for an extension of time on its account, $2,578.35. Note Receivable No. 6.

The transaction is posted to the general ledger and accounts receivable ledger accounts using the same posting procedure illustrated on page 423. The words Accepted note are written in the Item column of the customer account to show the full credit history for the customer.

Journalizing Accepting a Note for an Extension of Time on an Account Receivable

1 Write the date, 18, in the Date column.

2 Write the account title, Notes Receivable, in the Account Title column.



3 Write the note number, NR6, in the Doc. No. column.

4 Write the amount, $2,578.35, in the Debit column on the same line as the account title.

5 On the next line indented about one centimeter, write Accounts Receivable/Skinner College in the Account Title column. A diagonal line is placed between the two accounts.

6 Place a diagonal in the Post. Ref. column to show that the single credit amount is posted to the general ledger account, Accounts Receivable, and the accounts receivable ledger account, Skinner College.

Interest on Promissory Notes LO7

An amount paid for the use of money for a period of time is called interest. Banks and other lending institutions charge interest on money loaned to their customers. The interest rate is stated as a percentage of the principal. Interest at 8% means that eight cents will be paid for the use of each dollar borrowed for a full year. Thus, the interest on a $1,000.00, 8% note would be $80.00 ($1,000.00 × 8%).

The time of a note issued for less than one year is typically stated as a number of days, such as 30 days, 60 days, or 90 days. The time used in calculating interest is often stated as a fraction of 360 days. The interest on Skinner College's $2,578.35, 8% note for 90 days is $51.27.

Principal	×	Annual Interest Rate	×	Time as Fraction of a Year	=	Interest for Fraction of Year
$2,578.35	×	8%	×	90/360	=	$51.57

The amount that is due on the maturity date of a note is called the maturity value . Skinner College's 90-day note with a principal of $2,578.35 and interest rate of 8% will have a maturity value of $2,629.92.

Principal	+	Interest	=	Maturity Value
$2,578.35	+	$51.57	=	$2,629.92

Maturity Date of Promissory Notes

Number of days of the first month (1)

	Days from the Month	Days Remaining
Term of the Note		90
March 18–March 31	*13*	*77*
April	*30*	*47*
May	*31*	*16*
June 1–June 16	*16*	*0*

(2) Days remaining after this month

(3) Lesser of the days of the month and the days remaining after the previous month

