 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			
Jan 10			
Jan 20			

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

A/R (unadjusted)

Jan 10	_____		
Jan 20	_____		
Unadj. bal.	_____		

January credit sales = _____

BDE = credit sales × 2% = _____

3. Adjusting journal entry (AJE), Jan 31

Date	Account	Debit	Credit
Jan 31			

4. Accounts receivable at the end of January

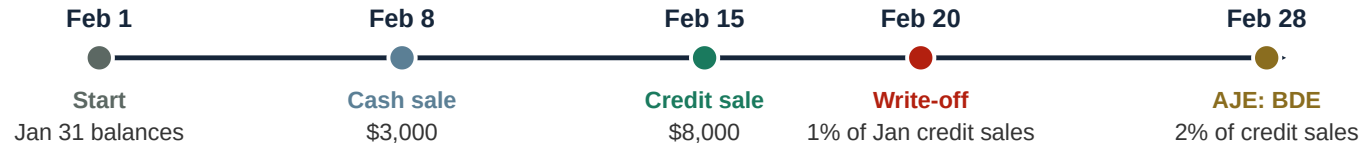
Accounts receivable, Jan 31	Amount
Gross A/R	_____
Less: ADA	_____
Net A/R	_____

* 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			
Feb 15			
Feb 20			

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

A/R (unadjusted)

Beg. bal.	_____	Feb 20	_____
Feb 15	_____		
Unadj. bal.	_____		

February credit sales = _____

BDE = credit sales × 2% = _____

7. Adjusting journal entry (AJE), Feb 28

Date	Account	Debit	Credit
Feb 28			

8. Put it together: January and February

	January	February
BDE for the month	_____	_____
Gross A/R, end of month	_____	_____
Less: ADA, end of month	_____	_____
Net A/R, end of month	_____	_____

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