

Workbook



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Accounts receivable

General

Questions

Exercise 1

Exercise F2F – Recording Bad Debt Expense and Write-offs

At the end of 20X1 F2F Inc. reports CU 55,000 in accounts receivable, net of CU 3,700 allowance for doubtful debt.

During 20X2 it records CU 1,233,900 in sales (assume all credit sales).

During 20X2 F2F writes-off CU 1,200 in uncollectible debt.

At the end of 20X2 receivables of CU 62,400 have not been paid yet.

It estimates the allowance for bad debt at the end of 20X2 to be CU 4,950.

Required

Pass the necessary entries in the transaction worksheet provided on the next slide.

Exercise 2

Exercise ABC – Aging of Accounts Receivable

ABC Inc. reports the following categories of accounts receivable were outstanding as of 31 December 20X8

(fiscal year-end), alongside the % of the

Category		CU	% of doubtful debt
A	Not yet overdue	35,000	5
B	Overdue by less than 1 month	12,000	15
C	Overdue by greater than 1 month but less than 6 months	7,000	25
D	Overdue by greater than 6 months	3,000	50
	Total	57,000	

Required:

What is the ending balance of the allowance for doubtful debt?

If the opening balance of the allowance is zero, and the ending balance is as calculated in part 1,

assuming no write-offs were recorded during the period how much bad debt expense should be recognized in the income statement?

If the opening balance of the allowance is 3,500, and assuming no write-offs were recorded during the period, how much bad debt expense is recognised in the income statement?

Exercise 3 – Impairments

Exercise Gog – Recording Bad Debt Expense and Write-offs

At the end of 20X1 Gog Inc. reports CU 60,000 in accounts receivable.

At the end of 20X1, it set the allowance for bad debt at 5% of the ending balance of the receivables.

During 20X2 it records CU 1,200,000 in sales.

During 20X2 F2F writes-off CU 1,500 in uncollectible debt.

At the end of 20X2 receivables of CU 80,000 have not been paid yet.

It estimates the allowance for bad debt, at the end of 20X2, at 3% (2% lower than last year) as a result of improvement in macroeconomic conditions.

Required

Pass the necessary entries in the transaction worksheet provided on the next slide.

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Exercise 4

Exercise: Professional Service Firm – Accounts Receivable, Bad Debt Expense & Unearned Revenue

Below you are provided selected information from the financial statements of a professional service firm.

	31/12/20X0	31/12/20X1
Gross accounts receivable	110,000	130,000
Allowance for bad debt	7,700	?
Accounts written-off during 20X1		5,600
Advances from customers (unearned revenues)	6,000	8,500
Total fee revenues recognised in the income statement 20X1		325,000

Assume that the opening balance of the 'advances' account was recognised as fee revenue during 20X1.

Required

1. Calculate the allowance for bad debt as at 31/12/20X1 given the information below.

	Gross amount 31/12/20X1	% that is doubtful
Specifically identified as bad	6,000	100%
Overdue	12,000	60%
Due within the next three months	75,000	4%
Due between three and six months	23,000	2%
Due after six months	14,000	1%
Total	130,000	

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2. Calculate the bad debt expense for 20X1.
3. Calculate the total cash received from customers in 20X1.
4. Calculate the total cash received from customers in 20X1 for revenue recognized in the current or prior years.

Exercise 5

Exercise: Tanx – Sales Returns

On its January 20X1 balance sheet date, Tanx Inc. estimates that CU 20.4 worth of sales will be returned by customers.

Of this amount, CU 15.1 relates to credit sales reflected within accounts receivable.

Tanx also estimates that the cost of merchandise to be returned is CU 14.2.

Gross receivables, before accounting for the above, is CU 1,300. This is the first time that customers have been allowed to make returns.

Required

Using the transactions worksheet provided on the next slide, show how Tanx should record the sales returns.

Calculate the amount of receivables Tanx would report on the January 20X1 balance sheet.

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Exercise 6

Exercise: Magog – Sales Returns

Consider the following information pertaining to Magog Inc.:

End of:	20X1	20X2
Accounts receivable - Gross	1000	1100
Allowance for returns	100	90
Refund liability	50	60
Right to return asset	75	75
Sales		3000
Activity during 20X2:		
Cash collections from 20X1 customers		890
Actual returns - cash refunded		70
Actual returns - accounts receivables credited		110
Gross profit margin		50%

Required

Calculate the effect of sales returns on the 20X2 profit

Exercise 7

Exercise: Sparks – Cash Sales, Credit Card Sales and Factoring

During 20X2 Sparks Inc. recorded CU 10,000 in sales. The composition of these sales is provided below:

Classification	CU
Cash sales	2000
Credit sales (i.e. recorded in accounts receivable and not yet paid)	3000
Credit card sales	5000
	10000

Credit card companies transfer the sales amount less a 2% fee in cash within 48 hours. As at 31/12/20X2, credit card companies still owe Sparks in respect of sales of CU 500.

Cost of sales is 60% of the sales amount.

Close to year-end Sparks sold CU 2000 of its accounts receivable, for CU 1900 cash, to a factoring company.

Required

Assuming that, during 20X2, the beginning balance of accounts receivable was fully paid in cash, calculate:

- 1) The ending balance of accounts receivable.
- 2) The profit for the year.

Exercise 8 – Notes Receivable

On 30/9/20X1 Marlon Inc. purchased, from Brandon Inc., inventory marked at CU 30,000.

The normal credit terms Brandon extends to its customers is 90 days.

On 31/12/20X1, Marlon, who could not make the payment, issued a CU 30,000 note to Brandon at 5% due in half a year on 30/6/20X2.

On 30/6/20X2 Marlon could only pay 50% of the principal amount and accrued interest.

It committed to Brandon it will pay the balance in the future.

However, Brandon believes it should impair the remaining balance by 50%.

Brandon's financial year-end is 31 December.

Required:

Pass the necessary entries for Brandon, using the transaction worksheet, to reflect these events.

*For the solution see the videos