**Model Answer**

# *Text Book Exercises*

## Exercises:

**Exercise (1-1):** Ahmed Company that uses the perpetual inventory system purchased merchandise for BD8,500 on May 25, 2020. Terms of the purchase were 2/10, n/30. The invoice was paid in full on June 4, 2020.

**Required:**

Prepare the journal entries to record these merchandise transactions.

**Solution:**

### GENERAL JOURNAL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| May 24 | Merchandise Inventory | | 8,500 | |
| | Account Payable | | | 8,500 |
| June 4 | Account Payable | | 8,500 | |
| | Merchandise Inventory (8,500 ×2%) | | | 170 |
| | Cash (8,500 – 170 ) | | | 8,330 |

**Exercise (1-2):**

Bader Company uses the perpetual inventory system and had the following transactions during October 2020:

Oct. 2: Purchased merchandise for BD5000. The seller credit terms are 4/10, n/30.

Oct. 6: Returned merchandise for BD300 worth of defective units on credit.

Oct. 8: Paid the amount due, less the returned items.

**Required:**

Prepare journal entries to record each of the preceding transactions.

**Solution:**

### GENERAL JOURNAL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Oct. 2 | Merchandise Inventory | | 5,000 | |
| | Account Payable | | | 5000 |
| Oct. 6 | Account Payable | | 300 | |
| | Merchandise Inventory | | | 300 |
| Oct. 8 | Account Payable (5000 – 300) | | 4,700 | |
| | Merchandise Inventory (4,700 ×4%) | | | 188 |
| | Cash (4700 – 188 ) | | | 4,512 |

## Exercise (1-3):

ABC Company computer sales uses the perpetual inventory system and had the following transactions during December 2020.

Dec. 1: Sold merchandise on credit for BD6,000, to customer Asmaa, terms 2/10, n/30. The items sold had a cost of BD5,400.

Dec. 2: Purchased merchandise for cash BD2,100.

Dec. 5: Issued a credit memorandum for BD300 to Asmaa who returned merchandise purchased on Dec 1. The returned items had a cost of BD270.

Dec. 8: Received full amount due from customer Asmaa.

**Required:**

Prepare journal entries to record each of the previous transactions.

**Solution:**

### GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 1 | Account Receivable - Asmaa | | 6,000 | |
| | Sales | | | 6,000 |
| | Cost of Goods Sold | | 5,400 | |
| | Merchandise Inventory | | | 5,400 |
| Dec. 2 | Merchandise Inventory | | 2,100 | |
| | Cash | | | 2,100 |
| Dec. 5 | Sales Returns and Allowance | | 300 | |
| | Account Receivable - Asmaa | | | 300 |
| | Merchandise Inventory | | 270 | |
| | Cost of Goods Sold | | | 270 |
| Dec. 8 | Cash (5700 – 114) | | 5586 | |
| | Sales Discount (5,700 ×2%) | | 114 | |
| | Account Receivable - Asmaa (6000-300) | | | 5,700 |

## Exercise (1-4):

Abdulla Company uses the perpetual inventory system and had the following sales transactions during April 2020:

April 2: Sold merchandise to Hassan Est, on credit for BD2,800, terms 1/15, n/60. The items sold had a cost of BD2,300.

April 5: Hassan Est, returned merchandise that had a selling price of BD400. The cost of the merchandise returned was BD370.

April 12: Hassan paid for the merchandise sold on April 2, taking appropriate discount earned.

**Required:**

Prepare the journal entries that Abdulla Company must make to record these transactions.

**Solution:**

### GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| April 2 | Account Receivable - Hassan | | 2,800 | |
| | Sales | | | 2,800 |
| | Cost of Goods Sold | | 2,300 | |
| | Merchandise Inventory | | | 2,300 |
| April 5 | Sales Returns and Allowance | | 400 | |
| | Account Receivable - Hassan | | | 400 |
| | Merchandise Inventory | | 370 | |
| | Cost of Goods Sold | | | 370 |
| April 12 | Cash (2400 – 24) | | 2,376 | |
| | Sales Discount (2,400 ×1%) | | 24 | |
| | Account Receivable - Hassan (2800-400) | | | 2,400 |

**Exercise (1-5):**

Mariam's Bike Shop uses the perpetual inventory system and had the following transactions during the month of May 2020:

May 3: Sold merchandise to a customer Fatmah on credit for BD600, terms 2/10, n/30. The cost of the merchandise sold was BD450.

May 5: Sold merchandise to a customer for cash of BD425. The cost of the merchandise was BD275.

May 7: Sold merchandise to a customer Salah on credit for BD1,300, terms 2/10, n/30. The cost of the merchandise sold was BD980.

May 11: Received the amount due from a customer Fatmah, less any Appropriate discounts earned.

May 11: Customer Salah paid the amount due, less any Appropriate discounts earned.

**Required:**

Prepare the required journal entries that Mariam's Bike Shop must make to record these transactions.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| May 3 | Account Receivable - Fatmah | | 600 | |
| | Sales | | | 600 |
| | Cost of Goods Sold | | 450 | |
| | Merchandise Inventory | | | 450 |
| May 5 | Cash | | 425 | |
| | Sales | | | 425 |
| | Cost of Goods Sold | | 275 | |
| | Merchandise Inventory | | | 275 |
| May 7 | Account Receivable - Salah | | 1,300 | |
| | Sales | | | 1,300 |
| | Cost of Goods Sold | | 980 | |
| | Merchandise Inventory | | | 980 |
| May 11 | Cash (600 – 12) | | 588 | |
| | Sales Discount (600 ×2%) | | 12 | |
| | Account Receivable – Fatmah | | | 600 |
| May 11 | Cash (1300 – 26) | | 1,274 | |
| | Sales Discount (1,300×2%) | | 26 | |
| | Account Receivable – Salah | | | 1,300 |

## Exercise (1-6):

**Prepare journal entries** to record the following merchandising transactions of Dean Company, which applies the perpetual inventory system. Dean Company offers all of its credit sales to customers credit terms of 2/10, n/30.

March 01: Purchased merchandise from Awal Company for BD13,500 under credit term 1/10, n/25.

March 02: Sold merchandise to customer Ebrahim on credit for BD26,000. The cost of the merchandise sold was BD22,000.

March 05: Received an BD1,500 credit memorandum from Awal Company for the return merchandise purchased on March 1.

March 06: Paid full due to Awal Company.

March 13: Received the amount due from customer Ebrahim.

March 15: Sold merchandise to customer Alaa on credit for BD37,400. The merchandise sold had cost BD33,400.

March 16: Issued a credit memorandum BD1,400 to customer Alaa for return merchandise sold on March 15. The cost of the merchandise returned was BD950.

March 23: Received the balance due from customer Alaa within the customer Period.

**Solution:**

## GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| March 1 | Merchandise Inventory | | 13,500 | |
| | Account Payable (Awal) | | | 13,500 |
| March 2 | Account Receivable - Ebrahim | | 26,000 | |
| | Sales | | | 26,000 |
| | Cost of Goods Sold | | 22,000 | |
| | Merchandise Inventory | | | 22,000 |
| March 5 | Account Payable (Awal) | | 1,500 | |
| | Merchandise Inventory | | | 1,500 |
| March 6 | Account Payable (Awal) (13500 - 1500) | | 12,000 | |
| | Merchandise Inventory (12000×1%) | | | 120 |
| | Cash | | | 11,880 |
| March 13 | Cash | | 26,000 | |
| | Account Receivable - Ebrahim | | | 26,000 |
| March 15 | Account Receivable - Alaa | | 37,400 | |
| | Sales | | | 37,400 |
| | Cost of Goods Sold | | 33,400 | |
| | Merchandise Inventory | | | 33,400 |
| March 16 | Sales returns and Allowance | | 1,400 | |
| | Account Receivable - Alaa | | | 1,400 |
| | Merchandise Inventory | | 950 | |
| | Cost of Goods Sold | | | 950 |
| March 23 | Cash (36000– 720) | | 35,280 | |
| | Sales Discount (36,000×2%) | | 720 | |
| | Account Receivable – Alaa (37,400– 1,400) | | | 36,000 |

## Exercise (1-7):

Osama operates a new sportswear Est, on Jan 1, 2020. The following transactions were completed during Jan 2020.

Jan. 1: Purchased golf discs and bags for BD6,000 on account from Galaxy Company.

