CHAPTER 9
RECEIVABLES

DISCUSSION QUESTIONS

1. Receivables are normally classified as (1) accounts receivable, (2) notes receivable, or (3) other receivables.

2. Elite Hardware should use the direct write-off method because it is a small business that has a relatively small number and volume of accounts receivable.

3. Contra asset, credit balance

4. The accounts receivable and allowance for doubtful accounts may be reported at a net amount of $443,700 ($471,200 – $27,500) in the Current Assets section of the balance sheet. In this case, the amount of the allowance for doubtful accounts should be shown separately in a note to the financial statements or in parentheses on the balance sheet. Alternatively, the accounts receivable may be shown at the gross amount of $471,200 less the amount of the allowance for doubtful accounts of $27,500, thus yielding net accounts receivable of $443,700.

5. **(1)** The percentage rate used is excessive in relationship to the volume of accounts written off as uncollectible; hence, the balance in the allowance is excessive.

(2) A substantial volume of old uncollectible accounts is still being carried in the accounts receivable account.

6. An estimate based on analysis of receivables provides the most accurate estimate of the current net realizable value.

7. **a.** Kearny Company

b. Notes Receivable

8. The interest will amount to $6,000 only if the note is payable one year from the date it was created. The usual practice is to state the interest rate in terms of an annual rate, rather than in terms of the period covered by the note.

9. Debit Accounts Receivable
Credit Notes Receivable
Credit Interest Revenue

10.

Cash	61,155	
Accounts Receivable ...		60,750
Interest Revenue		405
($60,750 × 30/360 × 8% = $405).		

PRACTICE EXERCISES

PE 9–1A

Jan.	17	Cash	250	
		Bad Debt Expense	750	
		Accounts Receivable—Ian Kearns		1,000
Apr.	6	Accounts Receivable—Ian Kearns	750	
		Bad Debt Expense		750
	6	Cash	750	
		Accounts Receivable—Ian Kearns		750

PE 9–1B

July	7	Cash	500	
		Bad Debt Expense	2,000	
		Accounts Receivable—Betty Williams		2,500
Nov.	13	Accounts Receivable—Betty Williams	2,000	
		Bad Debt Expense		2,000
	13	Cash	2,000	
		Accounts Receivable—Betty Williams		2,000

PE 9–2A

Jan.	17	Cash	250	
		Allowance for Doubtful Accounts	750	
		Accounts Receivable—Ian Kearns		1,000
Apr.	6	Accounts Receivable—Ian Kearns	750	
		Allowance for Doubtful Accounts		750
	6	Cash	750	
		Accounts Receivable—Ian Kearns		750

PE 9–2B

July	7	Cash	500	
		Allowance for Doubtful Accounts	2,000	
		Accounts Receivable—Betty Williams		2,500
Nov.	13	Accounts Receivable—Betty Williams	2,000	
		Allowance for Doubtful Accounts		2,000
	13	Cash	2,000	
		Accounts Receivable—Betty Williams		2,000

PE 9–3A

a. $22,500 ($4,500,000 × 0.005)

		Adjusted Balance
b.	Accounts Receivable	$325,000
	Allowance for Doubtful Accounts ($3,900 + $22,500)	26,400
	Bad Debt Expense	22,500
c.	Net realizable value ($325,000 – $26,400)	$298,600

PE 9–3B

a. $80,000 ($32,000,000 × 0.0025)

		Adjusted Balance
b.	Accounts Receivable	$2,500,000
	Allowance for Doubtful Accounts ($80,000 – $9,000)	71,000
	Bad Debt Expense	80,000
c.	Net realizable value ($2,500,000 – $71,000)	$2,429,000

PE 9–4A

a. $21,100 ($25,000 – $3,900)

		Adjusted Balance
b.	Accounts Receivable	$325,000
	Allowance for Doubtful Accounts	25,000
	Bad Debt Expense	21,100
c.	Net realizable value ($325,000 – $25,000)	$300,000

PE 9–4B

a. $85,000 ($76,000 + $9,000)

		Adjusted Balance
b.	Accounts Receivable	$2,500,000
	Allowance for Doubtful Accounts	76,000
	Bad Debt Expense	85,000
c.	Net realizable value ($2,500,000 – $76,000)	$2,424,000

PE 9–5A

a. The due date for the note is October 8, determined as follows:

September	22 days (30 – 8)
October	8 days
Total	30 days

b. $90,300 [$90,000 + ($90,000 × 4% × 30/360)]

c.

Oct.	8	Cash	90,300	
		Notes Receivable		90,000
		Interest Revenue		300

PE 9–5B

a. The due date for the note is July 25, determined as follows:

March	4 days (31 – 27)
April	30 days
May	31 days
June	30 days
July	25 days
Total	120 days

b. $152,500 [$150,000 + ($150,000 × 5% × 120/360)]

c.

