

STUDY GUIDE QUESTIONS**PART 1 True/False**

For each of the following statements, circle T if the statement is true and F if the statement is false.

- | | | |
|---|---|--|
| T | F | 1. When the specific charge-off method is used, no adjusting entry is required. |
| T | F | 2. During its fiscal year, Brooks Company made most of its sales on credit but made no provision for losses due to bad debts. The result was that Brooks Company overstated its assets and also overstated its net income. |
| T | F | 3. The account Allowance for Doubtful Accounts is included in the Current Liabilities section of a balance sheet. |
| T | F | 4. According to the allowance method of handling bad debt losses, write-offs of charge accounts considered uncollectible are debited to Allowance for Doubtful Accounts. |
| T | F | 5. The Bad Debts Expense account is reported on the income statement in the Operating Expenses section. |
| T | F | 6. When a company ages its Accounts Receivable, the amount of its adjusting entry is affected by the present balance of Allowance for Doubtful Accounts. |
| T | F | 7. The normal balance of the Allowance for Doubtful Accounts account is on the credit side. |
| T | F | 8. Under the specific charge-off method of handling bad debt losses, Allowance for Doubtful Accounts does not exist. |
| T | F | 9. The allowance method of handling bad debt losses best accommodates the matching principle. |
| T | F | 10. On the balance sheet, Allowance for Doubtful Accounts reduces the balance of Accounts Receivable to the net realizable value. |

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- A method of accounting for bad debt losses that doesn't require an adjusting entry, is used by small business firms, and is required for federal income tax reporting is called the _____ method.
- A condition governed by federal law in which a debtor is excused from certain obligations incurred is called _____.

3. Analyzing the composition of accounts receivable by classifying the outstanding balance of each customer's account according to the amount of time it has been outstanding is called _____.
4. A law that limits the period of time during which the courts may force a debtor to pay a debt is called a(n) _____.
5. The balance of Accounts Receivable after one has deducted the balance of Allowance for Doubtful Accounts is the _____.
6. A method of accounting for bad debt losses that requires a debit to Bad Debts Expense and a credit to Allowance for Doubtful Accounts is called the _____ method.

PART 3 Recording the Adjusting Entry for Bad Debts Using Aging

Age of Accounts	Amount	Estimated Percentage Uncollectible	Allowance for Doubtful Accounts
Not past due	6,520	3	
1-30 days	740	6	
31-60 days	450	23	
61-180 days	70	45	
Over 181 days	120	55	
Total			

Assuming that Allowance for Doubtful Accounts has a credit balance of \$185 on December 31, the end of the company's fiscal year, record the adjusting entry.

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	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5

PART 4 Recording Adjusting Entries for Bad Debt

Royer’s Furniture has the following account balances at the end of the fiscal year:

Accounts Receivable	Sales
95,000	160,000
Allowance for Doubtful Accounts	Sales Returns and Allowances
450	5,700
	Sales Discounts
	3,200

Record the adjusting entries for estimated bad debt losses, given the following situations:

- a. Royer’s Furniture estimates that its bad debt losses will be 1 percent of its net sales.
- b. On the basis of an analysis of its Accounts Receivable, Royer’s Furniture estimates that its uncollectible accounts will be \$1,250.

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	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8