Jan. 2: Received credit memorandum from Galaxy Company for merchandise Returned BD200.

Jan. 5: Sold golf shirts on account to customer Essa for BD14,000. The cost of the merchandise sold was BD12,500.

Jan. 7: Retuned merchandise from customer Essa for BD800. That cost was BD600.

Jan. 10: Received the balance due from customer Essa.

Jan. 12: Sold merchandise to customers BD15,000 for cash. The cost of the merchandise sold was BD13,100.

**Required:**

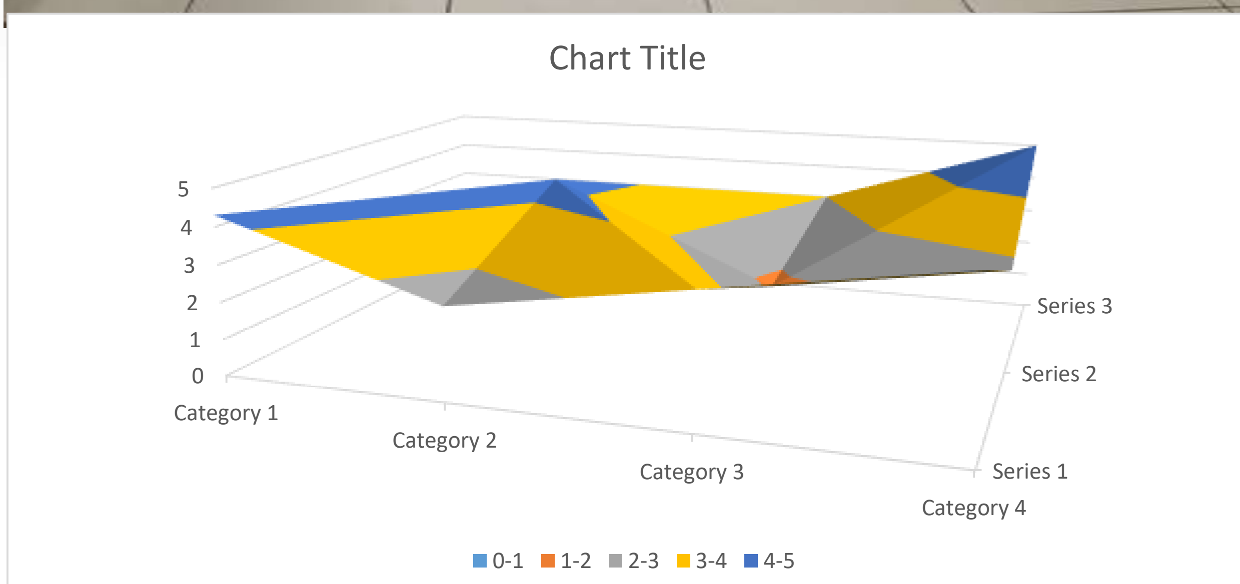
Prepare the required journal entries that Osama operates a new sportswear Est, must make to record these transactions. (Uses the perpetual inventory system)

**Solution:**

## GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Jan. 1 | Merchandise Inventory | | 6,000 | |
| | Account Payable (Galaxy) | | | 6,000 |
| Jan. 2 | Account Payable (Galaxy) | | 200 | |
| | Merchandise Inventory | | | 200 |
| Jan. 5 | Account Receivable - Essa | | 14,000 | |
| | Sales | | | 14,000 |
| | Cost of Goods Sold | | 12,500 | |
| | Merchandise Inventory | | | 12,500 |
| Jan. 7 | Sales returns and Allowance | | 800 | |
| | Account Receivable - Essa | | | 800 |
| | Merchandise Inventory | | 600 | |
| | Cost of Goods Sold | | | 600 |
| Jan. 10 | Cash | | 13,200 | |
| | Account Receivable (14000 – 800) | | | 13,200 |
| Jan. 12 | Cash | | 15,000 | |
| | Sales | | | 15,000 |
| | Cost of Goods Sold | | 13,100 | |
| | Merchandise Inventory | | | 13,100 |

# Chapter (2): Journal Entries for Merchandising Business - Periodic Inventory System

# Model Answers

# *Text Book Exercises*

## Exercises:

### Exercise (2-1):

On February 5, 2020, Salma Company that uses a periodic inventory system sold merchandise for BD22,000 to customer Ayman, terms of the sales were 1/15, n/25. On February 7, 2020, customer Ayman returned merchandise for BD2,000. Salma received in full due from customer Ayman on February 9, 2020.

**Required:**

Prepare the journal entries to record these merchandise transactions.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Feb. 5 | Account Receivable - Ayman | | 22,000 | |
| | Sales | | | 22,000 |
| Feb. 7 | Sales Returns and Allowance | | 2,000 | |
| | Account Receivable - Ayman | | | 2,000 |
| Feb. 9 | Cash | | 19,800 | |
| | Sales Discount (20,000 × 1%) | | 200 | |
| | Account Receivable – Ayman (22,000 – 2,000) | | | 20,000 |

### Exercise (2-2):

Majda Est, uses a periodic inventory system and had the following transactions during June 2020:

June 3: Purchased merchandise for BD9,800 with credit terms are 1/15, n/30.

June 7: Returned purchased merchandise for BD800 on credit.

June 9: Paid the amount due, less the returned items.

June 10: Purchased merchandise BD3,200 for cash.

**Required:**

Prepare journal entries to record each of the preceding transactions.

**Solution:**

## GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| June 3 | Purchases | | 9,800 | |
| | Account Payable | | | 9,800 |
| June 7 | Account Payable | | 800 | |
| | Purchases Returns and Allowance | | | 800 |
| June 9 | Account Payable (9,800 – 800) | | 9,000 | |
| | Purchases Discount (9000 ×1%) | | | 90 |
| | Cash (9000 - 90) | | | 8,910 |
| June 10 | Purchases | | 3,200 | |
| | Cash | | | 3,200 |

## Exercise (2-3):

Mai Company Electronic sales uses a periodic inventory system and had the following transactions during November 2020.

Nov. 1: Sold merchandise on credit for BD7,400, to customer Jassim, terms 4/10, n/20.

Nov. 2: Purchased merchandise for cash BD3,300.

Nov. 5: Issued a credit memorandum for BD400 to customer Jassim, who returned merchandise purchased on Nov 1.

Nov. 8: Received full amount due from customer customer Jassim.

**Required:**

Prepare journal entries to record each of the previous transactions.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Nov. 1 | Account Receivable - Jassim | | 7,400 | |
| | Sales | | | 7,400 |
| Nov. 2 | Purchases | | 3,300 | |
| | Cash | | | 3,300 |
| Nov. 5 | Sales Returns and Allowance | | 400 | |
| | Account Receivable - Jassim | | | 400 |
| Nov. 8 | Cash | | 6,720 | |
| | Sales Discount (7,000 × 4%) | | 280 | |
| | Account Receivable – Jassim (7,400 – 400) | | | 7,000 |

## Exercise (2-4):

Raja Company uses a periodic inventory system and had the following sales transactions during July 2020:

July 1: Sold merchandise to Dana Est, on credit for BD8,000, terms 2/10,n/30.

July 4: Dana Est, returned merchandise that had a selling price of BD400.

July 7: Dana paid for the merchandise purchased on July 1, taking appropriate discount earned.

**Required:**

Prepare the journal entries that Raja Company must make to record these transactions.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| July 1 | Account Receivable - Dana | | 8,000 | |
| | Sales | | | 8,000 |
| July 4 | Sales Returns and Allowance | | 400 | |
| | Account Receivable - Dana | | | 400 |
| July 7 | Cash | | 7448 | |
| | Sales Discount (7,600 × 2%) | | 152 | |
| | Account Receivable – Dana (8,000 – 400) | | | 7,600 |

## Exercise (2-5):

Khoola's Shop uses a periodic inventory system and had the following transactions during the month of August 2020:

Aug. 1: Sold merchandise to a customer Hala on credit for BD3,600, terms 1/15, n/60.

Aug. 4: Sold merchandise to a customer for cash of BD5,100.

Aug. 8: Sold merchandise to a customer Zainab on credit for BD9,200, terms 2/10, n/30.

Aug. 9: Received the amount due from a customer Hala, less any appropriate discounts earned.

Aug. 12: Customer Zainab paid the amount due, less any Appropriate discounts earned.