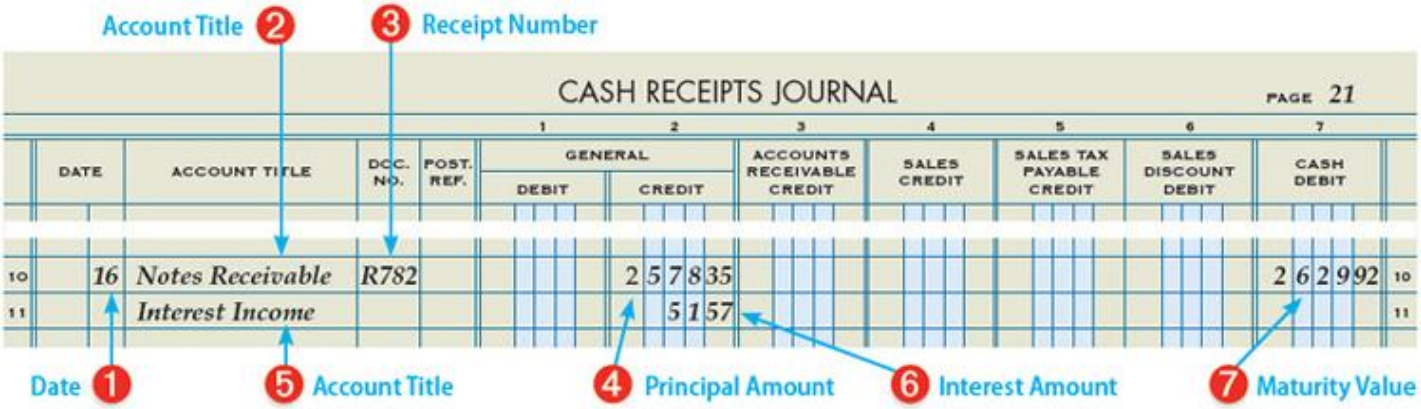
(4) Days remaining for the last month

Calculating the Maturity Date of a Note

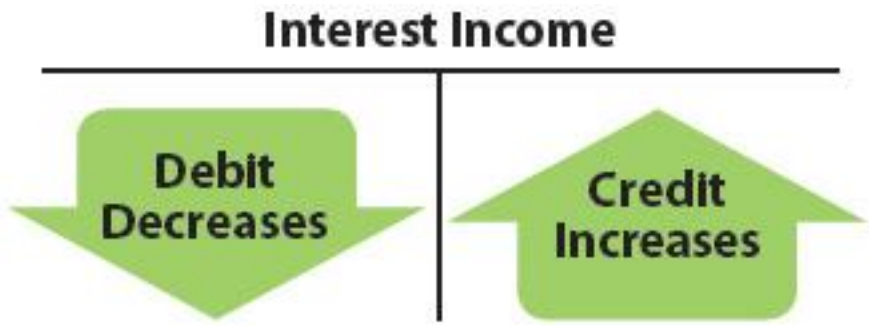
1. Calculate the number of days remaining in March, 13, by subtracting the date of the note, 18, from the number of days in March, 31.
2. For each month, calculate the days remaining by subtracting Days from the Month from the Days Remaining in the previous month. For example, the days from April, 30, are subtracted from the days remaining after March, 77, to calculate the days remaining after April, 47.
3. For each month, enter the lesser of the number of days in the month or the number of days remaining after the previous month. For example, the number of days from May, 31, is the lesser of the days in May, 31, and the days remaining after April, 47.
4. When the number of days in the month is greater than the days remaining after the previous month, enter the days remaining. Because 16 is less than the number of days in

June, add only 16 days in June.

Collecting Principal and Interest on a Note Receivable



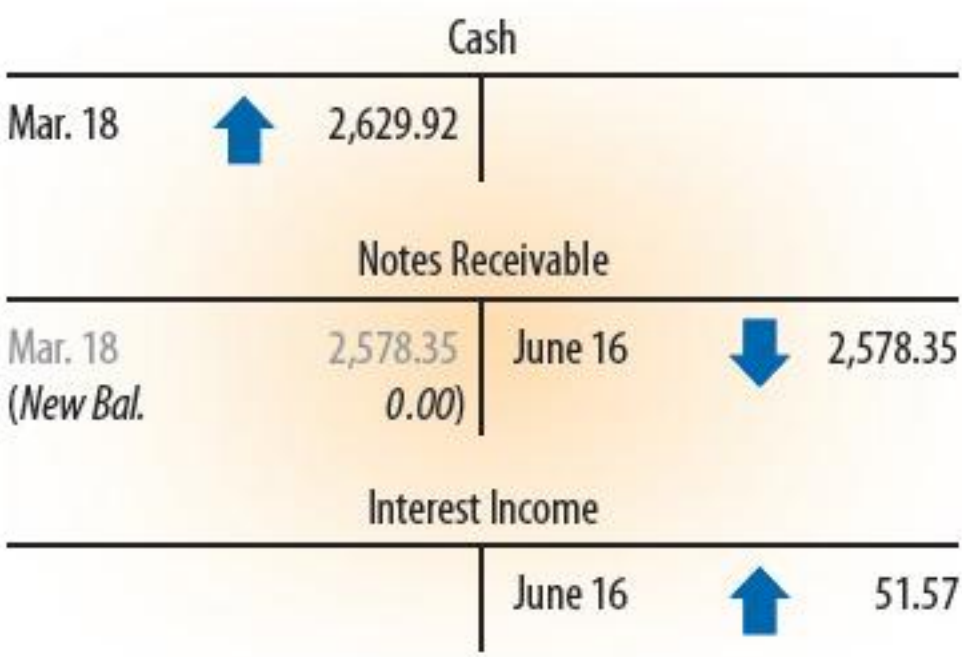
When a note receivable reaches its maturity date, the maker of the note is expected to pay the maturity value to the payee. The interest earned on money loaned is called interest income . The interest earned on a note receivable is credited to a revenue account titled Interest Income.



Interest income is investment revenue rather than revenue from normal operations. Therefore, Interest Income is listed in the chart of accounts under a classification titled Other Revenue.

June 16. Received cash for the maturity value of Note Receivable No. 6, a 90-day, 8% note: principal, $2,578.35, plus interest, $51.57; total, $2,629.92. Receipt No. 782.

