

Study Guide, Chapters 15-28

for use with

KENNETH A. KOERBER

Revised Edition

COLLEGE ACCOUNTING



PREPARED BY ANITA BROWNSTEIN

IRWIN INTRODUCTORY ACCOUNTING SERIES

STUDY GUIDE, CHAPTERS 15–28

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Homewood, IL 60430
Boston, MA 02116

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Printed in the United States of America.

ISBN 0-256-13249-6

1 2 3 4 5 6 7 8 9 0 P 9 8 7 6 5 4 3 2

TO ALL STUDENTS

This student study guide is designed to assist you in your understanding of the terminology, concepts and principles that you have been introduced to in your first accounting course.

THIS GUIDE WILL HELP YOU:

Review the concepts presented in each chapter.

Reinforce the material so that you can develop an in-depth understanding of accounting.

Improve your performance level on tests.

Have fun while learning accounting!

EVERY CHAPTER IN THIS STUDY GUIDE WILL BE DIVIDED INTO THE FOLLOWING PARTS:

- I. *Learning objectives* which have been restated from the textbook.
- II. *Do you know . . . ?* This is the chapter outline which is designed to help you focus on the key elements presented in the chapter.
- III. *Self-Tests and Answers*
 - A. Matching exercises to reinforce the key terms.
 - B. True/False exercises in reading comprehension.
 - C. Category Identification self-tests to review concepts and terminology
- IV. *Demonstration problem* focusing on key elements and principles presented in the chapter.

Accounting can be fun! Use the study guide as a supplement to your textbook and you will climb the steps to success quickly.

If you have answered any question incorrectly or have difficulty, you should refer back to the textbook.

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CHAPTER 15

ACCOUNTS RECEIVABLE

LEARNING OBJECTIVES

After studying this chapter, you will be able to:

1. Control credit through the use of a subsidiary ledger.
2. Account for bad debts using the direct write-off method.
3. Account for bad debts using the allowance method.
4. Estimate the bad debts expense using the percentage of net credit sales method.
5. Estimate the bad debts expense using the aging of receivables method.
6. Write off an account using the allowance method.
7. Record the collection of a bad debt previously written off by using the allowance method.

DO YOU KNOW ?

- I. Accounts Receivable/Trade Receivables
- II. Cash or Credit
- III. Control of Credit
- IV. Subsidiary Ledger
- V. The Overdue Account
- VI. Bad Debts-Direct Write Off
 - A. Collecting a bad debt
 - B. Allowance for bad debts
- VII. Percentage of Net Credit Sales
- VIII. Aging of Accounts Receivable
- IX. Writing Off an Account with the Allowance Method

MATCHING

DO YOU KNOW THESE KEY TERMS . . . ?

MATCH EACH KEY TERM WITH ITS CORRECT DEFINITION BY PUTTING THE CORRECT LETTER IN THE SPACE PROVIDED.

- A. Aging of Accounts Receivable
- B. Allowance for Bad Debts
- C. Bad Debts
- D. Bad Debts Expense

- E. Percentage of Net Credit Sales
- F. Trade Receivables
- G. Net Expected Realizable Value

- _____ 1. The amount that a business expects to collect from all of the accounts receivable. The total in accounts receivable less the allowance for bad debts.
- _____ 2. A method of estimating the bad debts expense using the allowance method of accounting for bad debts.
- _____ 3. A method of estimating the amount of bad debts expense using the allowance method of accounting for bad debts.
- _____ 4. A contra to the accounts receivable controlling account. It records the estimated amount of accounts receivable resulting from this year's or prior years' sales to be written off in the future as uncollectible accounts.
- _____ 5. Those accounts that cannot be collected.
- _____ 6. The expense that results from advancing credit to customers who either can't or won't pay their bills.
- _____ 7. The receivables that result from carrying on the normal trade of the business.

TRUE/FALSE READING COMPREHENSION

CIRCLE THE T IF THE STATEMENT IS TRUE AND F IF THE STATEMENT IS FALSE.