**Required:**

Prepare the required journal entries that Khoola's Shop must make to record these transactions.

**Solution:**

### GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Aug. 1 | Account Receivable - Hala | | 3,600 | |
| | Sales | | | 3,600 |
| Aug. 4 | Cash | | 5,100 | |
| | Sales | | | 5,100 |
| Aug. 8 | Account Receivable - Zainab | | 9,200 | |
| | Sales | | | 9,200 |
| Aug. 9 | Cash | | 3,564 | |
| | Sales Discount (3,600 × 1%) | | 36 | |
| | Account Receivable –Hala | | | 3,600 |
| Aug. 12 | Cash | | 9016 | |
| | Sales Discount (5,100 × 2%) | | 184 | |
| | Account Receivable – Zainab | | | 9200 |

## Exercise (2-6):

**Prepare journal entries** to record the following merchandising transactions of Nada Company, which applies a periodic inventory system. Nada Company offers all of its credit sales to customers credit terms of 1/15, n/60.

Sept. 1: Purchased merchandise from Ranah Company for BD39,000 under credit term 2/10, n/20.

Sept. 2: Sold merchandise to Wafa Est, on credit for BD21,000.

Sept. 5: Received an BD 2,000 credit memorandum from Ranah Company for the return merchandise purchased on Sept. 1.

Sept. 6: Paid full due to Ranah Company.

Sept. 13: Received the amount due from Wafa Est,.

Sept. 15: Sold merchandise to customer Sakina Est, on credit for BD12,600.

Sept. 16: Issued a credit memorandum BD1,600 to customer Sakina Est, for return merchandise sold on Sept. 15.

Sept. 23: Received the balance due from customer Sakina Est, within the discount period.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and xplanation | PR | Debit | Credit |
|---|---|---|---|---|
| Sept. 1 | Purchases | | 39,000 | |
| | Account Payable - Ranah | | | 39,000 |
| Sept. 2 | Account Receivable - Wafa | | 21,000 | |
| | Sales | | | 21,000 |
| Sept. 5 | Account Payable - Ranah | | 2,000 | |
| | Purchases Returns and Allowance | | | 2,000 |
| Sept. 6 | Account Payable – Ranah (39000 – 2000) | | 37,000 | |
| | Purchases Discount (37000×2%) | | | 740 |
| | Cash | | | 36,260 |
| | | | | |

| | | | | |
|---|---|---|---|---|
| Sept. 13 | Cash | | 20,790 | |
| | Sales Discount (21000 × 1%) | | 210 | |
| | Account Receivable – Wafa | | | 21,000 |
| Sept. 15 | Account Receivable - Sakina | | 12,600 | |
| | Sales | | | 12,600 |
| Sept. 16 | Sales Returns and Allowance | | 1,600 | |
| | Account Receivable - Sakina | | | 1,600 |
| Sept. 23 | Cash | | 10890 | |
| | Sales Discount (11000 × 1%) | | 110 | |
| | Account Receivable – Sakina (12600 – 1600) | | | 11,000 |

## **Exercise (2-7):**

Hamad operates sales cleaning material shop, on January 1 2020. The following transactions were completed during Jan 2020.

Jan. 1: Purchased merchandise for BD9,700 on account from Hana Co.

Jan. 2: Received credit memorandum from Hana Company for merchandise Returned BD700.

Jan. 5: Sold merchandise on account to customer Sultan for BD18,900.

Jan. 7: Retuned merchandise from customer Sultan for BD900.

Jan. 10: Received the balance due from customer Sultan.

Jan. 12: Sold merchandise to customers BD27,000 for cash.

**Required:**

Prepare the required journal entries that Hamad operates a new sportswear Est must make to record these transactions. (Uses a periodic inventory system).

**Solution:**

## GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Jan. 1 | Purchases | | 9,700 | |
| | Account Payable - Hana | | | 9,700 |
| Jan. 2 | Account Payable - Hana | | 700 | |
| | Purchases Returns and Allowance | | | 700 |
| Jan. 5 | Account Receivable - Sultan | | 18,900 | |
| | Sales | | | 18,900 |
| Jan. 7 | Sales Returns and Allowance | | 900 | |
| | Account Receivable - Sultan | | | 900 |
| Jan.10 | Cash (18,900 – 900) | | 18,000 | |
| | Account Receivable - Sultan | | | 18,000 |
| Jan.12 | Cash | | 27,000 | |
| | Sales | | | 27,000 |

# Chapter (3): Accounting For Receivable

## Model Answers

# *Text Book Exercises*

## Exercises:

### Exercise (3-1):

On Jan 5, 2020, Nass Company made credit sales of BD90,000. The company wrote off BD4,500 of uncollectible accounts receivable in Jan 31, 2020.

**Required**:

Prepare the necessary journal entry for bad debts.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Jan. 31 | Bad Debts expenses | | 4,500 | |
| | Account Receivable | | | 4,500 |

### Exercise (3-2):

On August 31, 2020 the book of Ahlam Trading shows a balance of BD65,000 for Accounts Receivable. On October 15, 2020 one of the accounts – Noor Company could not pay BD1,600 and the company wrote off her balance to be uncollectible. On November 23, 2020, Noor Company made some profit and paid the amount due.

**Required**:

Prepare the necessary journal entries.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Oct. 15 | Bad Debts expenses | | 1,600 | |
| | Account Receivable (Noor) | | | 1,600 |
| Nov. 23 | Account Receivable (Noor) | | 1,600 | |
| | Bad Debts Expense (Recovery) | | | 1,600 |
| Nov. 23 | Cash | | 1,600 | |
| | Account Receivable (Noor) | | | 1,600 |

## Exercise (3-3):

On January 31, 2020 the books of Rashid Trading shows a balance of BD36,400 for Accounts Receivable. On April 16, 2019 one of the accounts (Bader Trading) could not pay his balance of BD1,100. On July 21, 2019 Bader Trading made some profit and paid BD350.

**Required**:

Prepare the necessary journal entries.

**Solution:**

### GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| April 16 | Bad Debts expenses | | 1,100 | |
| | Account Receivable (Bader) | | | 1,100 |
| July 21 | Account Receivable (Noor) | | 350 | |
| | Bad Debts Expense (Recovery) | | | 350 |
| July 21 | Cash | | 350 | |
| | Account Receivable (Bader) | | | 350 |

## Exercise (3-4):

On April 1, 2020, Hanadi found that her customer – Jehad who owed her BD2,500 became bankrupt, therefore, he is not able to pay her. She decided to write off the whole amount. As on April 30, 2020, the total balance in account receivable was BD12,000.

**Required**:

1- Prepare the Journal entries to record the bad debts.

**Solution:**

### GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| April 1 | Bad Debts expenses | | 2,500 | |
| | Account Receivable (Jehad) | | | 2,500 |

## <u>Exercise (3-5):</u>

Almanama Co. uses the balance sheet approach to estimate bad debts. An analysis of the Accounts Receivable at December 31, 2020 produced the following age groups and the estimated percentage probably uncollectible:

| Period | Accounts Receivable (BD) | Provision % | Provision for doubtful debts (BD) |
|---|---|---|---|
| Not yet due | 40,000 | 1% | **400** |
| 1 - 30 days past due | 20,000 | 4% | **800** |
| 31 - 60 days past due | 13,000 | 10% | **1,300** |
| 61 - 90 days past due | 7,000 | 30% | **2,100** |
| Over 90 days past due | 3,000 | 50% | **1,500** |
| **Total** | **(a)** | | **6,100** |

Prior to adjustments at December 31, 2020 allowance for Doubtful Debts showed a **credit balance** of BD1,200.

**<u>Required</u>**:

a) Compute the estimated amount of Bad Debts.(insert the answer in the above table)

b) Prepare the adjusting entry to bring the allowance for doubtful debts to the proper amount.

c) Assume that on May 17 2020 Kholood Est. learned that an account receivable of BD400 was worthless. Prepare the journal entry required to write off this amount receivable.

