

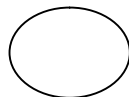
Accounting 212

Unit Four: Accounting for Bad debts and Provision Doubtful debts



.....: اسم الطالب:
.....: رقم الطالب:
.....: الصف:
.....: المدرسة:

الرقم التسلسلي



Chapter Two: Accounting for Bad Debts and Doubtful Debts

key term introduced

Bad debts:..... الديون المعدومة	Estimated: ثمن - قدر - قيم
Direct write- off: الإعدام المباشر للدين	Percentage: نسبة مؤوية
Doubtful debts: الديون المشكوك فيها	Aging: مقدر عمريا
Setting up Provision: تكوين مخصص	Great: يحدث - ينشأ
Decided: قرر	Modification:..... تعديل
Bankrupt: يفلس	Increasing: زيادة
Liquidation: تصفية	Recovery:..... إعادة تغطية

Accounts Receivable is amounts owed by customers on account they result from the sale of goods and services on credit. This type of credit is also called **Trade Credit**.

Bad Debt expenses: However, some customers may not be able to pay their full debt to the seller, so the debt is bad and it is called **Bad Debts Expenses**.

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Methods of uncollectible Accounts (Bad Debts)

First: Direct Write Off Method:.....

A. Write-off.

Example:

The adjustment entry:

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	Before	After
Ali	200	
Noor	500	
Rashid	300	
Account Receivable	1,000	

General Journal

Date	Explanation	L.F	Dr	Cr

Exercise 1:

Al Mahmood Service has total debtors of BD20,000. Khawla Company as one of the debtors required of BD650 which become bankrupt.

On December 31, 2010, Al Mahmood Service decided to write-off as bad debts.

Required:

Prepare the journal entries and Show the effect in the financial statement.

General Journal

Date	Explanation	L.F	Debit	Credit

Income statement
For the period ended 31st December2002

Balance sheet
As at 31st December2002

Exercise 2:

Nass Company made credit sales of BD100,000 during the year. In addition, the company wrote off BD4,500 of uncollectible accounts receivable in 30 September, 2010.

Required: Make the necessary entries.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 3:

On April 1, 2010 Hanadi found that her customer- Jehad who owed her BD2,250 become bankrupt, therefore, he is not able to pay her. She decided to write off the whole amount. As on December 31, 2010 the total balance in debtor's account was BD35,000.

Required:

A- Prepare the journal entries to record bad debt.

B- Show the effects on the Income statement and the Balance sheet

Solution:

General Journal

Date	Explanation	L.F	Debit	Credit

Income statement
For the period ended 31st December 2002

Balance sheet
As at 31st December 2002

B. Recovery of Bad Debts:

The adjustment entries of Recovery of Bad Debts:

A. Cancel the previous written-off entry:.....

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B. Record the receiving the money:

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General Journal			
Date	Explanation	Dr	Cr

Exercise 4:

On August 31st, 2010 the books of Fareed Trading show a balance of BD65,000 for Account Receivable. On October 15, 2010 one of accounts– Noor Company could not pay the balance of BD1,600 and decided to write off. On November 23, 2010 Noor Company made some profit and paid the amount due.

Required: Prepare the necessary journal entries.

General Journal				
Date	Explanation	L.F	Debit	Credit

Exercise 5:

On January 31, 2011 the books of Ahmed Trading shows a balance of BD36,400 for Acc. Receivable. On April 16, 2011 one of the accounts (Bader Trading) could not pay his balance of BD1,100 and decided to write off. On July 21, 2011 Bader Trading made some profit and paid BD350.

Required: Prepare the necessary journal entries.

Solution:

General Journal				
Date	Explanation	L.F	Debit	Credit

Exercise 6:

In June 16, 2011, Awal furniture after her bankruptcy on January 15th, 2011 informed as that she would be able to pay BD2,000 in her account. Previous BD4,000 was writing off on her account.

Required: Preparing the necessary journal entries.