Interest income is calculated using the same method as



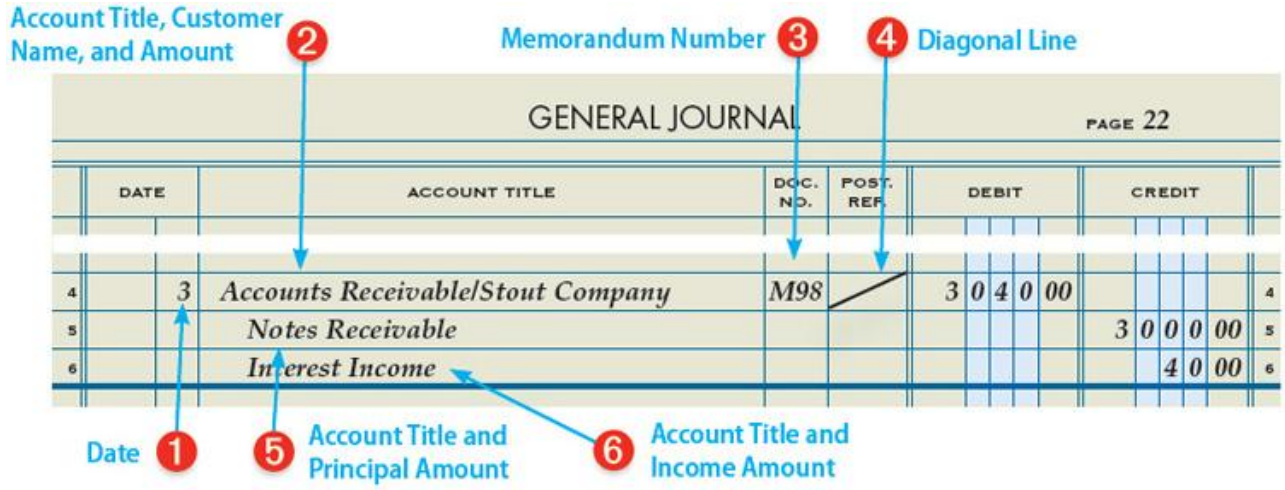
that used for notes payable. The principal is multiplied by the interest rate and the fraction of the year ($2,578.35 × 8% × 90/360) to calculate interest income, $51.57.
After the entry is recorded, the original of Note Receivable No. 6 is marked Paid. The original is given to the maker of the note and a copy is kept by ThreeGreen.

Journalizing Cash Received for Maturity Value of a Note Receivable

1. Write the date, 16, in the Date column of the cash receipts journal.
2. Write the account title, Notes Receivable, in the Account Title column.
3. Write the receipt number, R782, in the Doc. No. column.
4. Write the principal amount, $2,578.35, in the General Credit column.
5. On the next line, write the account title, Interest Income, in the Account Title column.
6. Calculate and write the interest amount, $51.57, in the General Credit column.
7. Write the maturity value, $2,629.92, in the Cash Debit column on the first line of the entry.

Sometimes partial payments on a note are made each month. This arrangement is common when an individual buys a car and signs a note for the amount owed. Each monthly payment includes part of the principal and part of the interest to be paid.

Recording a Dishonored Note Receivable LO8

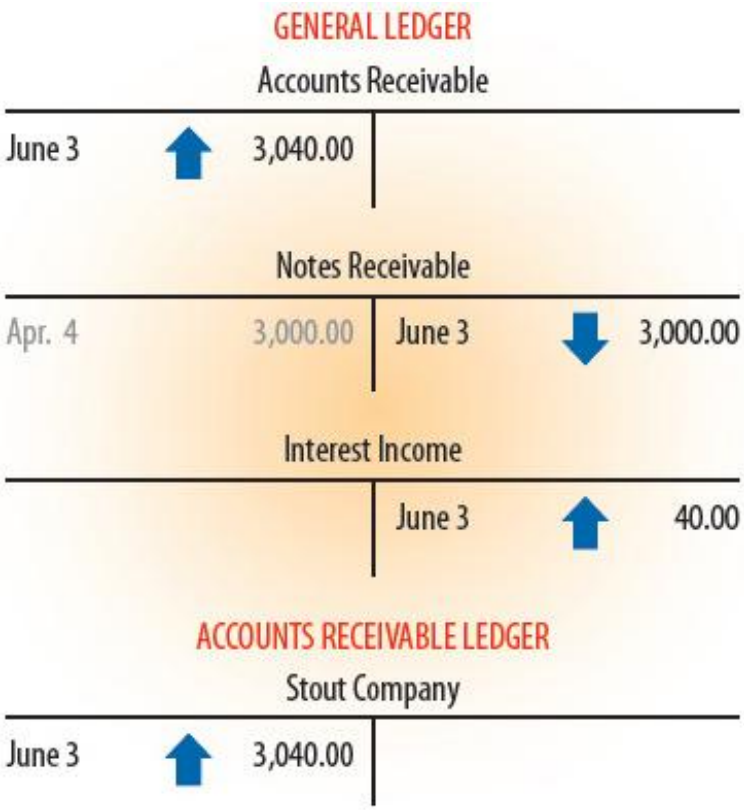


A note that is not paid when due is called a dishonored note . The balance of the Notes Receivable account should show only the total amount of notes that probably will be collected. The amount of a dishonored note receivable should be removed from Notes Receivable.

The amount of the note plus interest income earned on the note is still owed by the customer. Therefore, the total amount owed should be debited to Accounts Receivable in the general ledger. The amount owed should also be debited to the customer account in the accounts receivable ledger. This information may be important if the customer requests credit in the future or if collection is achieved later.

June 3. Stout Company dishonored Note Receivable No. 4, a 60-day, 8% note, maturity value due today: principal, $3,000.00; interest, $40.00; total, $3,040.00. Memorandum No. 98.