**Solution:**

## GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| (b) | Bad Debts Expense (6100 – 1200) | | 4,900 | |
| | Allowance for Doubtful Accounts | | | 4,900 |
| ( c ) | Allowance for Doubtful Accounts | | 400 | |
| | Account Receivable ( Kholood) | | | 400 |

## Exercise (3-6):

Asia Company uses the balance sheet approach to estimate bad debts. An analysis of the accounts receivable at 31st December, 2020 produced the following age groups and the estimated percentage probably uncollectible:

| Period | Accounts Receivable (BD) | Provision | Amount of Provision (BD) |
|---|---|---|---|
| Net yet due | 50,000 | 2% | **1,000** |
| 1-30 days past due | 30,000 | 5% | **1,500** |
| 31-60 days past due | 18,000 | 15% | **2,700** |
| 61-90 days past due | 12,000 | 20% | **2,400** |
| Over 90 days past due | 10,000 | 40% | **4,000** |
| **Total** | **(1)** | | **11,600** |

Prior to adjustments at 31st December, 2020 the allowance for doubtful debts showed **a debit balance** of BD2,500.

**Required:**

1- Compute the estimated amount of Bad Debts.
2- Show the Journal entry to maintain the provision for doubtful debts to the proper.
3- Show the Journal entry to record write off BD 800.

4- Show the Journal entry to record recovery BD 600.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 | Bad Debts Expense (11600 + 2500) | | 14,100 | |
| | Allowance for Doubtful Accounts | | | 14,100 |
| Dec. 31 | Allowance for Doubtful Accounts | | 800 | |
| | Account Receivable | | | 800 |
| Dec. 31 | Account Receivable | | 600 | |
| | Allowance for Doubtful Accounts | | | 600 |
| Dec. 31 | Cash | | 600 | |
| | Account Receivable | | | 600 |

## Exercise (3-7):

Waseem CO. had the following transactions involving bad debts in 2019 and 2020:

| | |
|---|---|
| December 31, 2019 | Records estimated Bad Debt Expense of BD8,500. |
| May 05, 2020 | Wrote off Basam's account receivable of BD2,350 as uncollectible. |
| September 02, 2020 | Basam won money and paid the amount due. |

**Required**:

Journalize the above transactions.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 2019 | Bad Debts Expense | | 8,500 | |
| | Allowance for Doubtful Accounts | | | 8,500 |
| May 5 2020 | Allowance for Doubtful Accounts | | 2,350 | |
| | Account Receivable (Basam) | | | 2,350 |
| Sept. 2 | Account Receivable (Basam) | | 2,350 | |
| | Allowance for Doubtful Accounts | | | 2,350 |
| Sept. 2 | Cash | | 2,350 | |
| | Account Receivable (Basam) | | | 2,350 |

**Exercise (3-8):**

Sameh Trading Co. had the following balances on December, 31, 2020:

| | |
|---|---|
| Credit Sales | BD850,000 |
| Cash Sales | BD700,000 |
| Accounts Receivable | BD190,000 |
| Allowance for Doubtful Debts | BD250 (Credit Balance) |

**Required**:

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

1. Allowance for doubtful debts is to be increased to 3% of Accounts Receivable.
2. Bad debts expense is estimated to be 1% of sales on credit.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 | Bad Debts Expense (190000×3%) - 250 | | 5,450 | |
| | Allowance for Doubtful Accounts | | | 5,450 |
| Dec. 31 | Bad Debts Expense (850000×1%) | | 8,500 | |
| | Allowance for Doubtful Accounts | | | 8,500 |

## Exercise (3-9):

On September 12, 2020, Tahani Travel Agency sold an airline ticket for BD450 to a customer who paid with **Master Card**. If the services charge is 2% the company will receive only BD441 and the BD9 is credit card expense.

**Required**:

Make the necessary journal entry.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Sept. 12 | Cash | | 441 | |
| | Credit Card Expense (450 ×2%) | | 9 | |
| | Service Revenues | | | 450 |

## Exercise (3-10):

On August 14, Ajyad Company made a sale of BD1,200 to a customer who used **Visa card**. The credit Card company makes a services charge of 3%. On August 21, Ajyad Company also made a sale of BD900 to a customer who used an **American Express card**. The credit Card company makes a services charge of 4%.

**Required:**

Prepare Journal entries for Manama Company for the two sales.

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Aug. 14 | Cash | | 1,164 | |
| | Credit Card Expense (1200 ×3%) | | 36 | |
| | Sales | | | 1,200 |
| Aug. 21 | Accounts Receivable | | 864 | |
| | Credit Card Expense (900 ×4%) | | 36 | |
| | Sales | | | 900 |

## Exercise (3-11):

**Choose the correct answer:**

(A) Future Company has the following age groups and the estimated percentages probably uncollectible:

| Age Group | Amount (BD) | Estimated Percent Uncollectible | Estimated Amount Uncollectible (BD) |
|---|---|---|---|
| 1-30 days past due | 450,000 | 20% | **90,000** |
| 31-60 days past due | 300,000 | 30% | **90,000** |
| 61-90 days past due | 250,000 | 50% | **125,000** |

The estimated amount of bad debts is:

- BD300,000
- BD305,000 ✓ ( 90000 + 90000 + 125000)
- BD1,000,000
- BD500,000

(B) The following information were extracted from the books of Al-Fateh Co.:

| | |
|---|---|
| Total Credit Sales | BD550,000 |
| Accounts Receivable | BD90,000 |
| Allowance for Doubtful Debts | BD180 |

The company decided to increase the allowance to 2% using the Balance Sheet Approach, then the journal entry is: (90,000 × 2%) – 180 =BD1,620

- Bad Debts Expense BD1,620 ✓
  Allowance for Doubtful Debts BD1,620 ✓
- Bad Debts Expense BD180
  Allowance for Doubtful Debts BD180
- Bad Debts Expense BD90,000
  Allowance for Doubtful Debts BD90,000
- Bad Debts Expense BD89,820
  Allowance for Doubtful Debts BD89,820

(C) If the bad debt is estimated to be 1% of sales on credit, the journal entry will be: (550000 × 1%) = BD5500

- Bad Debts Expense BD5,500 ✓
  Allowance for Doubtful Debts BD5,500 ✓
- Bad Debts Expense BD180
  Allowance for Doubtful Debts BD180
- Bad Debts Expense BD90,000
  Allowance for Doubtful Debts BD90,000
- Bad Debts Expense BD1,620
  Allowance for Doubtful Debts BD1,620

(D) Fareeda Delivery Services had credit sales of BD1,067,000, prior experience has revealed that 1% of these sales will be uncollectible. Bad debt expense will be: (1,067,000 × 1%)

- BD21,340
- BD10,670 ✓
- BD40,760
- None of them

(E) Sami Co. has the following sales: cash sales BD68,000, credit sales BD740,500, 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: (740000 × 1.5%)

- BD12,127
- BD11,107.500 ✓
- BD22,215.5
- BD18,289.5

(F) Baker Co. had a beginning allowance of BD7,500 credit on January 1, 2009 and ending balance of BD8,900 at December 31, 2009. Bad debt expense for the year 2009 was BD19,700. The write off bad debts during 2009 were:

- BD21,100
- BD19,700
- BD18,300 ( 7500 + 19700 – 8900) ✓
- BD89,000

# *Text Book Exercises*

# Exercises:

## Exercise (4-1):

Al Ahmedy Company purchased a new machine at BD54,000 on January 1, 2018. The company paid BD5,400 for shipping and taxing, and BD6,600 for insurance. The machine is expected to have a salvage value of BD6,000 at the end of its 4 years useful life. The company uses the **Double Declining Balance Method** to compute the depreciation.

**Required**:

a) Compute the acquisition cost of the machine.
b) Prepare the depreciation schedule for the 4 years
c) Record the journal entry at December 31, 2019.

**Solution**

(a) Cost = 54,000 + 5,400 + 6,600 = BD66000

(b) Depreciation Rate = $\frac{100}{useful\ life} \times 2 = \frac{100}{4} \times 2 = 50\%$

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Beginning Book Value | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/1/2018 | - | - | - | - | 66,000 |
| 31/12/2018 | 66,000 | 50% | 33,000 | 33,000 | 33,000 |
| 31/12/2019 | 33,000 | 50% | 16,500 | 49,500 | 16,500 |
| 31/12/2020 | 16,500 | 50% | 8,250 | 57,750 | 8,250 |
| 31/12/2021 | 8,250 | 50% | 2,250* | 60,000 | 6,000 |

Notes : * Computation year 2021 depreciation expense of **BD2,250* = (8,250 – 6,000)**. Never depreciate book value below salvage value.

