

**PROBLEM 8-2A**

(a)	1.	Accounts Receivable .....	2,500,000	
		Sales .....		2,500,000
	2.	Sales Returns and Allowances .....	40,000	
		Accounts Receivable .....		40,000
	3.	Cash .....	2,200,000	
		Accounts Receivable .....		2,200,000
	4.	Allowance for Doubtful Accounts .....	45,000	
		Accounts Receivable .....		45,000
	5.	Accounts Receivable .....	15,000	
		Allowance for Doubtful Accounts .....		15,000
		Cash .....	15,000	
		Accounts Receivable .....		15,000

(b)	<b>Accounts Receivable</b>		<b>Allowance for Doubtful Accounts</b>	
	Bal. 600,000	(2) 40,000	(4) 45,000	Bal. 40,000
	(1) 2,500,000	(3) 2,200,000		(5) 15,000
	(5) 15,000	(4) 45,000		
		(5) 15,000		
	Bal. 815,000			Bal. 10,000

(c)	Balance needed .....	\$46,000
	Balance before adjustment [See (b)] .....	<u>10,000</u>
	Adjustment required .....	<u>\$36,000</u>

The journal entry would therefore be as follows:

Bad Debts Expense .....	36,000	
Allowance for Doubtful Accounts .....		36,000

## PROBLEM 8-2A (Continued)

$$(d) \quad \frac{\$2,500,000 - \$40,000}{(\$560,000^* + \$769,000^{**}) \div 2} = \frac{\$2,460,000}{\$664,500} = 3.7 \text{ times}$$

$$*\$600,000 - \$40,000$$

$$**\$815,000 - \$46,000$$

The average collection period is:

$$\frac{365 \text{ days}}{3.7} = 98.6 \text{ days}$$