Name: ______________________________

ACCOUNTING I
Chapter 14 Reading Guide

14-1 Uncollectible Accounts Receivable

Please answer the following questions as you read Chapter 14, pages 410-437.

1. The expense of an uncollectible account should be recorded in the accounting period that the revenue was earned. With each sale on account, a business takes the risk that the customer will never pay. This risk is an expense of doing business. What accounting concept is involved in regards to the estimating and recording of this expense?
   - Matching Expenses with Revenue concept

2. The allowance method of recording losses from uncollectible accounts is GAAP approved. This method also follows the accounting concept *Neutrality* because this process of making accounting estimates is free from bias. Please define the allowance method of recording losses from uncollectible accounts. When a customer account is written off under the allowance method, does the book value of accounts receivable **increase, decrease, or stay the same**? (Please **circle** the correct answer.)
   -

3. What is book value? What is the normal balance side of the Allowance for Uncollectible Accounts account?
   -
   -

4. The book value of accounts receivable must be a reasonable and unbiased estimate of the money the business expects to collect in the future. What is the book value of accounts receivable? Which financial statement are the Allowance for Uncollectible Accounts and the book value of Accounts Receivable recorded on?
   - It is the difference between the balance of Accounts Receivable and its contra account, Allowance for Uncollectible Accounts.
   - The book value of accounts receivable is reported on the Balance Sheet.

5. When using the allowance method, writing off an uncollectible account does not change the net realizable value of accounts receivable. What is the net realizable value?
   - Net realizable value is the amount of accounts receivable a business expects to collect in the future.

6. What are the two methods commonly used to estimate uncollectible accounts receivable?
   -
   -

7. The book value of accounts receivable in the financial accounts must be a reasonable and unbiased estimate of the money a business expects to collect in the future. Which accounting concept is this an application of?
   - Neutrality Concept

8. The first step in using the percent of accounts receivable method is to total accounts by "age" groups. What is analyzing account receivable according to when they are due called?
   -

9. In the example in the book on page 414, the current balance of Allowance for Uncollectible accounts of 125.15 was subtracted from the estimate of 2,509.25. Why was this balance subtracted?
   - The balance is what remains of estimates made in prior fiscal periods. To bring the balance up to the new estimate, the current balance must be increased by the new computed total estimate minus the previous balance. The **adjustment to this account is the difference** between the two numbers.

10. The adjusting entry for uncollectible accounts does not reduce the balance of the Accounts Receivable account. Which two accounts are affected, and how, for the adjusting entry to the Allowance for Uncollectible Accounts to bring it up to date with an adjusting entry at the end of the month?
    - Debit: ________________________________ Credit: ____________________________________

14-2 Writing Off and Collecting Uncollectible Accounts Receivable

11. When a customer account is determined to be uncollectible, a journal entry is made to cancel the uncollectible account from Accounts Receivable as well as the customer account in the accounts receivable ledger. What is this known as?
    - Writing off an account.

12. Once an account is determined to be uncollectible, which account is the amount of the uncollectible account deducted from?
    -

13. Which three accounts (include debits and credits) are affected are affected by the journal entry to write off an uncollectible account receivable? What is the source document?
    - Debit: ________________________________ Credit: ______________________________________
    -

14. What will the book value of accounts receivable be after the uncollectible account is written off?
    - It is the same before and after the write off because the same amount is deducted from both accounts.

15. There is another method of writing off uncollectible accounts, but it is not used because it does not comply with Generally Accepted Accounting Principles (GAAP). What is the method? Which accounting concept is involved?
    -
    -

16. If a customer pays off a previously written off account, what are the accounts affected, and how are they journalized?
    - First you have to reopen the account: Accounts Receivable and the customer's accounts receivable account are debited, and Allowance for Uncollectible Accounts is credited.
    - Then, to record the payment, Cash is debited and Accounts Receivable and the customer's accounts receivable account are both credited.

17. Which journal is used to record the cash received for an account previously written off?
    -

14-3 Promissory Notes

18. What is a written and signed promise to pay a sum of money at a specified time called? What is the person or business to whom a liability is owed called?
    -
    -

19. What is the difference between a notes payable and a notes receivable?

- Notes payable refers to a note signed by a business and given to a creditor, and a notes receivable is a note that a business accepts from a customer.

20. What is the person who signs the note and promises to make payment called? What is the person to whom the amount of a note is payable called?
    -
    -

21. What is the original amount of a note called? (AKA: face amount)
    - Principal

22. What is the percent of the principal that is due for the use of the funds secured by a note called?
    -

23. The maturity date of a note is the date on which the principal of a note is due to be repaid. What does the time of a note (or term) refer to?
    - Time of a note refers to the length of time from the signing date to the maturity date.

24. A note provides a business with legal evidence of a debt in the event it becomes necessary to go to court to collect. Total assets do not change when a business accepts a note receivable from a customer needing an extension of time to pay an account receivable. What **three** accounts (include debits and credits) are affected to journalize the acceptance of a note receivable from a customer?
    - Debit: ___________________________________ Credit: ____
25. Interest income is <u>not</u> classified as revenue from normal operations. Interest rates are stated as a percentage of the principal. (The time used in calculating interest is often stated as a fraction of 360 days.) What is the formula for calculating the interest on a note for a fraction of a year?
    - Principal x annual interest rate x time as fraction of a year = interest for fraction of a year

26. The maturity value of a note is the amount that is due on the maturity date of a note. How is the maturity value calculated?
    -

27. In the illustration on the table shown on page 427, how was 13 determined to be the days for the month for March?
    -

28. What accounts (include debits and credits) are affected to journalize the collection of principal and interest on a notes receivable?
    - Debit: ___________________________________ Credit: ____.

29. What is a dishonored note?
    - A dishonored note is a note that is not paid when it is due.

30. If a note is dishonored, the amount of the note plus the interest income earned is still owed by the customer. What four accounts (include debits and credits) are affected when journalizing a dishonored notes receivable?
    - Accounts Receivable and the customer's accounts receivable account are debited, and Notes Receivable and Interest Income are credited.