### (c) GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec, 31 2019 | Depreciation Expense - Machine | | 16,500 | |
| | Accumulated Depreciation | | | 16,500 |

## Exercise (4-2):

On Jan 1, 2017, Gehad Company acquired a delivery truck at a cost of BD24000. The truck is expected to have a salvage value BD2000 at the end of its 4-year useful life.

**Required**:

a) Compute annual depreciation for the first and second years using the **straight-line method.**

b) Assuming the declining-balance depreciation rate is double the straight-line rate. Compute annual depreciation for the first and second year under the declining-balance method.

**Solution:**

(a) Depreciable Cost = 24,000 – 2,000 = BD22,000

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Depreciable Cost | Useful life | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/1/2017 | - | - | - | - | 24,000 |
| 31/12/2017 | 22,000 | 4 | 5,500 | 5,500 | 18,500 |
| 31/12/2018 | 22,000 | 4 | 5,500 | 11,000 | 13,000 |
| 31/12/2019 | 22,000 | 4 | 5,500 | 16,500 | 7,500 |
| 31/12/2020 | 22,000 | 4 | 5,500 | 22,000 | 2,000 |

(b) Depreciation Rate = $\frac{100}{useful\ life} \times 2 = \frac{100}{4} \times 2 = 50\%$

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Beginning Book Value | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/1/2017 | - | - | - | - | 24,000 |
| 31/12/2017 | 24,000 | 50% | 12,000 | 12,000 | 12,000 |
| 31/12/2018 | 12,000 | 50% | 6,000 | 18,000 | 6,000 |

## Exercise (4-3):

Nada Company purchased a delivery truck for BD34,000 on Jan 1, 2017. The truck has an expected salvage value of BD2,000, and is expected to be driven 100,000 miles over its estimated useful life of 5 years. Actual miles driven were 30,000 in 2017, 25,000 in 2018, 20,000 in 2019, 15,000 in 2020 and 10,000 in 2021.

**Required**:

A. Find the depreciation and net book value for 5 years by using the **Units of Activity method.**

B. Prepare the journal Entry for the first year (December 31$^{st}$, 2017)

C. IF purchased a delivery truck **on March 31, 2017** instead of Jan 1, 2017.Compute the depreciation and net book value for 2017 and 2018.

**Solution:**

A) Depreciation cost per unit = $\frac{\text{Cost} - \text{Salvage Value}}{\text{Total Units of Production}} = \frac{34{,}000 - 2{,}000}{100{,}000} =$ BD0.32 / mile

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Number of Units | Depreciation cost per unit | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/1/2017 | - | - | - | - | 34,000 |
| 31/12/2017 | 30,000 | 0.32 | 9,600 | 9,600 | 24,400 |
| 31/12/2018 | 25,000 | 0.32 | 8,000 | 17,600 | 16,400 |
| 31/12/2020 | 20,000 | 0.32 | 6,400 | 24,000 | 10,000 |
| 31/12/2021 | 15,000 | 0.32 | 4,800 | 28,800 | 5,200 |
| 31/12/2022 | 10,000 | 0.32 | 3,200 | 32,000 | 2,000 |

### B) GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 2017 | Depreciation Expense - delivery truck | | 9,600 | |
| | Accumulated Depreciation | | | 9,600 |

C) Same answer when purchases assets on Jan. 1, because that method depend on units of activity

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Number of Units | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 31/03/2017 | - | - | - | - | 34,000 |
| 31/12/2017 | 30,000 | 0.32 | 9,600 | 9,600 | 24,400 |
| 31/12/2018 | 25,000 | 0.32 | 8,000 | 17,600 | 16,400 |

## Exercise (4-4):

Faisal Est. bought a new furniture on **May 31, 2018**. Use information to answer.

| | |
|---|---|
| **Cost Price** | **BD 64000** |
| **Fright cost** | **BD 2500** |

| | |
|---|---|
| **Salvage Value** | **BD 2000** |
| **Useful Life** | **5 years** |

**Required**:

A. Find the **Double Declining** Depreciation **Rate**:

B. Calculate the Acquisition cost.

C. Calculate the Depreciation Expense and Net Book Value for 5 years.

**Solution:**

A) Depreciation Rate = $\frac{100}{useful\ life} \times 2 = \frac{100}{5} \times 2 = 40\%$

B) Acquisition cost = 64000 + 2500 = BD66,500

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Beginning Book Value | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 31/5/2018 | - | - | - | - | 66,500 |
| 31/12/2018 | 66,500 | $40\% \times \frac{7}{12}$ | 15,516.667 | 15,516.667 | 50983.333 |
| 31/12/2019 | 50983.333 | 40% | 20,393.333 | 35910 | 30,590 |
| 31/12/2020 | 30,590 | 40% | 12,236 | 48,146 | 18,354 |
| 31/12/2021 | 18,354 | 40% | 7,341.6 | 55,487.6 | 11,012.4 |
| 31/12/2022 | 11,012.4 | 40% | 4404.96 | 59,892.56 | 6607.44 |
| 31/5/2023 | 6607.44 | 40% | 4607.44* | 64,500 | 2,000 |

## Exercise (4-5):

ABC hospital bought new medical equipment on June 1st, 2018. Relevant information is given below:

| Cost Price | Transportation cost | Insurance fees | Useful Life | Scrap Value |
|---|---|---|---|---|
| BD35000 | BD2500 | BD500 | 4 Years | BD2000 |

**Required**:

A) Find the depreciation and net book value for 4 years by using the **Straight Line Method**:

B) Prepare the journal Entry for the first year (December 31st, 2018).

**Solution:**

A) Acquisition cost = 35000 + 2500 + 500 = BD38,000

Depreciable Cost = 38000 – 2000 = BD36000

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Depreciable Cost | ÷Useful life | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/6/2018 | - | - | - | - | 38,000 |
| 31/12/2018 | 36,000 | $\div 4 \times \frac{7}{12}$ | 5250 | 5,250 | 32,750 |
| 31/12/2019 | 36,000 | ÷4 | 9,000 | 14,250 | 23,750 |
| 31/12/2020 | 36,000 | ÷4 | 9,000 | 23,250 | 14,750 |
| 31/12/2021 | 36,000 | ÷4 | 9,000 | 32,250 | 5,750 |
| 1/6/2022 | 36,000 | $\div 4 \times \frac{5}{12}$ | 3750 | 36,000 | 2,000 |

### B) GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 2018 | Depreciation Expense - equipment | | 5,250 | |
| | Accumulated Depreciation | | | 5,250 |

## Exercise (4-6):

Mega Company purchased Machinery on 1st Apr, 2019, relevant information is given below:

| Cost Price | Transportation | Taxes | Salvage Value | Useful Life |
|---|---|---|---|---|
| BD39000 | BD500 | BD1500 | BD1000 | 4 years |

**Required:**

(A) By using the Straight Line Method, calculate the depreciation expense, accumulated depreciation and the net book value.

(B) Prepare the journal entry for the first and second year.

**Solution:**

A) Acquisition cost = 39000 +500 + 1500 = BD41,000

Depreciable Cost = 41,000 – 1000 = BD40,000

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Depreciable Cost | Useful life | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/4/2019 | - | - | - | - | 41,000 |
| 31/12/2019 | 40000 | $\div 4 \times \frac{9}{12}$ | 7,500 | 7,500 | 33,500 |
| 31/12/2020 | 40000 | ÷4 | 10,000 | 17,500 | 23,500 |
| 31/12/2021 | 40000 | ÷4 | 10,000 | 27,500 | 13,500 |
| 31/12/2022 | 40000 | ÷4 | 10,000 | 37,500 | 3,500 |
| 1/4/2023 | 40000 | $\div 4 \times \frac{3}{12}$ | 2,500 | 40,000 | 1,000 |

### B) GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 2019 | Depreciation Expense - Machinery | | 7,500 | |
| | Accumulated Depreciation | | | 7,500 |
| Dec. 31 2020 | Depreciation Expense - Machinery | | 10,000 | |
| | Accumulated Depreciation | | | 10,000 |

**Exercise (4-7):**

Rotana Company purchased a new machine on October 1 st,2018, at a cost of BD120,000. The Company estimated that the machine will have a salvage value of BD8,000. The machine is expected to be used for 10,000 working hours during its 5-years life.

**Required:**

**Compute the depreciation expense under the following methods.**

(A) Straight-Line Method.

(B) Declining-balance using double the straight-line rate.

