

Qno10:

Sunny Stores
General Journal

<i>Date</i>	<i>Account Titles and Explanation</i>	<i>Post Ref.</i>	<i>Debit</i>	<i>Credit</i>
2006				
Jan 1				
to Dec				
31				
	1 Accounts Receivable		880,000	
	Sales			880,000
	(To record credit sales)			
	2 Sales Return & Allowance		20,000	
	Accounts Receivable			20,000
	(To record sales return & allowance)			
	3 Cash		820,000	
	Accounts Receivable			820,000
	(To record cash collection)			
	4 Sales Discount		10,000	
	Accounts Receivable			10,000
	(To record sales discount)			
	5 Allowance for Bad Debts		20,000	
	Accounts Receivable			20,000
	(To record sales discount)			
	6-a Accounts Receivable		5,000	
	Allowance for Bad Debts			5,000
	(To re-instate customers' account)			
	6-b Cash		5,000	
	Accounts Receivable			5,000
	(To record cash collection)			

		(Adjustment)			
		Case no 1			
Dec	31	Bad Debts Expense		18000	
		Allowance for Bad Debts			18000
		(To record estimated bad debts)			
		(Adjustment)			
		Case no 2			
Dec	31	Bad Debts Expense		8500	
		Allowance for Bad Debts			8500
		(To record estimated bad debts)			

For Balance Sheet Approach:				
Computation for Estimated Bad Debts:				
Estimated bad debts are 5% of year-end accounts receivable				
Estimated allowance for bad debts (Rs.260,000 x 5/100)				13,000
Add:Debit balance of allowance for bad debts before adjustment				5,000
Bad Debts Expense				<u>18,000</u>
For Income Statement Approach				
Computation for Estimated Bad Debts:				
Estimated bad debts are 1% of net sales				
Bad Debts Expense = Net Sales x 1/100				
First we find 'Net Sales'				
Credit Sales		880,000		
Less: Sales Return		(20,000)		
Sales Discount		<u>(10,000)</u>		
Net Credit Sales		850,000		
Bad Debts Expense = 850000 x 1/100				
= Rs.8,500				

Sunny Stores					
General Ledger					
Accounts Receivable					
2006 Jan 1 to Dec 31	Balance b/d	250,000	2006 Jan 1 to Dec 31(2)	Sales Return	20,000
1	Sales	880,000	3	Cash	820,000
6-a	Allowance for Bad Debts	5,000	4	Sales Discount	10,000
			5	Allowance for Bad Debts	20,000
	1,135,000		6-b	Cash	5,000
				875,000	
			31-Dec	Balance c/d	260,000
		1,135,000			1,135,000
2007 Jan 1	Balance b/d	260,000			
For Balance Sheet Approach					
Allowance for Bad Debts					
2006 Jan 1 to Dec 31(5)	Accounts Receivable	20,000	2006 Jan 1 to Dec 31	Balance	10,000
			6-a	Accounts Receivable	5,000
			31	Adj	18,000
				33,000	
31	Balance c/d	13,000			33,000
		33,000			
			2007 Jan 1	Balance b/d	13,000
For Income Statement Approach					
Allowance for Bad Debts					
2006 Jan 1 to Dec 31(5)	Accounts Receivable	20,000	2006 Jan 1 to Dec 31	Balance	10,000
			6-a	Accounts Receivable	5,000
			31	Adj	8,500
				23,500	
31	Balance c/d	3,500			23,500
		23,500			
			2007 Jan 1	Balance b/d	3,500

By Balance Sheet Approach:							
Sunny Stores Balance Sheet-Partial As on Dec 31, 2006							
Assets				Equities			
Current Assets							
Accounts Receivable			260,000				
Less: Allowance for Bad Debts			(13,000)				
Net Realizable Value			247,000				

By Income Statement Approach:							
Sunny Stores Balance Sheet-Partial As on Dec 31, 2006							
Assets				Equities			
Current Assets							
Accounts Receivable			260,000				
Less: Allowance for Bad Debts			(3,500)				
Net Realizable Value			256,500				