General Journal				
Date	Explanation	L.F	Debit	Credit

Second: Accounting for Bad debts – Allowance Methods (Provision Method)

First: Creating Provision for Doubtful Debts:.....

The adjustment entries of the estimated Doubtful debts:

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General Journal				
Date	Explanation	L.F	Dr	Cr

Calculation of Provision for Doubtful Debts method:

Two bases are used to determine this amount:

1. Using Income Statement Approach:

$$\text{Provision for Doubtful debts} = \text{Credit sale} \times \text{Rate}$$

Exercise 7:

Dalal Computer Service credit sales of BD12,000 on May 31, 2011. Based on past experiences it was estimated that 2% of credit sales to be uncollectible.

Required: Prepare the necessary journal entries.

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General Journal				
Date	Explanation	L.F	Debit	Credit

Exercise 8:

Samarland Service has credit sales of BD200,000 on July 31 2011. Based on past experiences it was estimated that 1.5% of credit sales to be uncollectible.

Required: Prepare the necessary journal entries.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 9:

A. Fareeda Delivery Service had credit sales of BD1, 067,000, prior experience has revealed that 1% of theses sales will be uncollectible. Bad debt expose will be:

- a. BD 12,127
- b. BD11, 107.500
- c. BD 22,215.5
- d. BD18, 289.5

B. Sami Co. has the following sales: cash sales BD68, 000, credit sales BD740, Visa & Master card sales BD410, 800. Sami estimated bad debts to be 1.5% of credit sales. The amount of the allowance for doubtful debts is:

- a. BD 21,340
- b. BD10, 670
- c. BD 40,760
- d. None of them

2.Using Balance Sheet Approach:

Provision for Doubtful debts = Account receivable × Rate

a) **Percentage of Account Receivable methods:**.....

b) **Aging of account receivable method:**.....

Exercise 10:

Delmon Company makes credit sales of BD100, 000 during 2011.

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Net yet due	40,000	0.5%	
1- 30 day past due	25,000	1%	
31- 60 days past due	16,000	2%	
61 120 days past due	10,000	5%	
Over than 120 days past due	9,000	40%	
Total	100,000		

Required:

1. Compute the amount of provision for doubtful Debts in the table above.
2. Prepare the adjusting entry needed at 31st December, 2011.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 11:

Future Company has the following age groups and the estimated percentages probably:

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
1- 30 day past due	45,000	20%	
31- 60 days past due	30,000	30%	
61 120 days past due	25,000	50%	
Total	100,000		

The estimated amount of bad debts is:

- A. BD300,000
- B. BD305,000
- C. BD1,000,000
- D. BD500,000

Exercise 12:

The following information extracted from the account of Linon Co. uses the balance sheet method to estimate doubtful debts.

Aging Debtor's Schedule

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Not yet due	350,000	1%	
1-30 days past due	200,000	3%	
31-60 days past due	80,000	10%	
61-90 days past due	22,000	30%	
Over 90 days past due	40,000	50%	
Total accounts Receivable	692,000		

Required:

1. Compute the amount of provision for doubtful Debts in the table above.
2. Prepare the adjusting entry needed at 31st December, 2010.

Solution:

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 13:

The following information has taken from the books of Majeed Trading On 31st December, 2004 concerning the account Receivable ageing schedule:

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Less than one month	30,000	15%	
31- 60 days	15,000	25%	
61 90 days	9,000	50%	
Over 90 days	6,000	100%	
Total		

Required:

1. Compute the amount of provision for doubtful Debts in the table above.
2. Prepare the adjusting entry needed at 31st December, 2010.

Solution:

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 14:

The Red Flag Company uses the percent of sales method for estimating its bad debt expense. In 2007, the company made credit sale of BD300,000 and had sales return and allowances for credit of BD20,000. Approximately 2% of net sales have been uncollectible.