(C) Units of-Activity, assuming machine usage was 3,500 – 2,500 – 2,000 –1,000 and 1,000 hours for 5 years useful life.

**Solution:**

A) Depreciable Cost = 120,000 – 8,000 = BD112,000

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Depreciable Cost | Useful life | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/10/2018 | - | - | - | - | 120,000 |
| 31/12/2018 | 112,000 | $\div 5 \times \frac{3}{12}$ | 5,600 | 5,600 | 114,400 |
| 31/12/2019 | 112,000 | ÷ 5 | 22,400 | 28,000 | 92,000 |
| 31/12/2020 | 112,000 | ÷ 5 | 22,400 | 50,400 | 69,600 |
| 31/12/2021 | 112,000 | ÷ 5 | 22,400 | 72,800 | 47,200 |
| 31/12/2022 | 112,000 | ÷ 5 | 22,400 | 95,200 | 24,800 |
| 1/10/2023 | 112,000 | $\div 5 \times \frac{9}{12}$ | 16,800 | 112,000 | 8,000 |

B) Depreciation Rate = $\frac{100}{useful\ life} \times 2 = \frac{100}{5} \times 2 = 40\%$

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Beginning Book Value | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/10/2018 | - | - | - | - | 120,000 |
| 31/12/2018 | 120,000 | $\times 40\% \times \frac{3}{12}$ | 12,000 | 12,000 | 108,000 |
| 31/12/2019 | 108,000 | ×40% | 43,200 | 55,200 | 64,800 |
| 31/12/2020 | 64,800 | ×40% | 25,920 | 81,120 | 38,880 |
| 31/12/2021 | 38,880 | ×40% | 15,552 | 96,672 | 23,328 |
| 31/12/2022 | 23,328 | ×40% | 9331.2 | 106,003.2 | 13,996.8 |
| 1/10/2023 | 13,996.8 | ×40% | 5,996.8* | 112,000 | 8,000 |

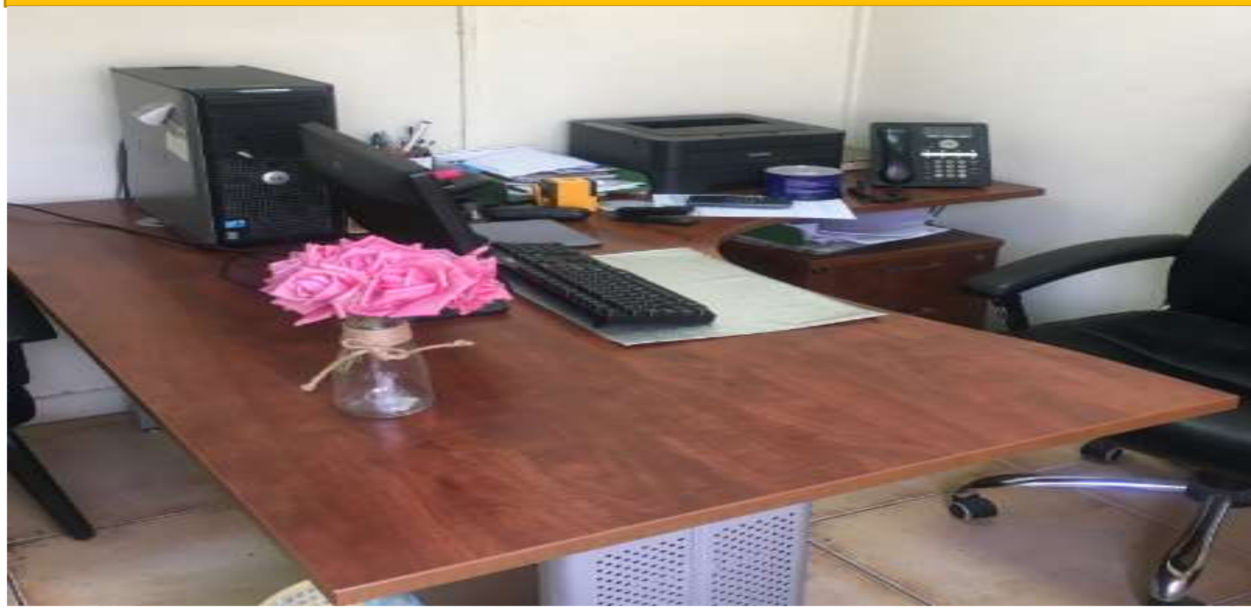
Note : Depreciation Expense for last year 2023* = 13,996.8 – 8,0000

= BD5,996.8

D) Depreciation cost per unit = $\frac{\text{Cost} - \text{Salvage Value}}{\text{Total Units of Production}} = \frac{120{,}000 - 8{,}000}{10{,}000} =$ BD11.2/ hour

| Annual Period | Depreciation for the period | | | End of Period | |
|---|---|---|---|---|---|
| | Number of Units | Depreciation Rate | Depreciation Expense | Accumulated Depreciation | Book Value |
| 1/10/2018 | - | - | - | - | 120,000 |
| 31/12/2018 | 3,500 | ×11.2 | 39,200 | 39,200 | 80,800 |
| 31/12/2019 | 2,500 | ×11.2 | 28,000 | 67,200 | 52,800 |
| 31/12/2020 | 2,000 | ×11.2 | 22,400 | 89,600 | 30,400 |
| 31/12/2021 | 1,000 | ×11.2 | 11,200 | 100,800 | 19,200 |
| 31/12/2022 | 1,000 | ×11.2 | 11,200 | 112,000 | 8,000 |

# Chapter (5): Plant Assets Disposals



# Model Answers

# *Text Book Exercises*

# Exercises:

## Exercise (5-1):

Presented below are selected transactions at Arwa Company for 2018.

Jan. 1: Retired a piece of machinery that was purchased on January 1, 2008. The machine cost BD75,000 on that date. It had a useful life of 10 years with no salvage value.

June 30: Sold equipment that was purchased on January 1, 2015. The equipment cost BD45,000. It had a useful life 5 years with no salvage value. The equipment was sold for BD14,000.

Dec. 31: Discarded a delivery truck that was purchased on January 1,2014. The truck cost BD33,000. It was depreciated based on a 6 years useful life with a BD3,000 salvage value.

**Required:**

Prepare journal entries for the previous transactions. The Company uses straight-line depreciation (Assume depreciation is up to the above date of the previous transactions).

**Solution:**

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Jan. 1 2018 | Accumulated Depreciation - Machinery | | 75,000 | |
| | Machinery | | | 75,000 |
| June 30 2018 | Cash | | 14,000 | |
| | Accumulated Depreciation - Equipment | | 31,500 | |
| | Equipment | | | 45,000 |
| | Gain on Disposal of Equipment | | | 500 |
| Dec. 31 2018 | Accumulated Depreciation - Delivery Truck | | 25,000 | |
| | Loss on Disposal of Delivery Truck | | 8,000 | |
| | Delivery Truck | | | 33,000 |

## Exercise (5-2):

On July 1,2018, Abdulla Company invested BD720,000 in a mine estimated to have 900,000 tons of ore of uniform grade. During the last 6 months of 2018, 100,000 tons of ore were mined and sold.

**Required:**

Prepare the journal entry to record depletion expense for 2018.

**Solution:**

1- Depletion Cost per Unit $= \frac{\text{Total Cost} - \text{Salvage Value}}{\text{Total Estimated Units}}$

$$= \frac{720{,}000 - 0}{900{,}000} = \text{BD}0.8 \text{ per unit}$$

2- Annual depletion Expense = 100,000 × 0.8 = BD80,000

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec. 31 2018 | Depletion Expense | | 80,000 | |
| | Accumulated Depletion | | | 80000 |
| | | | | |

## Exercise (5-3):

Middle East Company owns equipment that cost BD65,000 when purchased on January 1, 2015. It has been depreciation using the straight-line method based on estimated salvage value of BD5,000 and an estimated useful life of 5 years.

**Required:**

Prepare the journal entries to record the sales of the equipment in these four independent situations.

(A) Sold for BD31,000 on January 1, 2018.

(B) Sold for BD31,000 on May 1, 2018.

(C) Sold for BD11,000 on January 1, 2018.

(D) Sold for BD11,000 on October 1, 2018.