The interest income on the note has been earned as of the maturity date even though the note has not been paid. Stout Company owes the principal amount of the note plus the interest earned. Therefore, the maturity value, $3,040.00, is debited to Accounts Receivable and to Stout Company in the accounts receivable ledger. One asset, a note receivable, is replaced by another asset, an account receivable.



ThreeGreen does not write off Stout Company's account when the note is dishonored. The company continues to try to collect the account. Later, ThreeGreen may decide that the account cannot be collected. At that time, the balance of the account will be written off as an uncollectible account.

The transaction is posted to the general ledger and accounts receivable ledger accounts using the same posting procedure illustrated in the previous lesson. The words Dishonored note are written in the Item column of the customer account to show the full credit history for the customer.

Journalizing a Dishonored Note Receivable

1. Write the date, 3, in the Date column of the general journal.
2. Record a debit to Accounts Receivable/Stout Company for the total maturity value of the note, $3,040.00.

3. Write the memorandum number, M98, in the Doc. No. column.
4. Place a diagonal line in the Post. Ref. column to show that the single debit amount is posted to the general ledger account, Accounts Receivable, and the accounts receivable ledger account, Stout Company.
5. Record a credit to Notes Receivable for the amount of principal of the note, $3,000.00.
6. Record a credit to Interest Income for the amount of the interest earned on the note, $40.00.

End of Lesson Review

- LO6 Record the acceptance of a note receivable.
- LO7 Account for the collection of a note receivable.
- LO8 Account for a dishonored note receivable.

Terms Review

- promissory note
- note payable
- note receivable
- maker of a note
- payee
- principal
- interest rate
- maturity date
- time of a note
- maturity value
- interest income
- dishonored note

Audit Your Understanding

1.What conditions might cause a business to delay payment to a vendor?

2.What is the advantage of a promissory note over an account receivable?

3.What does an interest rate of 10% mean?

4.What is written in a customer's account when (1) a note is accepted and (2) a note is dishonored?

Work Together 14-3

Recording notes receivable

The journals and selected ledger accounts for PLD, Inc. are provided in the Working Papers. Your instructor will guide you through the following examples.

1. For each of the following notes, calculate (a) the maturity date of the note, (b) the interest on the note, and (c) the maturity value of the note. Use the form provided in the Working Papers.

Note	Date	Principal	Interest Rate	Time
NR3	June 5	$20,000.00	8%	90 days
NR4	June 12	$10,000.00	6%	120 days

2. Journalize the following transactions completed during July of the current year. Use page 7 of a general journal and page 8 of a cash receipts journal. Source documents are abbreviated as follows: note receivable, NR; receipt, R; memorandum, M.

Transactions:

July 5. Accepted a 90-day, 8% note from Gary Kinney for an extension of time on his account, $1,800.00. NR5.

12. Received cash from Mary James for the maturity value of NR1, a 60-day, 9% note for $500.00. R113.

26. Dennis Craft dishonored NR2, a 90-day, 9% note, for $400.00. M25.

Post transactions in the general journal to the general ledger and the accounts receivable ledger when each transaction is journalized. Also post any entries in the General columns of the cash receipts journal to the general ledger accounts as transactions are journalized.

On Your Own 14-3

Recording notes receivable

The journals and selected ledger accounts for Lance Supply are provided in the Working Papers. Work this problem independently.

1. For each of the following notes, calculate (a) the maturity date of the note, (b) the interest on the note, and (c) the maturity value of the note. Use the form provided in the Working Papers.

Note	Date	Principal	Interest Rate	Time

NR12	March 22	$8,000.00	6%	120 days
NR13	April 7	$6,000.00	7%	90 days

2. Journalize the following transactions completed during May of the current year. Use page 15 of a general journal and page 20 of a cash receipts journal. Source documents are abbreviated as follows: note receivable, NR; receipt, R; memorandum, M.

Transactions:

May 8. Accepted a 120-day, 8% note from Marshall Sykes for an extension of time on his account, $3,200.00. NR14.

16. Received cash from Jenni Downey for the maturity value of NR7, a 90-day, 8% note for $6,000.00. R243.

21. Roger Hamm dishonored NR6, a 120-day, 6% note, for $2,800.00. M46.

Post transactions in the general journal to the general ledger and the accounts receivable ledger when each transaction is journalized. Also post any entries in the General columns of the cash receipts journal to the general ledger accounts as transactions are journalized.

Think Like an Accountant: Revising Aging Percentages

Most of Steele Company's sales are on account. The company works hard to ensure it receives payment for credit sales. Each month, the accounting manager prints an aging of accounts receivable report. The manager uses the monthly report to monitor the company's success in collecting its unpaid accounts receivable.