At the end of the year, before the bad debt expenses is recorded, the account receivable was BD45,000 and the credit balance in the allowance for uncollectible was BD300

Required:

1. Compute the bad debt expenses for 2007 using the percent of sales method.
2. Prepare journal entries to record all these events in 2007, including the bad debt expense.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Increasing in Provision for Doubtful Debts

The adjustment entry to record the estimated Doubtful Debts is:

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General Journal				
Date	Explanation	L.F	Dr	Cr

Note: under the **Income Statement Approach** the same amount is used whether or not there is a balance in provision for Doubtful Debts, however, a change in percentage figure would become appropriate and record as bad debts expenses.

Exercise 15:

Delmon Company makes credit sales of BD100, 000 during 2011.

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Net yet due	40,000	0.5%	
1- 30 day past due	25,000	1%	
31- 60 days past due	2,000	2%	
61 120 days past due	10,000	5%	
Over than 120 days past due	90,000	40%	
Total	100,000		

*** Assume that the company had a credit balance for Provision for doubtful debts BD400.

Required:

1. Compute the amount of provision for doubtful Debts in the table above.
2. Prepare the adjusting entry to maintain the provision for doubtful Debts to the proper amount at 31st December, 2011.

Solution:

General Journal				
Date	Explanation	L.F	Debit	Credit

Exercise 16: Sasmeh trading Co had the following balance on December, 31,2010:

Credit Sales	BD850.000
Cash Sales	BD700,000
Accounts Receivable	BD190,000
Provision for Doubtful Debts	BD250

Required:

Record the **Bad Debts expenses** for the year using each of the following methods for the estimate:

1. Provision for doubtful debts is to be increased to 3% of Accounts Receivable.
2. A bad debts expense is estimated to be 1% of sales on credit.
3. Provision for doubtful debts is to be increased to BD7,300 as indicated by aging schedule.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 17:

The following information was extracted from the books of Al-Fardan Company:

Total Credit Sales	BD550,000
Account Receivable	BD90,000
Allowance for Doubtful Debts	BD180

A) The company decided to increase the allowance to 1% using the Balance sheet Approach, then the journal entry is:

1. Bad Debts expenses	BD1,620	
Provision for Doubtful Debts		BD1,620
2. Bad Debts expenses	BD90,000	
Provision for Doubtful Debts		BD90,000
3. Bad Debts expenses	BD1,620	
Provision for Doubtful Debts		BD1,620
4. Bad Debts expenses	BD89,820	
Provision for Doubtful Debts		BD89,820

B) If the bad debt is estimated to be 1% of sales on credit, the journal entry will be:

1. Bad Debts expenses	BD5,500	
Provision for Doubtful Debts		BD5,500
2. Bad Debts expenses	BD180	
Provision for Doubtful Debts		BD180
3. Bad Debts expenses	BD90,000	
Provision for Doubtful Debts		BD90,000
4. Bad Debts expenses	BD1,620	
Provision for Doubtful Debts		BD1,620

Exercise 18:

The following information was extracted from the books of Al-Huda Company:

31st December, 2002 Account Receivable 8,500

31st December, 2003 Account Receivable 11,400

31st December, 2004 Account Receivable 19,200

The Provision for Doubtful debts is to be 5% using the Balance sheet Approach.

Required:

Prepare the necessary journal entries.

Solution:

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General Journal

Date	Explanation	LF	Debit	Credit

Exercise 19:

Nawara Trading Co. had the following balances at December 31, 2004.

Credit Sale	BD850,000
Account Receivable	BD150,000
Provision for Doubtful debts	BD 2500

Required:

Record the bad debts expense for the year using each of the following methods of estimate:

1. Provision for Doubtful debts to be increased to 3% of Accounts Receivable.
2. Provision for Doubtful debts to be increased to BD7300 as indicated by an ageing schedule.
3. A bad debts expense is estimated to be 1% of credit sales.

Solution:

1.

General Journal

Date	Explanation	L.F	Debit	Credit

2.

