CHAPTER 8

SOLUTIONS TO EXERCISES—SET B

EXERCISE 8-1B

March 1 Accounts Receivable—Lorance Company 5,000

Sales Revenue 5,000

3 Sales Returns and Allowances 700

Accounts Receivable—Lorance

Company 700

9 Cash 4,214

Sales Discounts 86

Accounts Receivable—Lorance

Company 4,300

15 Accounts Receivable 600

Sales Revenue 600

31 Accounts Receivable 9

Interest Revenue 9

EXERCISE 8-2B

(a) Jan. 6 Accounts Receivable—Hossfeld 5,500

Sales Revenue 5,500

16 Cash ($5,500 – $110) 5,390

Sales Discounts (2% X $5,500) 110

Accounts Receivable—Hossfeld 5,500

(b) Jan. 10 Accounts Receivable—Montoya 5,500

Sales Revenue 5,500

Feb. 12 Cash 4,000

Accounts Receivable—Montoya 4,000

Mar. 10 Accounts Receivable—Montoya 30

Interest Revenue

  [2% X ($5,500 – $4,000)] 30

EXERCISE 8-3B

(a) Dec. 31 Bad Debt Expense 2,900

Accounts Receivable—Willie’s 2,900

(b) (1) Dec. 31 Bad Debt Expense

  [($1,800,000 – $60,000) X 1%] 17,400

Allowance for Doubtful

  Accounts 17,400

(2) Dec. 31 Bad Debt Expense 13,700

Allowance for Doubtful

Accounts

  [($180,000 X 10%) – $4,300] 13,700

(c) (1) Dec. 31 Bad Debt Expense

  [($1,800,000 – $60,000) X .75%] 13,050

Allowance for Doubtful

  Accounts 13,050

(2) Dec. 31 Bad Debt Expense 11,210

Allowance for Doubtful

Accounts

  [($180,000 X 6%) + $410] 11,210

EXERCISE 8-4B

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| (a) | Accounts Receivable |  | Amount |  | % |  | Estimated Uncollectible |
|  |  |  |  |  |  |  |  |
|  | 1–30 days  31–60 days  61–90 days  Over 90 days |  | $62,000   18,000   17,000   13,000 |  | 2%   5%  30%  50% |  | $ 1,240     900   5,100    6,500  $13,740 |

(b) Mar. 31 Bad Debt Expense 11,640

Allowance for Doubtful Accounts

  ($13,740 – $2,100) 11,640

EXERCISE 8-5B

Allowance for Doubtful Accounts 18,100

Accounts Receivable 18,100

Accounts Receivable 2,900

Allowance for Doubtful Accounts 2,900

Cash 2,900

Accounts Receivable 2,900

Bad Debt Expense 20,200

Allowance for Doubtful Accounts

[$28,000 – ($23,000 – $18,100 + $2,900)] 20,200

EXERCISE 8-6B

December 31, 2021

Bad Debt Expense (2% X $600,000) 12,000

Allowance for Doubtful Accounts 12,000

May 11, 2022

Allowance for Doubtful Accounts 2,500

Accounts Receivable—Aber 2,500

June 12, 2022

Accounts Receivable—Aber 2,500

Allowance for Doubtful Accounts 2,500

Cash 2,500

Accounts Receivable—Aber 2,500

EXERCISE 8-7B

(a) Mar. 3 Cash ($770,000 – $23,100) 746,900

Service Charge Expense

  (3% X $770,000) 23,100

Accounts Receivable 770,000

(b) May 10 Cash ($2,700 – $108) 2,592

Service Charge Expense

  (4% X $2,700) 108

Sales Revenue 2,700

EXERCISE 8-8B

(a) Apr. 2 Accounts Receivable—Ruiz 1,500

Sales Revenue 1,500

May 3 Cash 600

Accounts Receivable—Ruiz 600

June 1 Accounts Receivable—Ruiz 9

Interest Revenue

  [($1,500 – $600) X 1%] 9

(b) July 4 Cash 388

Service Charge Expense (3% X $400) 12

Sales Revenue 400

EXERCISE 8-9B

(a) Jan. 15 Accounts Receivable 15,000

Sales Revenue 15,000

20 Cash ($8,500 – $255) 8,245

Service Charge Expense

  ($8,500 X 3%) 255

Sales Revenue 8,500

Feb. 10 Cash 8,000

Accounts Receivable 8,000

15 Accounts Receivable ($7,000 X 1%) 70

Interest Revenue 70

EXERCISE 8-10B

(a)

Nov. 1 Notes Receivable 20,000

Cash 20,000

Dec. 11 Notes Receivable 9,000

Sales Revenue 9,000

16 Notes Receivable 8,000

Accounts Receivable—DeLong 8,000

31 Interest Receivable 470

Interest Revenue\* 470

\*Calculation of interest revenue:

Hawkins’ note: $20,000 X 12% X 2/12 = $400

Eminem’s note: 9,000 X 8% X 20/360 = 40

DeLong’s note: 8,000 X 9% X 15/360 =     30

Total accrued interest $470

EXERCISE 8-11B

2021

May 1 Notes Receivable 60,000

Accounts Receivable—John

  Fosdick 60,000

Dec. 31 Interest Receivable 4,000

Interest Revenue

  ($60,000 X 10% X 8/12) 4,000

2022

May 1 Cash 66,000

Notes Receivable 60,000

Interest Receivable 4,000

Interest Revenue

  ($60,000 X 10% X 4/12) 2,000

EXERCISE 8-12B

4/1/22 Notes Receivable 30,000

Accounts Receivable—Gates 30,000

7/1/22 Notes Receivable 50,000

Cash 50,000

12/31/22 Interest Receivable 2,700

Interest Revenue

($30,000 X 12% X 9/12) 2,700

Interest Receivable 2,500

Interest Revenue

($50,000 X 10% X 6/12) 2,500

4/1/23 Cash 33,600

Notes Receivable 30,000

Interest Receivable 2,700

Interest Revenue

($30,000 X 12% X 3/12 = $900) 900

Accounts Receivable—Hatfield 53,750

Notes Receivable 50,000

Interest Receivable 2,500

Interest Revenue

($50,000 X 10% X 3/12 = $1,250) 1,250

EXERCISE 8-13B

(a) June 1 Notes Receivable 38,000

Cash 38,000

(b) Dec. 1 Accounts Receivable—

   Ice Inc. 39,710

Notes Receivable 38,000

Interest Revenue

($38,000 X 9% X 1/2) 1,710

(To record the dishonor of

Ice Inc. note with

expectation of collection)

(c) Dec. 1 Allowance for Doubtful Accounts 38,000

Notes Receivable 38,000

  (To record the dishonor of

Ice Inc. note with no

expectation of collection)

EXERCISE 8-14B

(a) Beginning accounts receivable $ 220,000

Net credit sales 2,000,000

Cash collections (1,820,000)

Accounts written off      (50,000)

Ending accounts receivable $ 350,000

(b) $2,000,000/[($220,000 + $350,000)/2] = 7.02 times

(c) 365/7.02 = 52.0 days