 Name _____

Bad Debts Step by Step: % of Credit Sales Method

Sneaker Supply Co. (a made-up company) sells shoes to stores. It started business on **January 1**, so A/R and ADA begin at $0. Based on experience, it expects **2% of each month's credit sales** to be uncollectible, and it records BDE at the end of each month.

January transactions

- **Jan 5:** Sold shoes for **$4,000 cash**.
- **Jan 10:** Sold shoes to Store A **on credit, $6,000**.
- **Jan 20:** Sold shoes to Store B **on credit, $4,000**.
- **Jan 31:** Record bad debt expense: 2% of January's credit sales.



1. Journal entries for January transactions*

Use (+A), (−A), (+R), (+E), (+xA), (−xA).

Date	Account	Debit	Credit
Jan 5	**Cash (+A)**	**4,000**	
	Sales Rev (+R)		**4,000**
Jan 10	**A/R (+A)**	**6,000**	
	Sales Rev (+R)		**6,000**
Jan 20	**A/R (+A)**	**4,000**	
	Sales Rev (+R)		**4,000**

2. Unadjusted T-account for A/R, before the Jan 31 adjustment

A/R (unadjusted)

Jan 10	**6,000**	
Jan 20	**4,000**	
Unadj. bal.	**10,000**	

January credit sales = **10,000**

BDE = credit sales × 2% = **200**

3. Adjusting journal entry (AJE), Jan 31

Date	Account	Debit	Credit
Jan 31	**BDE (+E)**	**200**	
	ADA (+xA, −A)		**200**

The cash sale has no collection risk, so it is not in A/R and not in the 2% estimate.

4. Accounts receivable at the end of January

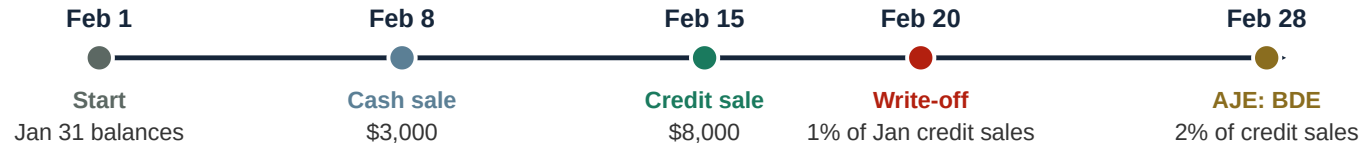
Accounts receivable, Jan 31	Amount
Gross A/R	**10,000**
Less: ADA	**200**
Net A/R	**9,800**

* Cost of goods sold entries (Dr CGS, Cr Inventory) are omitted for brevity. See Ch6.

February

February transactions

- **Feb 8:** Sold shoes for **$3,000 cash**.
- **Feb 15:** Sold shoes to Store C **on credit, $8,000**.
- **Feb 20:** Store A went out of business. An amount equal to **1% of January's credit sales** is now deemed uncollectible and is written off.
- **Feb 28:** Record bad debt expense: 2% of February's credit sales.



5. Journal entries for February transactions*

Date	Account	Debit	Credit
Feb 8	**Cash (+A)**	**3,000**	
	Sales Rev (+R)		**3,000**
Feb 15	**A/R (+A)**	**8,000**	
	Sales Rev (+R)		**8,000**
Feb 20	**ADA (−xA, +A)**	**100**	
	A/R (−A)		**100**

Feb 20: 10,000 × 1% = 100 is written off against ADA. No expense is recorded.

6. Unadjusted T-account for A/R, before the Feb 28 adjustment

A/R (unadjusted)

Beg. bal.	**10,000**	Feb 20	**100**
Feb 15	**8,000**		
Unadj. bal.	**17,900**		

February credit sales = **8,000**

BDE = credit sales × 2% = **160**

7. Adjusting journal entry (AJE), Feb 28

Date	Account	Debit	Credit
Feb 28	**BDE (+E)**	**160**	
	ADA (+xA, −A)		**160**

8. Put it together: January and February

	January	February
BDE for the month	**200**	**160**
Gross A/R, end of month	**10,000**	**17,900**
Less: ADA, end of month	**200**	**260**
Net A/R, end of month	**9,800**	**17,640**

* Cost of goods sold entries (Dr CGS, Cr Inventory) are omitted for brevity. See Ch6.