

Lesson 16: Accounts Receivable and Bad Debts

Part A: Journal Entries

Record the journal entries for each transaction:

#	Transaction	Account Debited	Account Credited	Amount (\$)
1	Sold \$7,500 of goods on credit			
2	Customer paid \$3,000 of their balance			
3	Wrote off \$500 as uncollectible			
4	Estimated bad debt expense: 2% of \$50,000 AR			

Part B: Allowance Method Calculation

A company has \$80,000 of AR. It estimates 3% will be uncollectible. The current credit balance in Allowance for Doubtful Accounts is \$500.

1. What is the target allowance balance? \$ _____
2. What amount of bad debt expense should be recorded? \$ _____

Part C: Short Answer

Why do businesses use the allowance method instead of the direct write-off method?