July 25	Cash	152,500	
	Notes Receivable		150,000
	Interest Revenue		2,500

PE 9–6A

a. Accounts Receivable Turnover

	2012	2011
Net sales	$2,430,000	$1,920,000
Accounts receivable:		
Beginning of year	$180,000	$120,000
End of year	$225,000	$180,000
Average accts. receivable	$202,500 [($180,000 + $225,000) ÷ 2]	$150,000 [($120,000 + $180,000) ÷ 2]
Accts. receivable turnover	12.0 ($2,430,000 ÷ $202,500)	12.8 ($1,920,000÷ $150,000)

b. Number of Days' Sales in Receivables

	2012	2011
Net sales	$2,430,000	$1,920,000
Average daily sales	$6,657.5 ($2,430,000 ÷ 365 days)	$5,260.3 ($1,920,000 ÷ 365 days)
Average accts. receivable	$202,500 [($180,000 + $225,000) ÷ 2]	$150,000 [($120,000 + $180,000) ÷ 2]
Number of days' sales in receivables	30.4 days ($202,500 ÷ $6,657.5)	28.5 days ($150,000 ÷ $5,260.3)

PE 9–6A (Concluded)

c. The decrease in the accounts receivable turnover from 12.8 to 12.0 and the increase in the number of days' sales in receivables from 28.5 days to 30.4 days indicate unfavorable trends in the efficiency of collecting receivables.

PE 9–6B

a. Accounts Receivable Turnover

	2012	2011
Net sales	$4,514,000	$4,200,000
Accounts receivable:		
Beginning of year	$280,000	$320,000
End of year	$330,000	$280,000
Average accts. receivable	$305,000 [($280,000 + $330,000) ÷ 2]	$300,000 [($320,000 + $280,000) ÷ 2]
Accts. receivable turnover	14.8 ($4,514,000 ÷ $305,000)	14.0 ($4,200,000 ÷ $300,000)

b. Number of Days' Sales in Receivables

	2012	2011
Net sales	$4,514,000	$4,200,000
Average daily sales	$12,367.1 ($4,514,000 ÷ 365 days)	$11,506.8 ($4,200,000 ÷ 365 days)
Average accts. receivable	$305,000 [($280,000 + $330,000) ÷ 2]	$300,000 [($320,000 + $280,000) ÷ 2]
Number of days' sales in receivables	24.7 days ($305,000 ÷ $12,367.1)	26.1 days ($300,000 ÷ $11,506.8)

c. The increase in the accounts receivable turnover from 14.0 to 14.8 and the decrease in the number of days' sales in receivables from 26.1 days to 24.7 days indicate favorable trends in the efficiency of collecting receivables.

EXERCISES

Ex. 9–1

Accounts receivable from the U.S. government are significantly different from receivables from commercial aircraft carriers such as Delta and United. Thus, Boeing should report each type of receivable separately. In the December 31, 2009, filing with the Securities and Exchange Commission, Boeing reports the receivables together on the balance sheet, but discloses each receivable separately in a note to the financial statements.

Ex. 9–2

a. The MGM Mirage: 20.9% ($97,106,000 ÷ $465,580,000)

b. Johnson & Johnson: 3.3% ($333,000,000 ÷ $9,979,000,000)

c. Casino operations experience greater bad debt risk, since it is difficult to control the creditworthiness of customers entering the casino. In addition, individuals who may have adequate creditworthiness could overextend themselves and lose more than they can afford if they get caught up in the excitement of gambling. In contrast, Johnson & Johnson's customers are primarily other businesses such as grocery store chains.

Ex. 9–3

Feb.	13	Accounts Receivable—Dr. Ben Katz	120,000	
		Sales		120,000
	13	Cost of Merchandise Sold	72,000	
		Merchandise Inventory		72,000
May	4	Cash	90,000	
		Bad Debt Expense	30,000	
		Accounts Receivable—Dr. Ben Katz		120,000
Nov.	19	Accounts Receivable—Dr. Ben Katz	30,000	
		Bad Debt Expense		30,000
	19	Cash	30,000	
		Accounts Receivable—Dr. Ben Katz		30,000

Ex. 9–4

Feb.	11	Accounts Receivable—Dakota Co.	29,000	
		Sales		29,000
	11	Cost of Merchandise Sold.....	17,400	
		Merchandise Inventory		17,400
Apr.	15	Cash	7,500	
		Allowance for Doubtful Accounts	21,500	
		Accounts Receivable—Dakota Co.		29,000
Sept.	3	Accounts Receivable—Dakota Co.	21,500	
		Allowance for Doubtful Accounts.....		21,500
	3	Cash	21,500	
		Accounts Receivable—Dakota Co.		21,500