At the end of the fiscal year, the aging schedule is used to calculate the adjustment to the allowance for uncollectible accounts. For years, the company has used the same

percentages to estimate the uncollectible amount from each age group. These percentages are as follows:

Current	2%
1–30 Days	5%
31–60 Days	10%
61–90 Days	30%
91–120 Days	50%
121–150 Days	85%
Over 150 Days	95%

No one in the company knows when or how these percentages were determined. Amy Drake, the new controller, is not satisfied to use percentages that no one is able to justify. Thus, she has asked you to analyze past collection history to propose a new set of percentages. To assist you with your analysis, she has provided you with a list of all unpaid invoices as of December 31 of the prior year. The list includes the amount of each invoice paid to date.

Open the Spreadsheet TLA_CH14

Follow the steps on the Instructions tab. Use the data in the workbook to analyze cash collections from the list of unpaid invoices. Use the analysis to answer the following questions:

1. What percentages would you recommend be used to determine the allowance for uncollectible accounts?

2. Prepare a memo that describes how your recommended percentages differ from those used in prior years.

End of Chapter Review

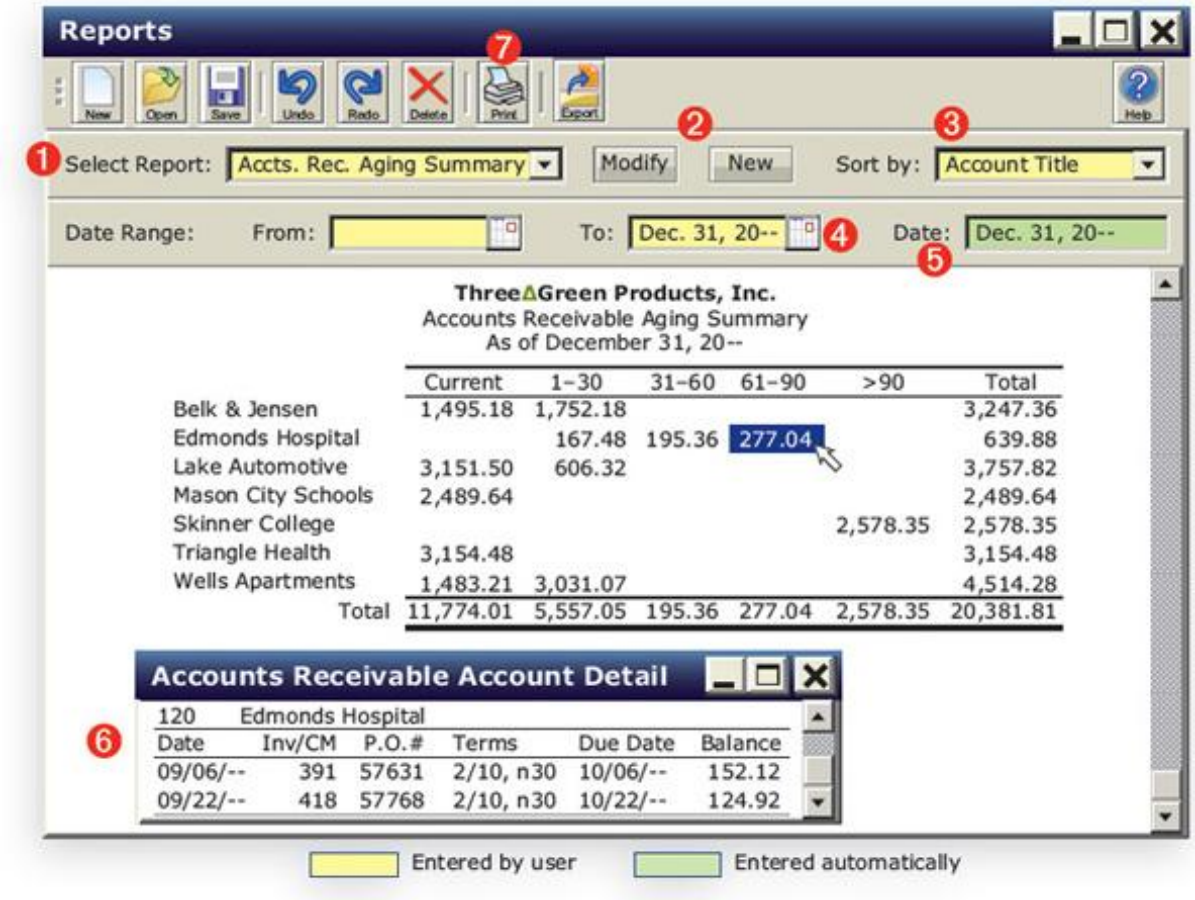
Accounting for Uncollectible Accounts Receivable: A Look at Accounting Software

Using an Accounts Receivable Aging Report

In this chapter, you learned that an aging of accounts receivable is used to determine the allowance for uncollectible accounts. However, accountants use accounts receivable aging for other tasks as well. The aging report is a useful tool in managing the collection of past-due accounts.