**Solution:**

A-C) Jan. 1 2015 —— Using 3 years ——→ Jan. 1 2018

* Annual Depreciation Expense = $\frac{65000 - 5000}{5}$ = BD 12,000

Accumulated Depreciation = 12,000× 3= BD36,000

B) Jan. 1 2015 —— Using 3 years and 4 moths ——→ May. 1 2018

Accumulated Depreciation = (12,000× 3) + (12,000× $\frac{4}{12}$) =BD40,000.

D) Jan. 1 2015 —— Using 3 years and 9 moths ——→ Oct. 1 2018

Accumulated Depreciation = (12,000× 3) + (12,000× $\frac{9}{12}$) =BD45,000.

**GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Jan. 1 2018 | Cash | | 31,000 | |
| | Accumulated Depreciation - Equipment | | 36,000 | |
| | Equipment | | | 65,000 |
| | Gain on Disposal of Equipment | | | 2,000 |
| May. 1 2018 | Cash | | 31,000 | |
| | Accumulated Depreciation - Equipment | | 40,000 | |
| | Equipment | | | 65,000 |
| | Gain on Disposal of Equipment | | | 7,000 |
| Jan. 1 2018 | Cash | | 11,000 | |
| | Accumulated Depreciation - Equipment | | 36,000 | |
| | Loss on Disposal of Equipment | | 18,000 | |
| | Equipment | | | 65,000 |
| Oct. 1 2018 | Cash | | 11,000 | |
| | Accumulated Depreciation - Equipment | | 45,000 | |
| | Loss on Disposal of Equipment | | 9,000 | |
| | Equipment | | | 65,000 |

## Exercise (5-4):

On September 1 2016, Nora Mining Company pays BD4,500,000 for an ore deposit containing 900,000 tons, with an estimated 10 years life and no salvage value. In the first 3 years were mined and sold as follow 100,000 – 120,000 – 180,000

**Required:**

1- Compute the depletion expenses for first 3 years.

2- Prepare the journal entries to record depletion expense for year 2016.

**Solution:**

1- Depletion Cost per Unit $= \frac{\text{Total Cost} - \text{Salvage Value}}{\text{Total Estimated Units}}$

$$= \frac{4{,}500{,}000 - 0}{900{,}000} = \text{BD5 per ton}$$

Annual depletion Expense (2016) = 100,000 × 5 = BD500,000

Annual depletion Expense (2017) = 120,000 × 5 = BD600,000

Annual depletion Expense (2018) = 180,000 × 5 = BD900,000

### 2- GENERAL JOURNL

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec.31 2016 | Depletion Expense | | 500,000 | |
| | Accumulated Depletion | | | 500,000 |

## Exercise (5-5):

Naser Company, the new controller of Salman Est, has reviewed the expected useful lives and salvage values of selected depreciable assets at the beginning of 2017. His finding are as follows.

| Type of Assets | Date Acquired | Cost | Accumulated Depreciation 1/1/2017 | Useful Life | | Salvage Value | |
|---|---|---|---|---|---|---|---|
| | | | | Old | Proposed | Old | Proposed |
| Building | 1/1/2011 | 800,000 | 114,000 | 40 | 50 | 40,000 | 26,000 |
| Equipment | 1/1/2014 | 100,000 | 19,000 | 25 | 20 | 5,000 | 6,000 |

All assets are depreciated by the straight-line method. Salman Est, uses a caledar year in preparing annual financial statements. After discussion, management has agreed to accept Naser company's proposed changes.

**Required:**

(a) Compute the revised annual depreciation on each assets in 2018.

(b) Prepare the entries to record depreciation on the assets.

**Solution:**

(a) **Building:**

Book Value = 800,000 – 114,000 = BD686,000

Depreciation for each of the remaining years

$$=\frac{Book\ Value - Revised\ Salvage\ Value}{Revised\ Remaining\ Useful\ life} = \frac{686{,}000-26{,}000}{50-6} = \text{BD}15{,}000$$

**Equipment:**

Book Value = 100,000 – 19,000 = BD81,000

Depreciation for each of the remaining years

$$=\frac{Book\ Value - Revised\ Salvage\ Value}{Revised\ Remaining\ Useful\ life} = \frac{81{,}000-6{,}000}{20-3} = \text{BD}4411.765$$

**b) GENERAL JOURNL**

| Date | Account Title and Explanation | PR | Debit | Credit |
|---|---|---|---|---|
| Dec.31 2018 | Depreciation Expense - Building | | 15,000 | |
| | Accumulated Depreciation | | | 15,000 |
| Dec.31 2018 | Depreciation Expense - Equipment | | 4411.765 | |
| | Accumulated Depreciation | | | 4411.765 |

# Model Answers

# *Text Book Exercises*

# Exercises:

**Exercise (6-1):** Choose the correct answer.

1- A company had sales of BD695,000 and cost of goods sold of BD278,000. Its gross profit equals:

A. BD (417,000).

B. BD 695,000.

C. BD 278,000.

D. BD 417,000. ✓ (695,000 – 278,000)

E. BD 973,000.

2- A company had sales of BD375,000 and its gross profit was BD157,500. Its cost of goods sold equals:

A. BD (217,000).

B. BD 375,000.

C. BD 157,500.

D. BD 217,500. ✓ (375,000 – 157,500)

E. BD 532,500.

3- Beginning inventory plus net purchases is:

A. Cost of goods sold.

B. Merchandise available for sale.✓

C. Ending inventory.

D. Sales.

E. Shown on the balance sheet.

4- Sales less sales discounts less sales returns and allowances equals:

A. Net purchases.

B. Cost of goods sold.

C. Net sales.✓

D. Gross profit.

E. Net income.

5- A Company had sales of BD 135,000, sales discounts of BD 2,000, and sales returns of $3,200. A Company's net sales equals:

A. BD 5,200.

B. BD 129,800. ✓ (135,000 – 2,000 – 3,200)

C. BD 133,000.

D. BD 135,000.

E. BD 140,200.

6- Amazon Company has sales BD56000, Sales Returns BD6000 and Gross Profit BD15000. What is the Cost of goods sold?

a) BD77000

b) BD41000

c) BD35000. ✓ (56,000 – 6,000 – 15,000)

d) BD47000

7- Al-Zayani Car Agency has total cost of Purchases BD16800, Opening Inventory BD3400 and Closing Inventory BD2900. The Cost of Goods available for sale is:

e) BD17300

f) BD16300

g) BD13900

h) BD20200✓ (16,800 + 3,400)

8- If Mona Est. has Gross Profit BD3000, Rent Revenue BD1500 and Total Expenses BD4000, then the result is:

a. Net Profit BD500 ✓ (3,000 + 1,500 – 4,000)

b. Net Profit BD5500

c. Net Loss BD1000

d. Net Profit BD4500

**Exercise (6-2):**

The following Trial Balance was extracted from the books of Magda Co. on December 31, 2017.

Magda Co.
Trial Balance
31 December 2017

| Account titles | Debit | Credit |
|---|---|---|
| Cash | 7,000 | |
| Accounts Receivable | 5,000 | |
| Inventory | 4,000 | |
| Equipment | 22,000 | |
| Furniture | 6,000 | |
| Loan | | 3,000 |
| Accounts Payable | | 4,000 |
| Capital | | 33,300 |
| Drawings | 5,000 | |
| Sales | | 66,300 |
| Purchases | 42,000 | |
| Telephone Expense | 2,400 | |
| Rent Expense | 4,000 | |
| Interest Expense | 8,000 | |
| Carriage Inwards | 900 | |
| Discounts | 500 | 400 |
| Sales Returns | 200 | |
| Total | 107,000 | 107,000 |

Ending Inventory at 31 December 2016, for BD6,000 and income tax 5%.

**Required:**

1- Prepare the **Multiple Income Statement** for the year ended 31 December 2017.
2- Prepare the **Single Income Statement** for the year ended 31 December 2017.

Magda Co.

