

Chapter 8 | Practice Questions

Receivables and bad debt expense

Report to me (yu10j@cmich.edu) if you spot critical errors.

Set 1 | Estimating and Writing Off Bad Debts

INDEPENDENT

One transaction per view.

- a. At the end of June, bad debt expense is estimated to be **\$14,000**.
- b. In July, customer balances are written off in the amount of **\$7,000**.

Q1. a. At the end of June, bad debt expense is estimated to be \$14,000. Select the account for each blank.

General Journal	Debit	Credit
(a)	14,000	
(b)		14,000

	A. Bad Debt Expense	B. Allowance for Doubtful Accounts	C. Accounts Receivable	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q2. b. In July, customer balances of \$7,000 are written off. Select the account for each blank.

General Journal	Debit	Credit
(a)	7,000	
(b)		7,000

	A. Allowance for Doubtful Accounts	B. Accounts Receivable	C. Bad Debt Expense	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Answers, Set 1:

Q1. 1 A 2 B

Q2. 1 A 2 B

Set 2 | Write-Offs and Net Accounts Receivable

INDEPENDENT

The balances, the entry, then what it did to the net figure.

On **December 31, 2023** a company has adjusted balances of **\$800,000** in Accounts Receivable and **\$55,000** in Allowance for Doubtful Accounts. On **January 2, 2024** management learns that certain customer accounts are not collectible and authorizes a write-off of those accounts totaling **\$10,000**. No other transactions occur between December 31, 2023 and January 3, 2024.

Q1. Determine each amount.

	A	B	C	D
1. Net accounts receivable on December 31, 2023	☐ \$745,000	☐ \$755,000	☐ \$800,000	☐ \$855,000
2. Accounts Receivable immediately after the write-off	☐ \$745,000	☐ \$790,000	☐ \$800,000	☐ \$810,000
3. Allowance for Doubtful Accounts immediately after the write-off	☐ \$10,000	☐ \$45,000	☐ \$55,000	☐ \$65,000
4. Net accounts receivable on January 3, 2024	☐ \$735,000	☐ \$745,000	☐ \$755,000	☐ \$790,000

Q2. Record the January 2, 2024 write-off of the \$10,000 of uncollectible accounts. Select the account for each blank.

General Journal	Debit	Credit
(a)	10,000	
(b)		10,000

	A. Allowance for Doubtful Accounts	B. Accounts Receivable	C. Bad Debt Expense	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q3. Has net accounts receivable changed from December 31, 2023?

- ☐ **A.** No, because the write-off reduced Accounts Receivable and the Allowance for Doubtful Accounts by the same amount
- ☐ **B.** No, because the write-off was charged to Bad Debt Expense rather than to the receivables
- ☐ **C.** Yes, it decreased, because \$10,000 of receivables was removed
- ☐ **D.** Yes, it increased, because the contra-asset account got smaller

Answers, Set 2:

Q1. 1 A 2 B 3 B 4 B

Q2. 1 A 2 B

Q3. A

Set 3 | Effects of Write-Offs and Estimates

INDEPENDENT

The account-by-account effects, then the totals.

- **a.** During the period, customer balances are written off in the amount of **\$10,000**.
- **b.** At the end of the period, bad debt expense is estimated to be **\$8,000**.

Decreases are shown with a minus sign. The Allowance for Doubtful Accounts is a contra-asset, so its effect is shown on **total assets**.

Q1. Select the effect of each item on **total assets**, or on **net income** where stated.

		A		B		C		D		E
1. a. Accounts Receivable	☐	-10,000	☐	-8,000	☐	No effect	☐	+8,000	☐	+10,000
2. a. Allowance for Doubtful Accounts	☐	-10,000	☐	-8,000	☐	No effect	☐	+8,000	☐	+10,000
3. b. Allowance for Doubtful Accounts	☐	-10,000	☐	-8,000	☐	No effect	☐	+8,000	☐	+10,000
4. b. Bad Debt Expense (effect on net income)	☐	-18,000	☐	-10,000	☐	-8,000	☐	No effect	☐	+8,000

Q2. Select the overall effect of each transaction.

		A		B		C
1. a. Write-off: total assets	☐	Decrease	☐	Increase	☐	No effect
2. a. Write-off: net income	☐	Decrease	☐	Increase	☐	No effect
3. b. Estimate: total assets	☐	Decrease	☐	Increase	☐	No effect

Answers, Set 3:

Q1. 1 A 2 E 3 B 4 C

Q2. 1 C 2 C 3 A

Set 4 | Percentage of Credit Sales

INDEPENDENT

The estimate, then the entry that records it.