Imagine that ThreeGreen's accountant is making calls to collect old amounts due. She has decided to call Edmonds Hospital about its $277.04 outstanding balance. The accounts payable clerk at Edmonds Hospital asks what invoices ThreeGreen is calling about and what purchase orders the merchandise was ordered on. That information is just a couple of clicks away.

This follow-up process would likely be used to determine if and when an account should be written off. For example, the Skinner College account for $2,578.35 is now more than 90 days old. If mailed requests and follow-up phone calls have failed to result in payment, the accountant may decide that it is time to write off that account as uncollectible.



1. The user selects the desired report from the drop-down list. The user could choose a detailed aging report, which would show every open invoice sorted by customer.
2. To change the report, the user would click Modify. Clicking on New would allow the user to create an entirely new report.
3. Most reports can be sorted in a variety of ways. For example, this report might be sorted by highest to lowest account totals. When trying to collect past due accounts, that would allow the user to focus on the largest outstanding amounts.
4. The user selects the date range. The From date is left blank for this report to show all open amounts from previous dates.
5. The current date cannot be changed by the user.
6. In this interactive report, the user has clicked on the 277.04 past due amount from Edmonds Hospital. The system has opened a small window showing the billings that make up that amount.
7. If a printed report is desired, the user would click Print.

Accounting for Uncollectible Accounts Receivable: Chapter Summary

The allowance method of recording losses from uncollectible accounts is an application of the Matching Expenses with Revenue concept. This method records the expense of uncollectible accounts in the same period as the related revenue. Estimates of uncollectible accounts are recorded to Allowance for Uncollectible Accounts, a contra asset account to Accounts Receivable. The expense of uncollectible accounts is recorded in Uncollectible Accounts Expense.

The percent of accounts receivable method assumes that a percent of the Accounts Receivable account balance may become uncollectible. Percentages are multiplied by the total of receivables in each age group in an aging of accounts receivable. The total of these calculations equals an estimate of the accounts that may never be collected. The amount needed to increase the balance of Allowance for Uncollectible Accounts to the estimate of uncollectible accounts is recorded as an expense.

An account receivable is written off when the account is determined to be uncollectible. Writing off an account reduces Accounts Receivable, Allowance for Uncollectible Accounts, and the customer's account. However, writing off an account does not change the book value of accounts receivable or impact expenses.

Occasionally, after an account has been written off, the customer pays the delinquent account. A journal entry is recorded to reopen the account. This procedure provides a complete credit history in the customer's account.

A customer who is unable to pay an account on the due date may request additional time. The business may require the customer to sign a promissory note. A promissory note is often referred to as a note receivable or note. An account receivable is replaced by a note receivable. The note requires the creditor to pay the note principal plus interest on the maturity date. The interest earned on a note receivable is recorded in Interest Income. If the creditor fails to pay the note on the due date, the amount due is recorded as an account receivable.

Accounting for Uncollectible Accounts Receivable: Explore Accounting

Accounting Estimates Use Interesting Assumptions

Accountants use many accounting estimates to adjust the historical cost of certain transactions to better reflect the company's financial condition.

One of the most interesting accounting estimates concerns an expense known as postretirement benefits other than pensions. Some companies offer their employees free health care and other services during their retirement. For many years, companies expensed these benefits when the services were provided and paid for in cash. Accounting rules now require that these benefits be recognized as an expense over the employee's years of work. Free health care during retirement is part of the total payment that a company provides an employee in exchange for the employee's services.

For example, TGX Industries has promised free health care to its retired employees, their spouses, and their family members under 21 years of age. Manuel Saenz is expected to work for TGX Industries for 30 years. Health care costs for Manuel, his wife, and any future children during his retirement are currently estimated to be $60,000. Rather than expense the $60,000 when the bills are paid during Manuel's retirement, the accounting rule requires that the $60,000 be expensed over Manuel's 30 years of service. Therefore, $2,000 will be expensed each year.

To estimate the projected benefit, assumptions must be made regarding the following items: (1) annual growth rate in health care costs, (2) life expectancy, (3) retirement age, (4) number of children, and (5) interest costs. Management's assumptions can dramatically affect accounting estimates. Companies that prepare public financial statements have independent auditors examine the assumptions used to compute accounting estimates to ensure that these assumptions are reasonable.

Instructions

Research the annual growth rate of health care costs. What is the likelihood that this growth rate will continue at its current level? Identify factors that might cause further increases or decreases in the growth rate.

Accounting for Uncollectible Accounts Receivable: Apply Your Understanding: Application Problem

INSTRUCTIONS: Download problem instructions for Excel, Quickbooks, and Peachtree from the textbook companion website at www.C21accounting.com .

