

Qno12:

For 2005:

M/S Ayoub &amp; Sons

General Ledger

**Allowance for Bad Debts**

2005 Dec 31	Balance	400	2005 Dec 31	Adj	5,000
31	Balance c/d	4,600			
		5,000			5,000
			2006 Jan 1	Balance b/d	4,600

**Computation for Estimated Bad Debts**

Estimated bad debts are 10% of year-end accounts receivable	
Estimated allowance for bad debts ( 46,000 x 10/100)	4,600
Add: Debit balance in allowance for bad debts before adjustment	400
Bad Debts Expense	<u>5,000</u>

**Adjusting Entry:**

2005 Dec 31	Bad Debts Expense	5,000	
	Allowance for Bad Debts		5,000
	(To record estimated bad debts)		

M/S Ayoub & Sons  
Balance Sheet-Partial  
As on Dec 31, 2005

Assets				Equities			
Current Assets							
Accounts Receivable			46,000				
Less: Allowance for Bad Debts			(4,600)				
Net Realizable Value			<u>41,400</u>				

For 2006:

Entries				
2006				
Mar 16	Allowance for Bad Debts		5,600	
	Accounts Receivable			5,600
	(Wrote off worthless customers' accounts)			
Nov 11	Accounts Receivable		3,000	
	Allowance for Bad Debts			3,000
	(To re-instate customers' account)			
11	Cash		3,000	
	Accounts Receivable			3,000
	(To record cash collection)			
Dec 31	Accounts Receivable		2,000	
	Advance from customers			2,000
	(To record advance from customers)			

Computation for Estimated Bad Debts	
Estimated bad debts are 10% of year-end accounts receivable	
Estimated allowance for bad debts ( 60,000 x 10/100)	6,000
Less: Credit balance in allowance for bad debts before adjustment	<u>(2,000)</u>
Bad Debts Expense	<u>4,000</u>

## M/S Ayoub &amp; Sons

## General Ledger

## Accounts Receivable

2006 Dec 31	Balance	58,000			
31	Advance from customers	2,000			
	<b>60,000</b>				
			2006 Dec 31	Balance c/d	60,000
		60,000			60,000
2007 Jan 1	Balance b/d	60,000			

## Allowance for Bad Debts

2006 Mar 16	Accounts Receivable	5,600	2006 Jan 1	Balance b/d	4,600
			Nov 11	Accounts Receivable	3,000
			Dec 31	Adj	4,000
				<b>11,600</b>	
Dec 31	Balance c/d	6,000			
		11,600			11,600
			2007 Jan 1	Balance b/d	6,000

## Adjusting Entry:

2006 Dec 31	Bad Debts Expense		4,000	
	Allowance for Bad Debts			4,000
	(To record estimated bad debts)			

M/S Ayoub & Sons  
Balance Sheet-Partial  
As on Dec 31, 2006

Assets				Equities			
Current Assets							
Accounts Receivable			60,000				
Less: Allowance for Bad Debts			(6,000)				
Net Realizable Value			54,000				