Ex. 9–5

a.	Bad Debt Expense.....	12,950	
	Accounts Receivable—Aaron Guzman		12,950
b.	Allowance for Doubtful Accounts	12,950	
	Accounts Receivable—Aaron Guzman		12,950

Ex. 9–6

a. $80,000 ($16,000,000 × 0.005)
b. $82,000 ($77,000 + $5,000)
c. $40,000 ($16,000,000 × 0.0025)
d. $36,000 ($43,500 – $7,500)

Ex. 9–7

Account	Due Date	Number of Days Past Due
Alpha Auto	May 15	77 (16 + 30 + 31)
Best Auto	July 8	23 (31 – 8)
Downtown Repair	March 18	135 (13 + 30 + 31 + 30 + 31)
Lucky's Auto Repair	June 1	60 (29 + 31)
Pit Stop Auto	June 3	58 (27 + 31)

Sally's	**April 12**	**110 (18 + 31 + 30 + 31)**
Trident Auto	**May 31**	**61 (30 + 31)**
Washburn Repair & Tow	**March 2**	**151 (29 + 30 + 31 + 30 + 31)**

Ex. 9–8

a.

Customer	Due Date	Number of Days Past Due
Beltran Industries	July 10	143 days (21 + 31 + 30 + 31 + 30)
Doodle Company	September 20	71 days (10 + 31 + 30)
La Corp Inc.	October 17	44 days (14 + 30)
VIP Sales Company	November 4	26 days
We-Go Company	December 21	Not past due

b.

	A	B	C	D	E	F	G
1	Aging of Receivables Schedule						
2	November 30						
3				Days Past Due			
4	Customer	Balance	Not Past Due	1–30	31–60	61–90	Over 90
5	Able Brothers Inc.	3,000	3,000				
6	Accent Company	4,500		4,500			
21	Zumpano Company	5,000			5,000		
22	Subtotals	830,000	500,000	180,000	80,000	45,000	25,000
23	Beltran Industries	12,000					12,000
24	Doodle Company	8,000				8,000	
25	La Corp Inc.	17,000			17,000		
26	VIP Sales Company	10,000		10,000			
27	We-Go Company	23,000	23,000				
28	Totals	900,000	523,000	190,000	97,000	53,000	37,000

Ex. 9–9

			Days Past Due			
	Balance	Not Past Due	1–30	31–60	61–90	Over 90
Total receivables	900,000	523,000	190,000	97,000	53,000	37,000
Percentage uncollectible		1%	4%	15%	35%	60%
Allowance for Doubtful Accounts	68,130	5,230	7,600	14,550	18,550	22,200

Ex. 9–10

Nov.	30	Bad Debt Expense	53,850	
		Allowance for Doubtful Accounts.....		53,850
		Uncollectible accounts estimate.		
		($68,130 – $14,280)		

Ex. 9–11

		Estimated Uncollectible Accounts	
Age Interval	Balance	Percent	Amount
Not past due	$600,000	¼%	$ 1,500
1–30 days past due.....	120,000	2	2,400
31–60 days past due.....	60,000	3	1,800
61–90 days past due.....	45,000	10	4,500
91–180 days past due.....	26,000	40	10,400
Over 180 days past due.....	24,000	75	18,000
Total	$875,000		$38,600

Ex. 9–12

2012				
Dec.	31	Bad Debt Expense	40,000	
		Allowance for Doubtful Accounts.....		40,000
		Uncollectible accounts estimate.		
		($38,600 + $1,400)		

Ex. 9–13

a.	Jan.	27	Bad Debt Expense	6,000	
			Accounts Receivable—C. Knoll		6,000
	Feb.	17	Cash	1,000	
			Bad Debt Expense	2,000	
			Accounts Receivable—Joni Lester		3,000
	Mar.	3	Accounts Receivable—C. Knoll	6,000	
			Bad Debt Expense		6,000
		3	Cash	6,000	
			Accounts Receivable—C. Knoll		6,000
	Dec.	31	Bad Debt Expense	11,100	
			Accounts Receivable—Jason Short		4,500
			Accounts Receivable—Kim Snider		1,500
			Accounts Receivable—Sue Pascall		1,100
			Accounts Receivable—Tracy Lane		3,500
			Accounts Receivable—Randy Pape		500
		31	No entry		
b.	Jan.	27	Allowance for Doubtful Accounts	6,000	
			Accounts Receivable—C. Knoll		6,000
	Feb.	17	Cash	1,000	
			Allowance for Doubtful Accounts	2,000	
			Accounts Receivable—Joni Lester		3,000
	Mar.	3	Accounts Receivable—C. Knoll	6,000	
			Allowance for Doubtful Accounts		6,000
		3	Cash	6,000	
			Accounts Receivable—C. Knoll		6,000
	June	30	Allowance for Doubtful Accounts	11,100	
			Accounts Receivable—Jason Short		4,500
			Accounts Receivable—Kim Snider		1,500
			Accounts Receivable—Sue Pascall		1,100
			Accounts Receivable—Tracy Lane		3,500
			Accounts Receivable—Randy Pape		500
	Dec.	31	Bad Debt Expense	28,000	
			Allowance for Doubtful Accounts		28,000
			Uncollectible accounts estimate.		
			($1,600,000 × 1¾% = $28,000)		

