

Part 2: Accounts Receivables

(a)

Provisions for bad debts = Sales * Percentage

$$33 \text{ (Note 2)} = 4777 \text{ (I/S)} * \text{Percentage}$$

$$\text{Percentage} = 0.69\%$$

(b)

Percentage deemed uncollectible

= Allowance for bad debts / Gross accounts receivables

$$= 54 / (323 + 54) \text{ (all numbers from the B/S)}$$

$$= 14.3\%$$

(c)

Consider the allowance account:

End. Bal. = Beg. Bal. + Provisions – Write-off

$$54 \text{ (B/S)} = 34 \text{ (B/S)} + 33 \text{ (Note 2)} - \text{Write-off}$$

Hence, Write-off = 13.

(d)

◆ Recall, the journal entry for writing off bad debts is:

Dr.	Allowance for bad debts	10 million
	Cr.	Accounts Receivables
		10 million

◆ (i) No effect on total current assets.

A/R decreases by \$10 million, but Allowance also decreases by \$10 million.

Hence, net A/R remains unchanged – the same is true for Total current assets.

◆ (ii) No effect on income from operations.

Write-off does not hit the income statement, as shown in the journal entry.

◆ (iii) Tax payment to the IRS decreases by \$4 million.

Write-offs are tax deductible. Hence, taxable income decreases by \$10 million and tax payment decreases by \$10 million * 40%.