14-1 Application Problem: Journalizing the Adjusting Entry for Allowance for Uncollectible Accounts LO 2, 3

The aging of accounts receivable for SMG Corporation as of December 31 of the current year and estimated percent of uncollectible accounts by age group are presented in the Working Papers. Use page 13 of a general journal, also given in the Working Papers.

Instructions:

1. Calculate the estimate of uncollectible accounts expense. The balance of Allowance for Uncollectible Accounts on December 31, before the adjusting entry is recorded, is a $548.97 credit.
2. Journalize the adjusting entry for uncollectible accounts expense.

14-2 Application Problem: Recording Entries Related to Uncollectible Accounts Receivable LO4, 5

Page 6 of a general journal, page 11 of a cash receipts journal, and selected ledger accounts for Rosario Equipment are given in the Working Papers.

Instructions:

1. Journalize the following transactions completed during May and June of the current year. Post the transactions to the accounts receivable ledger when the transactions are recorded in the journals.

Transactions:

May 6. Wrote off Suarez Consulting's past-due account as uncollectible, $1,648.11. M89.

14. Wrote off Durham Supply's past-due account as uncollectible, $948.50. M92.

23. Received cash in full payment of Foley Corp.'s account, previously written off as uncollectible, $1,109.80. M98 and R334.

June 7. Wrote off Pennington Co.'s past-due account as uncollectible, $488.93. M104.

29. Received cash in full payment of Suarez Consulting's account, previously written off as uncollectible, $1,648.11. M109 and R356.

Post general journal entries to the general ledger.

- Journalize and post transactions related to allowance for uncollectible accounts to the cash receipts journal.
- Journalize and post accounts receivable transactions previously written off as uncollectible to the sales journal and cash receipts journal.

- Print the general ledger trial balance, sales journal, and cash receipts journal.

Calculate financial ratios that help evaluate accounts receivable and trends related to uncollectible accounts.

1. Create and key formulas to complete the worksheet.
2. Print the worksheet.

14-3 Application Problem: Recording Notes Receivable LO6, 7, 8

The journals and selected ledger accounts for Hillside Co. are provided in the Working Papers.

Instructions:

1. For each of the following notes, calculate (a) the maturity date of the note, (b) the interest on the note, and (c) the maturity value of the note. Use the form provided in the Working Papers.

2.

Note	Date	Principal	Interest Rate	Time
NR8	April 16	$25,000.00	8%	90 days
NR9	May 3	$ 8,000.00	9%	180 days

Journalize the following transactions completed during June of the current year. Use page 16 of a general journal and page 23 of a cash receipts journal. Source documents are abbreviated as follows: note receivable, NR; receipt, R; memorandum, M.

Transactions:

June 3. Accepted a 120-day, 8% note from Daniel Burris for an extension of time on his account, $6,800.00. NR10.

12. Received cash from Dan Slaughter for the maturity value of NR6, a 90-day, 8% note for $2,000.00. R204.

18. Maggie Singer dishonored NR6, a 90-day, 8% note for $3,800.00. M240.

Post transactions in the general journal to the general ledger and the accounts receivable ledger when each transaction is journalized. Also post any entries in the General columns of the cash receipts journal to the general ledger accounts as transactions are journalized.

Accounting for Uncollectible Accounts Receivable: Apply Your Understanding: Mastery Problem

14-M Mastery Problem: Recording Entries for Uncollectible Accounts LO 4, 5, 6, 7, 8

A general journal, a cash receipts journal, and selected accounts receivable and general ledger accounts for Sing Industries are given in the Working Papers. The following transactions relating to uncollectible accounts receivable occurred during December of the current year.

Instructions:

1. Journalize the following transactions. Use page 12 of a general journal and page 22 of a cash receipts journal. Post transactions in the general journal to the general ledger and the accounts receivable ledger when the transaction is journalized. Post any transaction in the cash receipts journal impacting Accounts Receivable to the accounts receivable ledger when the transaction is journalized.

Transactions:

Dec. 3. Wrote off Patel Corporation's past-due account as uncollectible, $498.25. M243.

4. Received cash from Industrial Fittings for the maturity value of NR5, a 90-day, 8% note for $5,000.00. R889.

6. Received cash in full payment of Banda Company's account, previously written off as uncollectible, $1,548.25. M244 and R890.

10. Broyles Industries dishonored NR6, a 90-day, 8% note, for $4,800.00. M245.

14. Wrote off Murrell, Inc.'s past-due account as uncollectible, $1,645.00. M246.

18. Accepted a 120-day, 8% note from Maples Corporation for an extension of time on its account, $4,500.00. NR10.

21. Received cash from Cochran Metals for the maturity value of NR7, a 120-day, 9% note for $4,000.00. R891.

2. Prove the cash receipts journal. Post the total of the Accounts Receivable Credit column to the general ledger account.