Ex. 9–13 (Concluded)

c. Bad debt expense under:

Allowance method	$28,000
Direct write-off method ($6,000 + $2,000 – $6,000 + $11,100)	13,100
Difference ($28,000 – $13,100)	$14,900

Aprilla Company's income would be $14,900 higher under the direct write-off method than under the allowance method.

Ex. 9–14

a.

Mar.	14	Bad Debt Expense		7,500	
		Accounts Receivable—Myron Rimando			7,500
May	19	Cash		2,000	
		Bad Debt Expense		8,000	
		Accounts Receivable—Shirley Mason			10,000
Aug.	7	Accounts Receivable—Myron Rimando		7,500	
		Bad Debt Expense			7,500
	7	Cash		7,500	
		Accounts Receivable—Myron Rimando			7,500
Dec.	31	Bad Debt Expense		33,500	
		Accounts Receivable—Brandon Peele			5,000
		Accounts Receivable—Clyde Stringer			9,000
		Accounts Receivable—Ned Berry			13,000
		Accounts Receivable—Mary Adams			2,000
		Accounts Receivable—Gina Bowers			4,500
	31	No entry			

Ex. 9–14 (Continued)

b.	Mar.	4	Allowance for Doubtful Accounts	7,500	
			Accounts Receivable—Myron Rimando		7,500
	May	19	Cash	2,000	
			Allowance for Doubtful Accounts	8,000	
			Accounts Receivable—Shirley Mason		10,000
	Aug.	7	Accounts Receivable—Myron Rimando	7,500	
			Allowance for Doubtful Accounts		7,500
		7	Cash	7,500	
			Accounts Receivable—Myron Rimando		7,500
	Dec.	31	Allowance for Doubtful Accounts	33,500	
			Accounts Receivable—Brandon Peele		5,000
			Accounts Receivable—Clyde Stringer		9,000
			Accounts Receivable—Ned Berry		13,000
			Accounts Receivable—Mary Adams		2,000
			Accounts Receivable—Gina Bowers		4,500
		31	Bad Debt Expense	41,700	
			Allowance for Doubtful Accounts		41,700
			Uncollectible accounts estimate. ($45,200 – $3,500)		

Computations

Aging Class (Number of Days Past Due)	Receivables Balance on December 31	Estimated Doubtful Accounts Percent	Amount
0–30 days	$300,000	1%	$ 3,000
31–60 days	80,000	4	3,200
61–90 days	20,000	15	3,000
91–120 days	10,000	40	4,000
More than 120 days	40,000	80	32,000
Total receivables	$450,000		$45,200

Estimated balance of allowance account from aging schedule	$45,200
Unadjusted credit balance of allowance account	3,500*
Adjustment	$41,700

*$45,000 – $7,500 – $8,000 + $7,500 – $33,500 = $3,500

Ex. 9–14 (Concluded)

c. Bad debt expense under:

Allowance method	$41,700
Direct write-off method ($7,500 + $8,000 – $7,500 + $33,500)	41,500
Difference	$ 200

Silhouette's income would be $200 higher under the direct method than under the allowance method.

Ex. 9–15

$368,000 [$375,000 + $65,000 – ($4,800,000 × 1½%)]

Ex. 9–16

a. $437,500 [$450,000 + $70,000 – ($5,500,000 × 1½%)]

b. $19,500 [($72,000 – $65,000) + ($82,500 – $70,000)]

Ex. 9–17

a.	Bad Debt Expense	29,000	
	Accounts Receivable—Will Boyette		10,000
	Accounts Receivable—Stan Frey		8,000
	Accounts Receivable—Tammy Imes		5,000
	Accounts Receivable—Shana Wagner		6,000
b.	Allowance for Doubtful Accounts	29,000	
	Accounts Receivable—Will Boyette		10,000
	Accounts Receivable—Stan Frey		8,000
	Accounts Receivable—Tammy Imes		5,000
	Accounts Receivable—Shana Wagner		6,000
	Bad Debt Expense	45,000	
	Allowance for Doubtful Accounts		45,000
	Uncollectible accounts estimate. ($3,000,000 × 1½% = $45,000)		

c. Net income would have been $16,000 higher in 2012 under the direct write-off method, because bad debt expense would have been $16,000 higher under the allowance method ($45,000 expense under the allowance method vs. $29,000 expense under the direct write-off method).