1- Multiple - Step Income Statement

For Year Ended Dec 31, 2017

| | | | |
|---|---|---|---|
| Sales | | 66,300 | |
| **Less:** Sales Returns | | (200) | |
| Sales Discount | | (500) | |
| = Net Sales | | | 65,600 |
| **Less: Cost of Goods Sold:** | | | |
| Beginning Inventory | | 6,000 | |
| Purchases | 42,000 | | |
| **Less:** Purchases Discount | (400) | | |
| = Net Purchases | 41,600 | | |
| + Carriage Inwards | 900 | | |
| = Cost of Purchases | | 42,500 | |
| = Cost of Goods Available for Sale | | 48,500 | |
| **Less:** Ending Inventory | | (4,000) | |
| = Cost of Goods Sold | | | (44,500) |
| = Gross Profit | | | 21,100 |
| **- Operating Expenses:** | | | |
| Telephone Expenses | | 2,400 | |
| Rent Expenses | | 4,000 | |
| Total Operating Expenses | | | (6,400) |
| Income from Operations | | | 14,700 |
| **- Other Expenses and Losses:** | | | |
| Interest Expenses | | | (8,000) |
| = Net Income before tax | | | 6,700 |
| Income Tax (6,700 ×5%) | | | (335) |
| **Net Income (Profit)** | | | **6,365** |

**Solution:**

Magda Co.

2- Single – Step Income Statement

For Year Ended Dec, 31 2017

| | | |
|---|---|---|
| **Revenues:** | | |
| Net Sales | 65,600 | |
| **Total Revenues** | | **65,600** |
| **Less:Expenses.** | | |
| Cost of Goods Sold | 44,500 | |
| Telephone Expenses | 2,400 | |
| Rent Expenses | 4,000 | |
| Interest Expenses | 8,000 | |
| **Total Expenses** | | **58,900** |
| **Net Income before tax** | | **6,700** |
| Income Tax (6,700 ×5%) | | (335) |
| **Net Income (Profit)** | | **6,365** |

**Exercise (6-3):**

Complete the missing blanks in the following income statement of Narees Company as at 31st Dec 2017:

**Solution:**

Narees Company .

**Income Statement**

**For the period ended** 31st Dec 2017

| | | | |
|---|---|---|---|
| **Revenue from sales:** | | | |
| Sales | | 52,300 | |
| Sales Return and Allowance | | (800) | |
| Net sales | | | 51,500 |
| **Cost of Goods Sold:** | | | |
| Beginning Inventory | | 61,700 | |
| Purchase | 29,780 | | |
| Purchase Returns | (320) | | - |
| Net Purchases | 29,460 | | |
| Freight In | 240 | | |
| Cost of Purchases | | 29,700 | |
| Cost of Goods Available for sale | | 32,000 | |
| - Ending Inventory | | 14,400 | |
| Cost of Goods Sold | | | 17,600 |
| **Gross Profit** | | | 33,900 |
| **Operation Expenses:** | | | |
| Rent Expense | | | 2,200 |
| Income from Operations | | | 31,700 |
| Income tax 5% (31,700× 5%) | | | (1,585) |
| Net Income (Profit) | | | 30,115 |

**Exercise (6-4):**

The following balances some of accounts were extracted from the books of Saleh Company On Dec 31, 2017.

| Account Title | BD | Account Title | BD |
|---|---|---|---|
| Cash | 22,000 | Closing Inventory | 2,000 |
| Account Receivable | 8,000 | Rent Expenses | 17,000 |
| Lands | 110,000 | Wages Expenses | 13,000 |
| Building | 190,000 | Supplies Expenses | 1,400 |
| Sales | 250,000 | Interest Expenses | 2,600 |
| Sales Return | 4,000 | Gain from Sales equipment | 8,200 |
| Purchases | 160,000 | Equipment | 18,700 |
| Purchases Discount | 5,000 | Supplies | 6,500 |
| Opening Inventory | 3,500 | Transportation In | 1,100 |
| Income Tax (5%) | - | Account payable | 9,000 |

**Required**:

1- Prepare the **Multiple Income Statement** for the year ended 31 December 2017.
2- Prepare the **Single Income Statement** for the year ended 31 December 2017.

**Solution:**

Saleh Company

Multiple - Step Income Statement

For Year Ended Dec 31, 2017

| | | | | |
|---|---|---|---|---|
| Sales | | | 250,000 | |
| **Less:** Sales returns | | | (4,000) | |
| = Net Sales | | | | 246,000 |
| **Less: Cost of Goods Sold:** | | | | |
| Opening Inventory | | | 3,500 | |
| Purchases | 160,000 | | | |
| **Less:** Purchases Discount | (5,000) | | | |
| = Net Purchases | 155,000 | | | |
| + Transportation In | 1,100 | | | |
| = Cost of Purchases | | | 156,100 | |
| = Cost of Goods Available for Sale | | | 159,600 | |
| **Less:** Closing Inventory | | | (2,000) | |
| = Cost of Goods Sold | | | | (157,600) |
| = Gross Profit | | | | 88,400 |
| **- Operating Expenses:** | | | | |
| Rent Expenses | | | 17,000 | |
| Wages Expenses | | | 13,000 | |
| Supplies Expenses | | | 1,400 | |
| Total Operating Expenses | | | | 31,400 |
| Income from Operations | | | | 57,000 |
| **+ Other Revenues and Gains:** | | | | |
| Gain from Sales Equipment | | | | 8,200 |
| **- Other Expenses and Losses:** | | | | |
| Interest Expenses | | | | (2,600) |
| = Net Income before tax | | | | 62,600 |
| Income Tax (62,600 ×5%) | | | | (3,130) |
| **Net Income (Profit)** | | | | **59,470** |

Saleh Company

Single – Step Income Statement

For Year Ended Dec, 31 2017

| | | |
|---|---|---|
| **Revenues:** | | |
| Net Sales | 246,000 | |
| Gain from Sales Machines | 8,200 | |
| **Total Revenues** | | **254,200** |
| **Less:Expenses.** | | |
| Cost of Goods Sold | 157,600 | |
| Salaries Expenses | 17,000 | |
| Electricity Expenses | 13,000 | − |
| Rent Expenses | 1,400 | |
| Interest Expenses | 2,600 | |
| **Total Expenses** | | **191,600** |
| **Net Income before tax** | | **62,600** |
| Income Tax (62,600 ×5%) | | (3,130) |
| **Net Income (Profit)** | | **59,470** |

**Exercise (6-5):**

The following information were extracted from the books of Ameen Company on Dec 31 2018.

| Account Title | BD | Account Title | BD |
|---|---|---|---|
| Sales | 512,000 | Opening Inventory | ??? |
| Net sales | 504,000 | Cost Of Goods available for Sales | 389,500 |
| Sales Discount | ??? | Ending Inventory | 10,500 |
| Purchases | 385,000 | Fees Earned | 16,000 |
| Purchases Return | 7,000 | Total Operating Expenses | ??? |
| Freight In | 2,000 | Income From Operation | 58,000 |
| Interest Expenses | 3,400 | Loss from Sales Assets | 2,100 |
| Income Tax (5%) | - | Loans | 9,000 |

**Required**:

Compute the following accounts and estate the steps of solution.

**Solution:**

1- Sales Discount =

512,000 – 504,000 = BD8,000

2- Net Purchases =

385,000 – 7,000 =BD378,000

3- Cost of Purchases =

378,000 + 2,000 = BD380,000

4- Opening Inventory =

389,500 – 380,000 =BD9,500

5- Cost of Goods Sold =

389,500 + 10500 =BD400,000

6- Gross Profit =

504,000 – 400,000 =BD104,000

7- Total Revenues = Not Required

8- Total Operating Expenses =

104,000 – 58,000 = BD46,000

9- Net Income before Tax =

58,000 + 16,000 – 3,400 = BD70,600

10-Net Income =

70,600 – (70,600 × 5%) = BD67,070

**Exercise (6-6):**

Find the missing amount in the income statement for two different business (A&B).

| Account Title | Business A | | Business B | |
|---|---|---|---|---|
| Sales | | 105,000 | | 129,000 |
| Sales Return | | (5000) | | 9,000 |
| Net Sales | | 100,000 | | 120,000 |
| COGS: | | | | |
| Beginning Inventory | 6,000 | | 5,000 | |
| Cost of Purchases | 70,000 | | 80,000 | |
| Cost of Goods Available for Sales | 76,000 | | 85,000 | |
| Ending Inventory | (4,000) | | 9,000 | |
| Cost of Goods Sold | | 72,000 | | 76,000 |
| Gross Profit | | 28,000 | | 44,000 |
| Operating Expenses | | (7,000) | | 5,000 |
| Income from Operation | | 21,000 | | 39,000 |
| Interest Expense | | 1,000 | | 4,000 |
| Income before Tax | | 20,000 | | 35,000 |
| Income Tax (5%) | | (1,000) | | (1,750) |
| Net Income | | 19,000 | | 33,250 |