

**Answer on Question #62546 - Economics - Accounting**

Balance Sheet of AA & Co. showed the following information as at December 31, 2005.

Account Receivables	225,300
Allowance for Doubtful Accounts	6,759

Following transactions took place during the year ended December 31, 2006.

Credit sales	1,245,500
Cash Sales	230,600
Cash collected	1,386,200
Doubtful accounts written off	2,300

Company has a policy of providing for 3% of outstanding Receivables as Allowance for doubtful accounts.

Required:

(a) Prepare the following accounts for the year as they would appear in the books of AA & Co. (Journal entries are not required):

- i) Accounts Receivable Account.
- ii) Allowance for Doubtful Accounts.

(b) Compute the amount of allowance for doubtful accounts required at the end of the year.

**Solution****Receivable Account**

Beginning Balance	225,300		
Credit sales	1,245,500	1,386,200	Cash collections
		2,300	Accounts Written off
	1,470,800	1,388,500	
Ending Balance	82,300		

**Allowance for Doubtful Account**

		6,759	Beginning Balance
Accounts Written off	2,300		
Income Statement	1,900		
	4,200	6,759	
		2,469	Ending Balance

Allowance for doubtful accounts = Ending of Accounts Receivable x Percent of Accounts Receivable

$$\$82,300 \times 3\% = \$2,469$$