Ex. 9–18

a.	Bad Debt Expense	57,300	
	Accounts Receivable—Trey Betts		15,500
	Accounts Receivable—Cheryl Carson		9,000
	Accounts Receivable—Irene Harris		29,700
	Accounts Receivable—Renee Putman		3,100
b.	Allowance for Doubtful Accounts	57,300	
	Accounts Receivable—Trey Betts		15,500
	Accounts Receivable—Cheryl Carson		9,000
	Accounts Receivable—Irene Harris		29,700
	Accounts Receivable—Renee Putman		3,100
	Bad Debt Expense	69,800	
	Allowance for Doubtful Accounts		69,800
	Uncollectible accounts estimate. ($67,500 + $2,300)		

Computations

Aging Class (Number of Days Past Due)	Receivables Balance on December 31	Estimated Doubtful Accounts Percent	Amount
0–30 days	$600,000	1%	$ 6,000
31–60 days	150,000	2	3,000
61–90 days	75,000	18	13,500
91–120 days	50,000	30	15,000
More than 120 days	60,000	50	30,000
Total receivables	$935,000		$67,500

Unadjusted debit balance of Allowance for Doubtful Accounts ($57,300 – $55,000)	$ 2,300
Estimated balance of Allowance for Doubtful Accounts from aging schedule	67,500
Adjustment	$69,800

c. Net income would have been $12,500 lower in 2012 under the allowance method, because bad debt expense would have been $12,500 higher under the allowance method ($69,800 expense under the allowance method versus $57,300 expense under the direct write-off method).

Ex. 9–19

	Due Date	Interest	
a.	Aug. 13	$600	[$40,000 × 0.06 × (90/360)]
b.	May 19	100	[$15,000 × 0.04 × (60/360)]
c.	July 18	120	[$24,000 × 0.03 × (60/360)]
d.	Nov. 30	140	[$10,500 × 0.08 × (60/360)]
e.	Dec. 28	300	[$18,000 × 0.05 × (120/360)]

Ex. 9–20

a. July 8 (21 + 31 + 30 + 8)

b. $91,350 [($90,000 × 6% × 90/360) + $90,000]

c.

(1)	Notes Receivable	90,000	
	Accounts Rec.—Oregon Interior Decorators		90,000
(2)	Cash	91,350	
	Notes Receivable		90,000
	Interest Revenue		1,350

Ex. 9–21

1. Sale on account.
2. Cost of merchandise sold for the sale on account.
3. A sale return or allowance.
4. Cost of merchandise returned.
5. Note received from customer on account.
6. Note dishonored and charged maturity value of note to customer's account receivable.
7. Payment received from customer for dishonored note plus interest earned after due date.

Ex. 9–22

2011				
Dec.	**10**	**Notes Receivable**	**36,000**	
		Accounts Receivable—Point Loma Clothing & Bags Co.		**36,000**
	31	**Interest Receivable**	**84**	
		Interest Revenue		**84**
		Accrued interest. ($36,000 × 0.04 × 21/360 = $84)		
	31	**Interest Revenue**	**84**	
		Income Summary		**84**
2012				
Mar.	**9**	**Cash**	**36,360**	
		Notes Receivable		**36,000**
		Interest Receivable		**84**
		Interest Revenue		**276***

***$36,000 × 0.04 × 69/360**

Ex. 9–23

May	**3**	**Notes Receivable**	**150,000**	
		Accounts Receivable—Sunrider Co.		**150,000**
Aug.	**31**	**Accounts Receivable—Sunrider Co.**	**153,000**	
		Notes Receivable		**150,000**
		Interest Revenue		**3,000***

***$150,000 × 0.06 × 120/360**

Oct.	**30**	**Cash**	**155,295**	
		Accounts Receivable—Sunrider Co.		**153,000**
		Interest Revenue		**2,295***

***$153,000 × 0.09 × 60/360**

Ex. 9–24

Mar.	1	Notes Receivable	80,000	
		Accounts Receivable—Tomekia Co.		80,000
	18	Notes Receivable	75,000	
		Accounts Receivable—Mystic Co.		75,000
Apr.	30	Accounts Receivable—Tomekia Co.	80,800	
		Notes Receivable.....		80,000
		Interest Revenue.....		800*
		*($80,000 × 6% × 60/360)		
May	17	Accounts Receivable—Mystic Co.	76,000	
		Notes Receivable.....		75,000
		Interest Revenue.....		1,000*
		*($75,000 × 8% × 60/360)		
July	29	Cash	82,416	
		Accounts Receivable—Tomeka Co.		80,800
		Interest Revenue.....		1,616*
		*($80,800 × 0.08 × 90/360)		
Aug.	23	Allowance for Doubtful Accounts	76,000	
		Accounts Receivable—Mystic Co.		76,000

Ex. 9–25

1. The interest receivable should be reported separately as a current asset. It should not be deducted from notes receivable.