A company had **credit sales of \$250,000** and **cost of goods sold of \$150,000** for the period. It uses the **percentage of credit sales** method and estimates that **1 percent** of credit sales will be uncollectible. Before the end-of-period adjustment is made, the **Allowance for Doubtful Accounts has a credit balance of \$250**.

Q1. What amount of Bad Debt Expense would the company record as the end-of-period adjustment?

- ☐ A. \$250 ☐ B. \$2,250 ☐ C. \$2,500 ☐ D. \$2,750

Q2. Record the end-of-period adjustment for bad debts. Select the account for each blank.

General Journal	Debit	Credit
(a)	2,500	
(b)		2,500

	A. Accounts Receivable	B. Allowance for Doubtful Accounts	C. Bad Debt Expense	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Answers, Set 4:

Q1. C

Q2. 1 C 2 B

Set 5 | Bad Debt Expense from the Allowance

INDEPENDENT

One amount, worked back from the allowance.

The annual report for Fabeck Finishing Corporation contained the following information (in millions):

	2024	2023
Accounts Receivable	\$455	\$455
Allowance for Doubtful Accounts	35	25
Accounts Receivable, Net	\$420	\$430

Accounts receivable write-offs amounted to **\$1** during 2024 and **\$9** during 2023. Fabeck Finishing did not record any recoveries.

Q1. Determine the Bad Debt Expense for 2024 (in millions).

☐ **A.** \$1 ☐ **B.** \$9 ☐ **C.** \$10 ☐ **D.** \$11 ☐ **E.** \$19

Answers, Set 5:

Q1. D

Set 6 | Write-Off, Estimate, and Reporting

INDEPENDENT

Two entries, the reported amounts, then a judgment on the rate.

During the year ended **December 31, 2024**, Kelly's Camera Shop had sales revenue of **\$170,000**, of which **\$85,000** was on credit. At the start of 2024, Accounts Receivable showed a **\$10,000** debit balance and the Allowance for Doubtful Accounts showed a **\$600** credit balance. Collections of accounts receivable during 2024 amounted to **\$68,000**.

- a. On **December 10**, a customer balance of **\$1,500** from a prior year was determined to be uncollectible, so it was written off.
- b. On **December 31**, a decision was made to continue the accounting policy of basing estimated bad debt losses on **2 percent of credit sales** for the year.

Q1. a. On December 10, the \$1,500 customer balance is written off. Select the account for each blank.

General Journal		Debit	Credit
(a)		1,500	
	(b)		1,500

	A. Accounts Receivable	B. Allowance for Doubtful Accounts	C. Bad Debt Expense	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q2. b. On December 31, the bad debt estimate is recorded. Select the account for each blank.

General Journal		Debit	Credit
(a)		1,700	
	(b)		1,700

	A. Accounts Receivable	B. Allowance for Doubtful Accounts	C. Bad Debt Expense	D. Cash
1. (a)	☐	☐	☐	☐
2. (b)	☐	☐	☐	☐

Q3. Determine each amount reported on the December 31, 2024 balance sheet.

	A	B	C	D	E
1. Accounts Receivable	☐ \$23,800	☐ \$24,000	☐ \$24,700	☐ \$25,500	☐ \$27,000
2. Allowance for Doubtful Accounts	☐ \$800	☐ \$1,700	☐ \$2,100	☐ \$2,300	☐ \$3,800
3. Accounts Receivable, Net	☐ \$23,200	☐ \$23,800	☐ \$24,700	☐ \$24,900	☐ \$25,500

Q4. On the basis of the data available, does the 2 percent rate appear to be reasonable?

- ☐ A. Yes, because the allowance still ends the year with a credit balance
- ☐ B. Yes, because bad debt expense of \$1,700 is larger than the \$1,500 written off
- ☐ C. No, it appears too high, because the allowance grew during the year
- ☐ D. No, it appears too low, because \$1,500 was written off when the allowance held only \$600 at the start of the year
- ☐ E. No, because the rate should be applied to total sales of \$170,000

Answers, Set 6:

Q1. 1 B 2 A

Q2. 1 C 2 B

Q3. 1 D 2 A 3 C

Q4. D