

Problem 3

Duchetti Corporation utilizes an accounting software package that is capable of producing a detailed aging of outstanding accounts receivable. Following is the aging schedule as of December 31, 20X5.

AGE	AMOUNT OUTSTANDING
0 to 30 days	\$ 3,600,000
31 to 60 days	2,100,000
61 to 120 days	600,000
Over 120 days	75,000

Bruno Duchetti has owned and operated Duchetti Corporation for many years and has a very good sense of the probability of collection of outstanding receivables, based on an aging analysis. The following table reveals the likelihood of collection:

AGE	PROBABILITY OF COLLECTION
0 to 30 days	97%
31 to 60 days	85%
61 to 120 days	70%
Over 120 days	50%

- a) Prepare an aging analysis and show how accounts receivable and the related allowance for uncollectibles should appear on the balance sheet at December 31.
- b) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a \$45,000 credit.
- c) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a \$15,000 debit. How could the allowance account have contained a debit balance?

Worksheet 3 (a)

a)

Age	Balance	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days			
31 to 60 days			
61 to 120 days			
Over 120 days			

Accounts Receivable
Less: Allowance for Uncollectible Accounts

Worksheet 3 (b)

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			

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Solution 3 (a)

a)

Age	Balance	ESTIMATED % UNCOLLECTIBLE	ESTIMATED AMOUNT UNCOLLECTIBLE
0 to 30 days	\$ 3,600,000	3%	\$ 108,000
31 to 60 days	2,100,000	15%	315,000
61 to 120 days	600,000	30%	180,000
Over 120 days	75,000	50%	37,500
	<u>\$ 6,375,000</u>		<u>\$ 640,500</u>

Accounts Receivable	\$ 6,375,000
Less: Allowance for Uncollectible Accounts	(640,500)
	<u>\$ 5,734,500</u>

Solution 3 (b)

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Uncollectible Accounts Expense	595,500	
	Allowance for Uncollectible Accounts		595,500
	<i>To adjust the allowance account from a \$45,000 (cr) balance to the target balance of \$640,500 (cr)</i>		

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Uncollectible Accounts Expense	655,500	
	Allowance for Uncollectible Accounts		655,500
	<i>To adjust the allowance account from a \$15,000 (dr) balance to the target balance of \$640,500 (cr)</i>		

The allowance account is a contra account to accounts receivable and would normally have a credit balance. A debit balance would be created if more accounts were actually written off against the account than was its balance. The situation would be rectified with an end-of-period adjustment, as shown. The debit balance might suggest that insufficient estimates of anticipated write-offs were previously established.