2. The allowance for doubtful accounts should be deducted from accounts receivable.

   A corrected partial balance sheet would be as follows:

TULIPS COMPANY
Balance Sheet
December 31, 2012

Assets		
Current assets:		
Cash		$138,000
Notes receivable		400,000
Accounts receivable	$795,000	
Less allowance for doubtful accounts	14,500	780,500
Interest receivable		20,000

Ex. 9–26

a. and b.	2009	2008
Net sales	$5,018,900	$4,880,100
Accounts receivable	$576,700	$585,000
Average accts. receivable	$580,850 [($576,700 + $585,000)/2]	$548,450 [($585,000 + $511,900)/2]
Accts. receivable turnover	8.6 ($5,018,900/$580,850)	8.9 ($4,880,100/$548,450)
Average daily sales	$13,750.4 ($5,018,900/365)	$13,370.1 ($4,880,100/365)
Days' sales in receivables	42.2 ($580,850/$13,750.4)	41.0 ($548,450/$13,370.1)

c. The accounts receivable turnover indicates a decrease in the efficiency of collecting accounts receivable by decreasing from 8.9 to 8.6, an unfavorable trend. The days' sales in receivables also indicates a decrease in the efficiency of collecting accounts receivable by increasing from 41.0 to 42.2, which is an unfavorable trend. These unfavorable trends are consistent with the economic downturn that occurred worldwide in 2008 and 2009. However, before reaching a final conclusion, the ratios should be compared with industry averages and similar firms.

Ex. 9–27

a. and b.	2009	2008
Net sales	$10,148,082	$10,070,778
Accounts receivable	$1,171,797	$1,161,481
Average accts. receivable	$1,166,639 [($1,171,797 + $1,161,481)/2]	$1,079,166.5 [($1,161,481 + $996,852)/2]
Accts. receivable turnover	8.7 ($10,148,082/$1,166,639)	9.3 ($10,070,778/$1,079,166.5)
Average daily sales	$27,803.0 ($10,148,082/365)	$27,591.2 ($10,070,778/365)
Days' sales in receivables	42.0 ($1,166,639/$27,803.0)	39.1 ($1,079,166.5/$27,591.2)

Ex. 9–27 (Concluded)

c. The accounts receivable turnover indicates an decrease in the efficiency of collecting accounts receivable by decreasing from 9.3 to 8.7, an unfavorable trend. The number of days' sales in receivables increased from 39.1 to 42.0 days, also indicating an unfavorable trend in collections of receivables. These unfavorable trends are consistent with the economic downturn that occurred worldwide in 2008 and 2009. However, before reaching a final conclusion, both ratios should be compared with those of past years, industry averages, and similar firms.

Ex. 9–28

a. and b.

	For the Period Ending			
	Jan. 31, 2010		Jan. 31, 2009	
Net sales	$8,632		$9,043	
Accounts receivable	$249		$313	
Average accts. receivable	$281	[($249 + $313)/2]	$334	[($313 + $355)/2]
Accts. receivable turnover	30.7	($8,632/$281)	27.1	($9,043/$334)
Average daily sales	$23.6	($8,632/365)	$24.8	($9,043/365)
Days' sales in receivables	11.9	($281/$23.6)	13.5	($334/$24.8)

c. The accounts receivable turnover indicates an increase in the efficiency of collecting accounts receivable by increasing from 27.1 to 30.7, a favorable trend. The days' sales in receivables indicates an increase in the efficiency of collecting accounts receivable by decreasing from 13.5 to 11.9, also indicating a favorable trend. Before reaching a conclusion, however, the ratios should be compared with industry averages and similar firms.

Ex. 9–29

a. The average accounts receivable turnover ratios are as follows:

The Limited Brands Inc.: 28.9 [(30.7 + 27.1)/2]

H.J. Heinz Company: 9.0 [(8.7 + 9.3)/2]

Note: **For computations of the individual ratios, see Ex. 9–27 and Ex. 9–28.**

b. The Limited Brands has the higher average accounts receivable turnover ratio.

c. The Limited Brands operates a specialty retail chain of stores that sell directly to individual consumers. Many of these consumers (retail customers) pay with MasterCards or VISAs that are recorded as cash sales. In contrast, H.J. Heinz manufactures processed foods that are sold to food wholesalers, grocery store chains, and other food distributors that eventually sell Heinz products to individual consumers. Accordingly, because of the extended distribution chain, we would expect Heinz to have more accounts receivable than The Limited Brands. In addition, we would expect Heinz's business customers to take a longer period to pay their receivables. Accordingly, we would expect Heinz's average accounts receivable turnover ratio to be lower than The Limited Brands as shown in (a).

