

CMA 1289 P4 Q23

Brighton Corporation uses the allowance method of accounting for bad debts on its internal reports and has used a historical rate of 1.5% of credit sales to estimate its bad debt expense. The aging schedule of Brighton's accounts receivable at November 30, 20X4, based upon past collection experience is presented as follows.

<u>Days Outstanding</u>	<u>Amount</u>	<u>Probability of Collection</u>
0-30 days	\$640,000	0.98
31-60 days	180,000	0.92
61-90 days	95,000	0.75
over 90 days	<u>40,000</u>	0.60
	\$955,000	

Total sales for the 20X3-X4 fiscal year were \$6,500,000, of which 85% were on credit. The allowance for uncollectible accounts had a credit balance of \$76,500 on December 1, 20X3, and a debit balance of \$3,400 on November 30, 20X4, before any entry to record bad debt expense for the 20X3-X4 fiscal year.

The amount of the accounts receivable written off by Brighton Corporation during the 20X3-X4 fiscal year is

T-Account

<u>Allowance for Doubtful Accounts</u>	
	(1) 76,500 Beginning balance
(2) 79,900 Bad debts written off	(3) -0- Collection of previously written-off bad debts
	(4) Bad debt expense – not yet determined
(5) 3,400 Pre-closing Ending balance	

The \$3,400 debit ending balance is a debit balance because the bad debt expense for the period has not yet been recorded. The bad debt expense will include a credit to the Allowance account that will change the pre-closing ending balance from a debit balance to a credit balance.

The answer to the question is the amount of bad debts written off that would have changed the \$76,500 beginning credit balance in the Allowance account to a \$3,400 pre-closing debit balance. Debits of **\$79,900** would have been needed to change the \$76,500 credit balance to a \$3,400 debit balance. In this case, the \$79,900 is a total of several debit transactions, each representing an account that was written off by debiting the Allowance account and crediting the Accounts Receivable account. And that is the amount of accounts receivable written off during the year.