

CONCEPT: NET RECEIVABLES – PERCENTAGE OF SALES METHOD

- In this method, we estimate a **percentage-of-_____ -sales** that will be uncollectible. This is bad debt expense.
 - This is considered an _____ approach
 - An exam question will typically give you a percentage of credit sales → this is _____
 - We can use the BASE formula to find the ending balance in the allowance:

$$BB \text{ Allowance} + Bad \text{ Debt Expense} - Accounts \text{ Written Off} = EB \text{ Allowance}$$

EXAMPLE: A company had credit sales totaling \$1,500,000 this year. The company has a policy estimating 2% of credit sales to be uncollectible. The Allowance for Doubtful Accounts has a current credit balance of \$12,000. What is the journal entry to record this year's bad debt expense? What is the ending balance in the Allowance for Doubtful Accounts?

PRACTICE: A company had credit sales totaling \$2,000,000 this year. The company has a policy estimating 1.5% of credit sales to be uncollectible. The Allowance for Doubtful Accounts has a current debit balance of \$2,000. What is the journal entry to record this year's bad debt expense? What is the ending balance in the Allowance for Doubtful Accounts?