PROBLEMS

Prob. 9–1A

2.

20—					
Feb.	17	Cash		7,500	
		Allowance for Doubtful Accounts		22,500	
		Accounts Receivable—Gillespie Co.			30,000
Apr.	11	Accounts Receivable—Colleen Bertram		4,250	
		Allowance for Doubtful Accounts			4,250
	11	Cash		4,250	
		Accounts Receivable—Colleen Bertram			4,250
July	6	Allowance for Doubtful Accounts		9,000	
		Accounts Receivable—Covered Wagon Co.			9,000
Nov.	20	Accounts Receivable—Dugan Co.		5,900	
		Allowance for Doubtful Accounts			5,900
	20	Cash		5,900	
		Accounts Receivable—Dugan Co.			5,900
Dec.	31	Allowance for Doubtful Accounts		21,700	
		Accounts Receivable—Kipp Co.			3,000
		Accounts Receivable—Moore Co.			4,000
		Accounts Receivable—Butte Distributors			8,000
		Accounts Receivable—Parker Towers			6,700
	31	Bad Debt Expense		63,050	
		Allowance for Doubtful Accounts			63,050
		Uncollectible accounts estimate. ($60,000 + $3,050)			

Prob. 9–1A (Concluded)

1. and 2.

Allowance for Doubtful Accounts

Feb.	17		22,500	Jan.	1	Balance	40,000
July	6		9,000	Apr.	11		4,250
Dec.	31		21,700	Nov.	20		5,900
Dec.	31	Unadjusted Balance	3,050				
				Dec.	31	Adjusting Entry	63,050
				Dec.	31	Adj. Balance	60,000

Bad Debt Expense

Dec.	31	Adjusting Entry	63,050				

3. $1,140,000 ($1,200,000 – $60,000)

4. a. $56,250 ($7,500,000 × 0.0075)

b. $53,200 ($56,250 – $3,050)

c. $1,146,800 ($1,200,000 – $53,200)

Prob. 9–2A

1.

Customer	Due Date	Number of Days Past Due
Antelope Sports & Flies	June 21, 2011	193 days (9 + 31 + 31 + 30 + 31 + 30 + 31)
Big Hole Flies	Aug. 30, 2011	123 days (1 + 30 + 31 + 30 + 31)
Charlie's Fish Co.	Sept. 8, 2011	114 days (22 + 31 + 30 + 31)
Deschutes Sports	Oct. 20, 2011	72 days (11 + 30 + 31)
Green River Sports	Nov. 7, 2011	54 days (23 + 31)
Smith River Co.	Nov. 28, 2011	33 days (2 + 31)
Wild Trout Company	Dec. 5, 2011	26 days
Wolfe Sports	Jan. 7, 2012	Not past due

2. and 3.

	A	B	C	D	E	F	G	H
1	Aging of Receivables Schedule							
2	December 31, 2011							
3				Days Past Due				
4	Customer	Balance	Not Past Due	1–30	31–60	61–90	91–120	Over 120
5	AAA Fishery	20,000	20,000					
6	Blue Ribbon Flies	7,500			7,500			
30	Z Fish Co.	4,000		4,000				
31	Subtotals	1,060,00	500,000	315,000	120,000	40,000	25,000	60,000
32	Ant. Sports & Flies	3,000						3,000
33	Big Hole Flies	6,500						6,500
34	Charlie's Fish Co.	12,000					12,000	
35	Deschutes Sports	4,000				4,000		
36	Green River Sports	3,500			3,500			
37	Smith River Co.	1,500			1,500			
38	Wild Trout Company	5,000		5,000				
39	Wolfe Sports	4,500	4,500					
40	Totals	1,100,00	504,500	320,000	125,000	44,000	37,000	69,500
41	Percent uncollectible		1%	4%	8%	25%	45%	80%
42	Estimate of uncollectible accounts	111,095	5,045	12,800	10,000	11,000	16,650	55,600

Prob. 9–2A (Concluded)

4.	Bad Debt Expense.....	112,500	
	Allowance for Doubtful Accounts.....		112,500
	Uncollectible accounts estimate. ($111,095 + $1,405)		

5. On the balance sheet, assets would be overstated by $112,500 since the allowance of doubtful accounts would be understated by $112,500. In addi
6. tion, the owner's capital account would be overstated by $112,500 since bad debt expense would be understated and net income overstated by $112,500 on the income statement.

Prob. 9–3A

1.