General Journal

Date	Explanation	L.F	Debit	Credit

3.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 20:

Samar Trading Co. had the following balances at December 31, 2004.

Credit Sale BD900,000

Account Receivable BD 170,000

Provision for Doubtful debts BD 2500

Required: Record the bad debts expense for the year using each of the following methods for the estimations:

1. Provision for Doubtful debts to be increased to 3% of Accounts Receivable.
2. Bad debts expenses are estimated to be 1% of credit sales.
3. Provision for doubtful debts to be increased by an amount equals to 1% of the credit Sale.

Solution:

1.

General Journal

Date	Explanation	L.F	Debit	Credit

2.

General Journal

Date	Explanation	L.F	Debit	Credit

3.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 21:

The following information has taken from the books of Majeed Trading On 31st December, 2010:

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
1- 30 day past due	30,000	4%	
31- 60 days past due	60,000	10%	
61 90 days past due	70,000	20%	
Over 90 days past due	90,000	40%	
Total			

* Prevision for Doubtful Debts balance was BD20,000.

Required:

Complete the following sentences:

- a) Total Account Receivable is BD.....
- b) The estimate amount of Bad Debts is BD.....
- c) The adjusting entry to bring the Prevision for Doubtful Debts is BD.....

Second: write-off the debt under Allowance Method.

The adjustment entry of written-off to doubtful debts is:

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General Journal				
Date	Explanation	L.F	Dr	Cr

Exercise 22:

Wala Trading company has credit sales of BD250,000 during the first year of operation. At the end of the first year BD50,000 of credit sales remained uncollected. Based on the experience of similar businesses, the company estimated that BD3,800 of its accounts receivable would be uncollectible. On December 31, 2010 the company decided that Fahad Est.'s balance of BD460 is uncollectible.

Required: Prepare the necessary journal entries

General Journal				
Date	Explanation	L.F	Debit	Credit

Exercise 23:

On December 31, 2004, Awal Corporation's unadjusted trial balance included the following items:

	Debit	credit
Acc. Receivable	210,000	
Provision for D/D		4,200

Adjustments:

Amounts of BD300 due from account receivable Salah who has now become bankrupt.

Required: Prepare the necessary journal entries.

Solution:

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 24:

Nabeel maintains a provision for doubtful debts equal of amount to 5% of the Account receivable outstanding at the end of each financial year.

From the following information prepare the necessary journal entries for the year of 2010:

* Total Account receivable on December 31, 2009 is BD44,500

* Debts written off as uncollectible in 2010:

- On 2nd February Yousif BD200
- On 7th May Ismaeel BD145
- On 23rd July Lyla BD40
- On 13th November Ryiad BD50

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 25:

The following information has taken from Al- Huda Company On 31st March, 2010:

Acc. Receivable 3,500
Provision for D/D 250

On 5 May, 2010 the company estimated that 10% of its debts would be uncollectible using the Balance sheet Approach.

On 25 August, 2010 it was decided to write-off a debt of BD220 as uncollectible.

Required: Prepare the necessary journal entries.

Solution:

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General Journal

Date	Explanation	LF	Debit	Credit

Exercise 26:

Amal Co. uses the Aging Debtor's schedule to estimate Bad Debts. An analysis of the Account Receivable at December 31,2010 produced the following age groups and the estimated percentage probably uncollectible:

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Not yet due	450,000	1%	
1- 30 day past due	180,000	4%	
31- 60 days past due	100,000	10%	
61 90 days past due	20,000	20%	
Over 90 days past due	30,000	40%	
Total	780,000		

The provision for Doubtful Debts showed a credit Balance of BD17,700.

Required:

1. Compute the estimated amount of Bad debts.
2. Prepare the adjusting entry needed.
3. On 15 April, 2011 it was decided to write-off a debt of BD3,600 as uncollectible. Prepare the necessary Journal entry.

Solution:

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General Journal

Date	Explanation	LF	Debit	Credit

Third: Bad Debts Recovery under Provision Method.

