

## SELF STUDY PROBLEMS 3-1 AND 3-2

### Problem 3-1

The trial balance before adjustment for the Moore Sales Co. shows the following balances:

	<u>Dr.</u>	<u>Cr.</u>
Accounts Receivable .....	\$ 60,000	
Allowance for Doubtful Accounts .....	500	
Sales .....		\$300,000

Record the necessary year-end adjusting entry for estimated doubtful accounts assuming each of the following different and unrelated circumstances:

- a. The company has estimated that 3% of their sales are of doubtful collectibility.
- b. The company has estimated that 5% of their accounts receivable are of doubtful collectibility.
- c. The company has estimated, on the basis of an aging of accounts receivable, that \$1,900 of their accounts receivable are of doubtful collectibility.

### Problem 3-2

The Snyder Co. uses the allowance method of accounting for uncollectible accounts receivable. Record the following transactions of the Snyder Co. in general journal form.

- (a) The company has estimated that 1% of their 20x5 sales of \$600,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a credit balance of \$1,500. Record the necessary year-end adjusting entry.
- (b) The account of Thomas Perkins for \$300 is found to be uncollectible in April 20x6 and the account is written off.

SELF STUDY PROBLEMS 3-3 TO 3-5

Problem 3-3

The Daud Store shows the following information relating to Commodity A which it handles:

Inventory, January 1	.....	100 units @ \$5 each
Purchases, January 10	.....	300 units @ \$6 each
Purchases, January 20	.....	400 units @ \$7 each

The ending inventory consists of 150 units. What is the value of the inventory at the end of January assuming cost is determined using the:

- a. first-in, first-out method
- b. last-in, first-out method
- c. weighted average method

Problem 3-4

The Edwards Company shows the following information relating to Commodity R which it handles:

Inventory, March 1	.....	400 units @ \$6 each
Purchases, March 18	.....	300 units @ \$7 each
Purchases, March 26	.....	300 units @ \$8 each

The ending inventory consists of 450 units. What is the value of the inventory at the end of March assuming cost is determined using the:

- a. first-in, first-out method
- b. last-in, first-out method
- c. weighted average method

Problem 3-5

Determine the cost of the ending inventory using the methods specified below:

<u>Product A</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Beginning Inventory	500	\$ ---	\$122,600
Purchases			
April 12	200	250	50,000
June 17	300	260	78,000
October 22	50	280	14,000

The ending inventory consists of 525 units. Calculate the cost of the ending inventory using the

- a. first-in, first-out method
- b. last-in, first-out method
- c. weighted average method

SELF STUDY PROBLEMS 3-1 AND 3-2  
ANSWERS

Problem 3-1

- a. The company estimate that 3% of their sales are of doubtful collectibility indicates that the balance in the bad debts expense account should be 3% of sales.

Bad Debt Expense (3% of 300,000)	9,000	
Allowance for Doubtful Accounts		9,000

- b. Given that the company estimate is based upon the balance of accounts receivable, we should show a balance in the Allowance for Doubtful Accounts of 5% of the accounts receivable, or  $5\% \times 60,000 = 3,000$ . Given the debit balance of \$500 already in the account, we should increase the Allowance for Doubtful Accounts by  $3,000 + 500 = 3,500$ .

Bad Debt Expense	3,500	
Allowance for Doubtful Accounts		3,500

- c. The process of aging of accounts receivable is performed to obtain the balance needed in the Allowance for Doubtful Accounts. The company's analysis reveals the need for a balance of \$1,900. Given the debit balance of \$500 already in the account, we should increase the Allowance for Doubtful Accounts by  $1,900 + 500 = 2,400$ .

Bad Debt Expense	2,400	
Allowance for Doubtful Accounts		2,500

Problem 3-2

- a. Bad Debt Expense ( $600,000 \times 1\%$ )      6,000  
    Allowance for Doubtful Accounts      6,000
- b. Allowance for Doubtful Accounts      300  
    Accounts Receivable - T. Perkins      300



SELF STUDY PROBLEM 3-5  
ANSWERS

a. first-in, first-out

50 units @ \$280 =	\$ 14,000
300 units @ \$260 =	78,000
175 units @ \$250 =	<u>43,750</u>
	<u>\$135,750</u>

b. last-in, first-out

500 units @ \$ --- =	\$122,600
25 units @ \$250 =	<u>6,250</u>
	<u>\$128,850</u>

c. weighted average

500 units @ \$ --- =	\$122,600
200 units @ \$250 =	50,000
300 units @ \$260 =	78,000
<u>50 units @ \$280 =</u>	<u>14,000</u>
1,050	<u>\$264,600</u>

$\$264,600 / 1,050 \text{ units} = \$252 \text{ per unit}$   
 $525 \text{ units @ } \$252 = \underline{\underline{\$132,300}}$