Year	Bad Debt Expense: Expense Actually Reported	Bad Debt Expense: Expense Based on Estimate	Bad Debt Expense: Increase (Decrease) in Amount of Expense	Balance of Allowance Account, End of Year
1st	$2,000	$ 5,250	$3,250	$ 3,250
2nd	3,400	6,750	3,350	6,600
3rd	6,450	9,000	2,550	9,150
4th	9,200	15,000	5,800	14,950

2. Yes. The actual write-offs of accounts originating in the first two years are reasonably close to the expense that would have been charged to those years on the basis of 3/4% of sales. The total write-off of receivables originating in the first year amounted to $4,800 ($2,000 + $1,800 + $1,000), as compared with bad debt expense, based on the percentage of sales, of $5,250. For the second year, the comparable amounts were $6,560 ($1,600 + $3,700 + $1,260) and $6,750.

Prob. 9–4A

1.

Note	(a) Due Date	(b) Interest Due at Maturity
1.	June 9	$300 ($45,000 × 60/360 × 4%)
2.	July 24	90 ($18,000 × 30/360 × 6%)
3.	Oct. 29	720 ($36,000 × 120/360 × 6%)
4.	Dec. 30	540 ($36,000 × 60/360 × 9%)
5.	Jan. 14	540 ($54,000 × 60/360 × 6%)
6.	Jan. 26	135 ($40,500 × 30/360 × 4%)

2.	Oct.	29	Accounts Receivable	36,720	
			Notes Receivable		36,000
			Interest Revenue		720
3.	Dec.	31	Interest Receivable	432	
			Interest Revenue		432
			Accrued interest.		
			$54,000 × 0.06 × 46/360 = $414		
			$40,500 × 0.04 × 4/360 = 18		
			Total $432		
4.	Jan.	14	Cash	54,540	
			Notes Receivable		54,000
			Interest Receivable		414
			Interest Revenue		126*
			*$54,000 × 0.06 × 14/360		
		26	Cash	40,635	
			Notes Receivable		40,500
			Interest Receivable		18
			Interest Revenue		117*
			*$40,500 × 0.04 × 26/360		

Prob. 9–5A

June	3	Notes Receivable	24,000	
		Accounts Receivable		24,000
July	26	Notes Receivable	27,000	
		Accounts Receivable		27,000
Aug.	2	Cash	24,160	
		Notes Receivable		24,000
		Interest Revenue		160
Sept.	4	Notes Receivable	60,000	
		Accounts Receivable		60,000
Nov.	3	Cash	60,300	
		Notes Receivable		60,000
		Interest Revenue		300
	5	Notes Receivable	36,000	
		Accounts Receivable		36,000
	23	Cash	27,450	
		Notes Receivable		27,000
		Interest Revenue		450
	30	Notes Receivable	18,000	
		Accounts Receivable		18,000
Dec.	5	Cash	36,210	
		Notes Receivable		36,000
		Interest Revenue		210
	30	Cash	18,075	
		Notes Receivable		18,000
		Interest Revenue		75

Prob. 9–6A

Jan.	5	Notes Receivable	17,500	
		Cash		17,500
Feb.	4	Accounts Receivable—Tedra & Co.	19,000	
		Sales		19,000
	4	Cost of Merchandise Sold	11,000	
		Merchandise Inventory		11,000
	13	Accounts Receivable—Centennial Co.	30,000	
		Sales		30,000
	13	Cost of Merchandise Sold	17,600	
		Merchandise Inventory		17,600
Mar.	6	Notes Receivable	19,000	
		Accounts Receivable—Tedra & Co.		19,000
	14	Notes Receivable	30,000	
		Accounts Receivable—Centennial Co.		30,000
Apr.	5	Notes Receivable	17,500	
		Cash	350	
		Notes Receivable		17,500
		Interest Revenue		350*
		*($17,500 × 8% × 90/360)		
May	5	Cash	19,190	
		Notes Receivable		19,000
		Interest Revenue		190*
		*($19,000 × 6% × 60/360)		
	13	Accounts Receivable—Centennial Co.	30,450	
		Notes Receivable		30,000
		Interest Revenue		450*
		*($30,000 × 9% × 60/360)		
July	12	Cash	31,059	
		Accounts Receivable—Centennial Co.		30,450
		Interest Revenue		609*
		*($30,450 × 12% × 60/360)		
Aug.	3	Cash	18,025	
		Notes Receivable		17,500
		Interest Revenue		525*
		*($17,500 × 9% × 120/360)		

Prob. 9–6A (Concluded)

Sept.	7	Accounts Receivable—Lock-It Co.	9,000	
		Sales		9,000
	7	Cost of Merchandise Sold	5,000	
		Merchandise Inventory		5,000
	17	Cash	8,910	
		Sales Discounts	90	
		Accounts Receivable—Lock-It Co.		9,000