ACCOUNTING 2001
CLASS 13 REVIEW EXERCISE
(Answer these questions and check answers as soon as possible after each class)

Class 13 Key Concepts: Receivables: Bad Debts Expense

CHAPTER 7

The trial balance, before adjustments, for James Company at December 31, 2011 shows the following balances:

<table>
<thead>
<tr>
<th>DR.</th>
<th>CR.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$82,000</td>
</tr>
<tr>
<td>Allowance for Doubtful</td>
<td>2,120</td>
</tr>
<tr>
<td>Sales</td>
<td>$430,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>7,600</td>
</tr>
</tbody>
</table>

Required:
Using the above data, give the necessary journal entry for each of the following independent situations:

1. James Company wants to maintain the Allowance for Doubtful Accounts at 5% of gross Accounts Receivable.

2. James Company wishes to increase the Allowance for doubtful Accounts by 1 1/2% of net sales.
ANSWERS TO CLASS 13 QUIZ

1. DR.  Bad Debt Expense  6,220  
    CR.  Allowance for Doubtful Accounts  6,220  

NOTE: the Allowance for Doubtful Accounts on the trial balance, before adjustments, has a DEBIT balance rather than the usual, expected balance in a contra-asset account, a CREDIT. This happened because James Company wrote off more bad debts than had previously been estimated to be uncollectible during 2011.

\[ ([82,000 \times 5\%] + 2,120) \]

2. DR.  Bad Debt Expense  6,336  
    CR.  Allowance for Doubtful Accounts  6,336  

\[ ((430,000 - 7,600) \times 1 \frac{1}{2} \%) \]