- 1. T F Accounts receivable represent current assets that have come about by offering credit to customers in hopes of increasing revenue.
- 2. T F There are two ways to estimate bad debts under the allowance method.
- 3. T F Regardless of the method used to account for bad debts, if an account has been written off and then the customer/client comes forward with a payment, it must be reinstated and then the collection recorded.
- 4. T F Trade receivables can be traded between one company and another.
- 5. T F When an account that has been written off as a bad debt pays the amount owed, there is no entry needed since the account receivable has already been credited for the full balance.
- 6. T F Accounts receivable are those accounts that cannot be collected.
- 7. T F The aging of accounts receivable method requires an adjustment that will bring the balance of the allowance account up to the value of the aging schedule.
- 8. T F The expense for the bad debt is recorded at the end of the year as an adjusting entry.

9. T F The allowance for bad debts is a liability.
10. T F The percentage of credit sales method of estimating the bad debt expense requires an adjusting entry equal to the amount needed to bring the allowance account balance up to the amount of the estimate.
11. T F The allowance method satisfies the matching principle.

CATEGORY IDENTIFICATION

DARKEN THE METHOD THAT BEST EXPRESSES THE STATEMENT

1. Estimate the bad debts expense.	% of Net Credit Sales	Matching Principle
2. Write off an account.	Allowance Method	% of Net Credit Sales
3. Account for bad debts.	Subsidiary Ledger	Allowance Method
4. Expense incurred in generating revenue must be recorded in the year in which the revenue was earned.	Matching Principle	Allowance Method
5. Control credit through its use.	Matching Principle	Subsidiary Ledger

DEMONSTRATION PROBLEM

The Boyd Corporation uses the allowance method to account for uncollectible accounts receivable, and completed the following selected transactions during 19X0 and 19X1.

TRANSACTIONS:

19X0

December 31 It was estimated that 1.5% of the 19XX sales will become uncollectible.
All of the Boyd Corporation's 19XX sales were on account.

Given the transactions, make the entries into the general journal as adjusting entries and then post to the corresponding ledgers

December 31 Close the appropriate accounts to the income summary, then post to their corresponding ledgers.

19X1

January 2 Sold merchandise on account to XYZ Corporation, \$30,000.
February 2 Wrote off the account of Johnson Industries as uncollectible, \$10,000.
March 2 Sold merchandise on account to Brown and Sons, \$40,000.
April 5 Received payment on account from XYZ Corporation, \$15,000.
May 2 Received a \$12,000 check from Sommers, Inc., whose account had previously been written off as uncollectible.
June 1 Sold merchandise on account to Salvador Corporation, \$20,000.
July 5 Received \$5,000 on account from XYZ Corporation, but wrote off their remaining balance as uncollectible.
August 2 Sold merchandise on account to James Company, \$20,000.
September 1 Received payment on account from Brown and Sons, \$5,000.
October 3 Sold merchandise on account to Marlin Corporation, \$30,000.
November 1 Received a \$5,000 check from XYZ Corporation whose account had previously been written off as uncollectible.
December 2 Wrote off the past due account of Norris Company as uncollectible, \$3,000.

DIRECTIONS:

The following account numbers and their opening balances are as follows:

111	Cash	\$ 21,500	(Dr.)
112	Accounts Receivable	85,000	(Dr.)
113	Allowance for Doubtful Accounts	250	(Cr.)
320	Income Summary		
410	Sales	350,000	(Cr.)
515	Bad Debts Expense		

- (1) Record the 19X0 and 19X1 transactions into the general journal.
- (2) Post the 19X1 transactions into their respective ledgers.
- (3) Upon conclusion, it was estimated that 1.5% of the 19X0 sales will become uncollectible. Boyd's 19X1 sales on account totaled \$410,000. Prepare the December 1991 adjusting entry to record that estimate. After journalizing, post that entry to the ledger.

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GENERAL JOURNAL

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Date	Description	PR	Debit		Credit	
	<i>Adjusting Entry</i>					

**THE BOYD CORPORATION
GENERAL LEDGER**

Account Title: Cash							#111			
Date	Item	PR	Transaction				Balance			
			Debit		Credit		Debit		Credit	
19X0 12/31	Opening balance						21,500	—		

[illegible]

THE BOYD CORPORATION GENERAL LEDGER

[illegible]

**THE BOYD CORPORATION
GENERAL LEDGER**

Account Title: Bad Debts Expense										#515
Date	Item	PR	Transaction				Balance			
			Debit		Credit		Debit		Credit	

THE BOYD CORPORATION GENERAL LEDGER

[illegible]