The adjustment entries to recording recovery of doubtful debts written-off are:

A. To cancel the previous write-off entry:.....

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B. To record the receiving the money:.....

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Exercise 27:

Waseem Co. had the following transactions involving bad debts in 2010 and 2011:

December 31, 2010	Records estimated Bad Debts expenses of BD8,500
May 05,2011	Wrote off Basam's account receivable of BD2,350
September 02, 2011	Basam won money and paid the amount due

Required:

Journalize the above transactions.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 28:

On December 31, 2003, Samar Co. has the following balances:

	Debit	credit
Acc. Receivable	130,000	
Provision for D/D		3,500

At the end of the year they are discovery that:

1. An amount of BD425 had previously write-off due from Ebrahim collected in full.
2. Al Eshraq Co. pays in full the amount of BD220 that had previously write-off.

Required: Prepare the necessary journal entries.

General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 29:

At 31st December 2010 an Acc. Receivable balance of BD20,000, It is the firm’s practice to have a Provision for Doubtful debts of 5% of the Acc. Receivable at the end of each year.

The other adjustment is giving below:

1. On Oct.15, 2011 a debt of BD400 write-off.
2. On Dec.20, 2011 a debts of BD50 previously write-off collected in full today.

Required: Prepare the necessary journal entries.

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General Journal

Date	Explanation	LF	Debit	Credit

Exercise 30:

At 1st January, 2010 an Acc. Receivable balance is BD18,500.

The other information is giving below:

1. Estimated of 5% against bad debts.
2. July 13 write-off Hisham due amount of BD150.
3. March 20 write-off Yousif due amount of BD500.
4. June 15 Hisham won money and paid the amount due.

Required:

Make the necessary journal entries.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 31:

Mahmood Co. has the Acc. Receivable of BD8, 500, at the beginning year of 2010.

The other information is giving below:

1. They want to create provision of 5% against the Doubtful debts.
2. Feb. 4 Doubtful debts of BD500 write-off.
3. May 2 A debts of BD150 previously write-off pays in full.

Required: Prepare the necessary journal entries.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 32:

Yousif Ahmad, whose debt of BD1,300 was written off five years ago, sends a payment of BD870 cash on May 10, 2010 representing payment in full with 5% simple interest. Make the necessary Journal entries.

Solution:

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General Journal

Date	Explanation	L.F	Debit	Credit

Exercise 33:

Al-Hashimi Co uses the Balance sheet approach to estimate their bad debts. An analysis of the Accounts Receivable on December 31, 2010 produced the following age groups and the estimated percentage probably uncollectible:

Age of debtor	Amount	Estimated Percent uncollectible	Estimated Amount uncollectible
Not yet due	51,000	1%	
1- 30 day past due	29,000	3%	
31- 60 days past due	12,000	10%	
61 90 days past due	3,000	20%	
Over 90 days past due	5,000	50%	
Total Accounts Receivable	100,000		

**Provision for Doubtful Debts has credit balance of BD2,300.

Required:

Using the above information, answer these question:

1. The adjusting entry required to bring the provision for Bad Debts to the proper amount is:

General Journal

Date	Explanation	L.F	Debit	Credit

2. Assume that the credits balance in the allowance for uncollectible is BD3,180 at the end of the year. The journal entry required to record write off is:

General Journal

Date	Explanation	L.F	Debit	Credit

3. Assume that on January 2, 2008, Al-Hashimi Co. learned that and Account Receivable of BD8,000 for Ali was worthless. The journal entry required to write off this account is:

General Journal

Date	Explanation	L.F	Debit	Credit

4. Assume that after 3 month Ali made some profit and paid the amount due. The journal entries to read this payment are:

General Journal

Date	Explanation	L.F	Debit	Credit

5. Assume that Provision for Bad debts is equal to the amount of 3% Account Receivable. The entry required is:

General Journal

Date	Explanation	L.F	Debit	Credit