

DEMONSTRATION PROBLEM

The following selected transactions were completed by R. G. Lott Company during this year:

- Feb. 6 Reinstated the account of Delmar Tire, which had been written off in the preceding year in the amount of \$385. The company expects to pay off the entire amount.
- 6 Received \$185 in partial settlement of the account.
- July 14 Received 10 percent of the \$1,830 balance owed by Nord Consulting, a charge customer, from the referee in the bankruptcy proceedings. Wrote off the remainder as uncollectible.
- Dec. 30 Journalized a compound entry to write off the following accounts as uncollectible: S. L. Parsons, \$105.00; M. Larson, \$505.00; B. Lowry, \$2,579.85.
- 31 On the basis of an aged analysis of Accounts Receivable, which amounted to \$182,527, it was estimated that \$4,350 will be uncollectible. Made the adjusting entry.
- 31 Closed the Bad Debts Expense account to Income Summary.

Instructions

1. Open the following accounts. The credit balance of allowances for Doubtful Accounts is given for January 1 of this year.
 - 114 Allowance for Doubtful Accounts, \$4,252
 - 313 Income Summary
 - 628 Bad Debts Expense
2. Record the transactions and the adjusting and closing entries described above in the general journal (page 28). After each entry, post to the ledger account pages provided.
3. Prepare the Current Assets section of the balance sheet. Other pertinent accounts are: Cash, \$6,043.10; Merchandise Inventory, \$287,954.31; Supplies, \$538.36; Prepaid Insurance, \$1,284.00
4. Assume that R. G. Lott uses the specific charge-off method of accounting for bad debt losses. Journalize the following entries on page 30 of the general journal.
 - Mar. 30 Wrote off the K and K Storage account, \$1,425 (attempts to collect have failed).
 - Nov. 12 Reinstated the K and K Storage account when the firm wished to become a customer again, \$1,425.
 - 15 Collected the K and K Storage account in full, \$1,425.

SOLUTION

GENERAL JOURNAL

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20 —					1
2	Feb. 6	Accounts Receivable, Delmar Tire		385.00		2
3		Allowance for Doubtful Accounts	114		385.00	3
4		Reinstated the account.				4
5						5
6	6	Cash		185.00		6
7		Accounts Receivable, Delmar Tire			185.00	7
8		Received partial payment on account.				8
9						9
10	July 14	Cash		183.00		10
11		Allowance for Doubtful Accounts	114	1,647.00		11
12		Accounts Receivable, Nord Consulting			1,830.00	12
13		Settlement in bankruptcy, wrote off				13
14		remainder as uncollectible.				14
15		(\$1,830 × 0.10)				15
16						16
17	Dec. 30	Allowance for Doubtful Accounts	114	3,189.85		17
18		Accounts Receivable, S. L. Parsons			105.00	18
19		Accounts Receivable, M. Larson			505.00	19
20		Accounts Receivable, B. Lowry			2,579.85	20
21		Wrote off accounts as uncollectible.				21
22						22
23		Adjusting Entry				23
24	31	Bad Debts Expense	628	4,549.85		24
25		Allowance for Doubtful Accounts	114		4,549.85	25
26						26
27		Closing Entry				27
28	31	Income Summary	313	4,549.85		28
29		Bad Debts Expense	628		4,549.85	29
30						30

Solution (continued)

GENERAL LEDGER

ACCOUNT Allowance for Doubtful Accounts ACCOUNT NO. 114

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20—						
Jan. 1	Balance	✓				4,252.00
Feb. 6		J28		385.00		4,637.00
July 14		J28	1,647.00			2,990.00
Dec. 30		J28	3,189.85		199.85	
	31 Adjusting	J28		4,549.85		4,350.00

ACCOUNT Income Summary ACCOUNT NO. 313

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20—						
Dec. 31	Closing	J28	4,549.85		4,549.85	

ACCOUNT Bad Debts Expense ACCOUNT NO. 628

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20—						
Dec. 31	Adjusting	J28	4,549.85		4,549.85	
	31 Closing	J28		4,549.85	0.00	

R. G. Lott Company

Partial Balance Sheet

December 31, 20 —

Assets			
<i>Current Assets:</i>			
Cash		\$ 6,043.10	
Accounts Receivable	\$182,527.00		
Less Allowance for Doubtful Accounts	4,350.00	178,177.00	
Merchandise Inventory		287,954.31	
Supplies		538.36	
Prepaid Insurance		1,284.00	
Total Current Assets			\$473,996.77

Solution (continued)

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20—						1
2	Mar.	30	<i>Bad Debts Expense</i>		<i>1,425.00</i>		2
3			<i> Accounts Receivable, K and K Storage</i>			<i>1,425.00</i>	3
4			<i> Wrote off uncollectible account.</i>				4
5							5
6	Nov.	12	<i>Accounts Receivable, K and K Storage</i>		<i>1,425.00</i>		6
7			<i> Bad Debts Recovered</i>			<i>1,425.00</i>	7
8			<i> Reinstated the account.</i>				8
9							9
10		15	<i>Cash</i>		<i>1,425.00</i>		10
11			<i> Accounts Receivable, K and K Storage</i>			<i>1,425.00</i>	11
12			<i> Collected account in full.</i>				12
13							13