Journalize the December 31 adjusting entry for estimated uncollectible accounts expense for the year. Use page 13 of the general journal. Use the aging of accounts receivable given in the Working Papers to calculate the adjustment. Post the adjusting entry to the general ledger accounts.

1. Journalize and post transactions related to allowance for uncollectible accounts to the cash receipts journal.
2. Journalize and post accounts receivable transactions previously written off as uncollectible to the sales journal and cash receipts journal.
3. Print the general ledger trial balance, sales journal, and cash receipts journal.

Calculate financial ratios that help evaluate accounts receivable and trends related to uncollectible accounts.

1. Create and key formulas to complete the worksheet.
2. Print the worksheet.
3. Go to www.cengage.com/login
4. Click on AA Online to access.
5. Go to the online assignment and follow the instructions.

Accounting for Uncollectible Accounts Receivable: Apply Your Understanding: Challenge Problem

14-C Challenge Problem: Estimating Uncollectible Accounts Expense LO2

Wood Company makes a monthly adjustment for its allowance for uncollectible accounts. The November 30 aging of accounts receivable follows:

The aging of accounts receivable as of December 31 is given in the Working Papers.

Instructions:

1. Apply the percentages used

Wood Company
Aging of Accounts Receivable
11/30/20--

Age Group	Amount	Percent	Uncollectible
Current	$ 65,489.02	2.0%	$ 1,309.78
1–30	28,184.25	4.0%	1,127.37
31–60	13,484.81	8.0%	1,078.78
61–90	7,491.06	30.0%	2,247.32
Over 90	13,495.15	80.0%	10,796.12
	$128,144.29		$16,559.37
Current Balance of Allowance for Uncollectible Accounts			(1,548.02)
Estimated Addition to Allowance for Uncollectible Accounts			$18,107.39

in the prior month to calculate the amount to be added to the allowance account in December.

2. Use the aging of accounts receivable to estimate the December adjustment to the allowance for uncollectible accounts. The current balance in Allowance for Uncollectible Accounts is a $6,481.18 debit.
3. Do you believe that the percentages used by Wood Company are a correct application of the concept, Matching Revenue and Expenses? Explain your answer.

Accounting for Uncollectible Accounts Receivable: 21st Century Skills

Promises, Promises

Theme: Financial, Economic, Business, and Entrepreneurial Literacy; Global Awareness

Skills: Critical Thinking and Problem Solving, Information Literacy, ICT Literacy

Technological advances have made it easier than ever for businesses to operate in foreign markets. Exports can increase sales and imported goods can make a business more competitive. However, before deciding to do business outside the United States, there are many things to consider. One of these is the risk of extending credit and being unable to collect.

Foreign customers, no different from domestic customers, will want an open line of credit. Extending credit privileges is always risky but can be financially rewarding for a business. Any customer can suffer from bad management, market conditions, economic uncertainty, and changes in government regulations. However, with foreign customers, there are added risks: civil unrest, war, unstable currency, different laws and accounting standards, and the basic difficulties of doing business over great distances. Collecting accounts receivable can be much more difficult.

How do you protect yourself against a foreign customer who cannot, or will not, honor its promise to pay? Where do you turn if a foreign customer is unable to pay? The Export-Import Bank of the United States (Ex-Im Bank) helps businesses by limiting their risk. The Ex-Im Bank assumes credit risks by providing credit insurance and loan guarantees for U.S. businesses.

Application

1. Go to www.exim.gov . Research the Export-Import Bank of the United States. Create a poster (by hand) or a flyer (using a computer) “advertising” the mission of the Ex-Im Bank and why it would be advantageous for a small business owner to use the services of Ex-Im Bank.
2. As you will learn while researching the Ex-Im Bank, it charges a fee for its services. Why do you think a fee is necessary? Explain.
3. Go to www.census.gov/foreign-trade/statistics/highlights/top/index.html . Select the most current “Year-to-Date” option and answer the following questions.
    a. What are the top five countries to which the United States exports?
    b. Based on current political and economic conditions, what risks could be incurred in extending credit to customers in these countries?

Accounting for Uncollectible Accounts Receivable: Analyzing Nike's Financial Statements

Nike markets its products to retail merchandising businesses, through its company-owned retail stores and Internet site, and to independent distributors and licensees. Individual customers must pay cash or use a credit card to purchase Nike merchandise. Business customers can purchase merchandise on account. Each time Nike sells to a business on account, it accepts the risk that the business may be unable to pay its account. Nike uses the allowance method of recording losses from uncollectible accounts.

Instructions

Use the Allowance for Uncollectible Accounts Receivable section of Note 1 on page B-10 to answer the following questions:

1. What factors does Nike take into account when estimating the amount of its allowance for uncollectible accounts receivable?
2. What was the balance of the allowance for uncollectible accounts receivable on May 31, 2011 and 2010?