

Exercise 4

Demonstration Problem

On February 28, Dylan Co. had the following balances in select accounts:

Accounts Receivable	\$200,000
Allowance for Doubtful Accounts (credit)	12,500

Selected transactions for Dylan Co. follow. Dylan's year end is June 30.

Mar. 1	Sold \$20,000 of merchandise to Potter Company, terms n/30.
1	Accepted Juno Company's \$16,500, six-month, 6% note for the balance due on account.
11	Potter Company returned \$600 worth of goods.
13	Sold \$13,200 of merchandise to Henry Company, terms n/30.
30	Received payment in full from Potter Company.
Apr. 13	Recorded interest on the balance owing from Henry Company's overdue account. Dylan Co. charges 24% interest on overdue accounts.
May 10	Wrote off as uncollectible \$15,000 of accounts receivable.
11	Received payment in full from Henry Company.
June 30	Estimated uncollectible accounts are determined to be \$20,000 at June 30.
30	Recorded the interest accrued on the Juno Company note.
July 16	Received payment in full, \$4,000, on an account that was previously written off in May.
Sept. 1	Collected cash from Juno Company in payment of the March 1 note receivable.

Dylan uses the percentage of receivables approach to estimate uncollectible accounts.

Instructions

- Prepare the journal entries for the transactions. Ignore cost of goods sold entries for the purposes of this question.
- Open T accounts for Accounts Receivable and the Allowance for Doubtful Accounts, and post the relevant journal entries to these accounts. Calculate the balance in these accounts at June 30 and at September 1.
- Calculate the carrying amount of the accounts receivable at June 30 and September 1.