

Problem 2

ThermoGlare distributes customized parts for sports cars. The company has a broad customer base, and routinely sells on credit. Annually, the company reviews and updates its allowance for uncollectible accounts. Periodic write-offs against the allowance account are made throughout the year when individual accounts are deemed to be worthless. Following are relevant facts for the current year:

Prior to recording any year-end adjustments, the total balance of all accounts receivable amounted to \$1,150,000. The existing Allowance for Uncollectible Accounts had a balance of \$9,000. No entry was made during the year to increase this account, but \$20,000 of uncollectible accounts were written off against the allowance during the year.

- What was the beginning-of-year balance for the Allowance for Uncollectible Accounts?
- Prepare a summary journal entry that reflects the \$20,000 of write-offs already recorded by Pablo's.
- Assuming that the year-end allowance should equal 3% of outstanding receivables, what end-of-year adjusting entry is needed?
- How will the accounts receivable and allowance appear on the balance sheet?
- How much expense will appear in the annual income statement as uncollectible accounts expense?

Worksheet 2

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GENERAL JOURNAL			
Date	Accounts	Debit	Credit
various			
	<i>To record the write off of uncollectible accounts</i>		

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GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			
	<i>To adjust the allowance account from a \$9,000 balance to the target balance of _____</i>		

d)

Accounts Receivable
Less: Allowance for Uncollectible Accounts

e)

Solution 2

a) The beginning balance in the Allowance for Uncollectible Accounts was \$29,000. This is simply the existing ending balance (\$9,000) plus the amounts written off against the allowance (\$20,000) during the year.

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
various	Allowance for Uncollectible Accounts	20,000	
	Accounts Receivable		20,000
	<i>To record the write off of uncollectible accounts</i>		

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Uncollectible Accounts Expense	25,500	
	Allowance for Uncollectible Accounts		25,500
	<i>To adjust the allowance account from a \$9,000 balance to the target balance of \$34,500 (\$1,150,000 X 3%)</i>		

d)

Accounts Receivable	\$	1,150,000		
Less: Allowance for Uncollectible Accounts		(34,500)	\$	1,115,500

e) The expense will equal the \$25,500 recorded in (c) above. The process of writing off specific accounts against an allowance (in (b) above) does not impact income.