

# Problem 6

Kassie Jensen was recently hired as the chief financial officer for Haggen Corporation. At the time Kassie was hired, the company had just completed the accounting cycle for the year ending December 31, 20X7. Kassie began her new job by reviewing the following information about sales and receivables activity during the year:

Beginning accounts receivable	\$ 2,250,000
Beginning allowance for uncollectibles	60,000
Sales on account	9,000,000
Collections on account	7,200,000
Sales Discounts	102,000
Accounts written-off	49,500
Additions to allowance for uncollectible accounts	2% of net sales

- a) Based on her review, Kassie prepared some handwritten notes in journal entry form summarizing the above sales, collections, discounts, write-offs, and additions to the allowance. She wanted to compare her entries to what had actually been recorded by the company. How should her summary entries appear?

**ie** business school

#1 EUROPEAN BUSINESS SCHOOL  
FINANCIAL TIMES 2013

#gobeyond

**MASTER IN MANAGEMENT**

**Because achieving your dreams is your greatest challenge.** IE Business School's Master in Management taught in English, Spanish or bilingually, trains young high performance professionals at the beginning of their career through an innovative and stimulating program that will help them reach their full potential.

- Choose your area of specialization.
- Customize your master through the different options offered.
- Global Immersion Weeks in locations such as London, Silicon Valley or Shanghai.

*Because you change, we change with you.*

www.ie.edu/master-management | mim.admissions@ie.edu |



b) After completing her review, Kassie concluded that beginning in 20X8, the company would switch to a balance sheet approach for providing for uncollectible accounts. She estimates that the Allowance for Uncollectible Accounts should include an end-of-year balance equal to 3% of total gross receivables. Prepare summary journal entries for 20X8 to capture the following information, and to update the allowance account from its beginning of year balance (see part (a) to determine the beginning balance).

Sales on account	9,900,000
Collections on account	8,850,000
Sales Discounts	132,000
Accounts written-off	79,500

Worksheet 6

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	<i>To record sales on account</i>		
	<i>To record collections on account</i>		
	<i>To record sales discounts</i>		
	<i>To write-off uncollectible accounts</i>		
	<i>To increase allowance</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	<i>To record sales on account</i>		
	<i>To record collections on account</i>		
	<i>To record sales discounts</i>		
	<i>To write-off uncollectible accounts</i>		
	<i>To increase allowance (see calculations on next page)</i>		

**CALCULATION OF ALLOWANCE FOR 20X8**

	Receivables		Allowance
Beginning balance (20X7)	\$ 1,500,000	\$	40,000
Sales on account (20X7)	-		-
Collections on account (20X7)	-		-
Sales discounts (20X7)	-		-
Accounts written off (20X7)	-		-
Additions to allowance (20X7)	-		-
Ending balance (20X7)	<u>\$ -</u>	\$	<u>-</u>
	Receivables		Allowance
Beginning balance (20X8)	\$ -	\$	-
Sales on account (20X8)	-		-
Collections on account (20X8)	-		-
Sales discounts (20X8)	-		-
Accounts written off (20X8)	-		-
Subtotals	<u>\$ -</u>	\$	<u>-</u>
Additions to allowance (20X8)	-		-
Ending balance (20X8)	<u>\$ -</u>	\$	<u>-</u>

## Solution 6

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	Accounts Receivable	9,000,000	
	Sales		9,000,000
	<i>To record sales on account</i>		
	Cash	7,200,000	
	Accounts Receivable		7,200,000
	<i>To record collections on account</i>		
	Sales Discounts	102,000	
	Accounts Receivable		102,000
	<i>To record sales discounts</i>		
	Allowance for Uncollectible Accounts	49,500	
	Accounts Receivable		49,500
	<i>To write-off uncollectible accounts</i>		
	Uncollectible Accounts Expense	177,960	
	Allowance for Uncollectible Accounts		177,960
	<i>To increase allowance by 2% of net sales ((<math>\\$9,000,000 - \\$102,000</math>) X 2%)</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	Accounts Receivable	9,900,000	
	Sales		9,900,000
	<i>To record sales on account</i>		
	Cash	8,850,000	
	Accounts Receivable		8,850,000
	<i>To record collections on account</i>		
	Sales Discounts	132,000	
	Accounts Receivable		132,000
	<i>To record sales discounts</i>		
	Allowance for Uncollectible Accounts	79,500	
	Accounts Receivable		79,500
	<i>To write-off uncollectible accounts</i>		
	Uncollectible Accounts Expense	81,420	
	Allowance for Uncollectible Accounts		81,420
	<i>To increase allowance to equal 3% of gross receivables (see calculations below)</i>		

“I studied English for 16 years but...  
...I finally learned to speak it in just six lessons”  
Jane, Chinese architect

ENGLISH OUT THERE

Click to hear me talking before and after my unique course download



**CALCULATION OF ALLOWANCE FOR 20X8**

	<b>Receivables</b>	<b>Allowance</b>
Beginning balance (20X7)	\$ 2,250,000	\$ 60,000
Sales on account (20X7)	9,000,000	
Collections on account (20X7)	(7,200,000)	
Sales discounts (20X7)	(102,000)	
Accounts written off (20X7)	(49,500)	(49,500)
Additions to allowance (20X7)	–	177,960
Ending balance (20X7)	<u>\$ 3,898,500</u>	<u>\$ 188,460</u>
	<b>Receivables</b>	<b>Allowance</b>
Beginning balance (20X8)	\$ 3,898,500	\$ 188,460
Sales on account (20X8)	9,900,000	
Collections on account (20X8)	(8,850,000)	
Sales discounts (20X8)	(132,000)	
Accounts written off (20X8)	(79,500)	(79,500)
Subtotals	<u>\$ 4,737,000</u>	<u>\$ 108,960</u>
Additions to allowance (20X8)	–	33,150
Ending balance (20X8)	<u>\$ 4,737,000</u>	<u>\$ 142,110</u>

\* The allowance account should have a balance of \$142,110 (3% of the gross receivables: (\$4,737,000 X 3% = \$142,110). The addition to the account (\$33,150) is equal to the difference between the \$108,960 balance before adjustment, and the targeted balance of \$142,110.