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* **Subject:** Accounting.

Q1)

“Ans) Bad debt is an unfortunate reality of running a business. A bad debt is money owed to your company that you decide is not collectable. The two most common methods you can use to write off bad debt are the direct write-off method and the allowance method. Both methods move money out of the asset account accounts receivable when you decide an account is uncollectable.

**Direct Write-Off Method**

Using the direct write-off method, write off debt the second you decide the account is uncollectable. Most bookkeepers decide a customer will not pay an invoice based on how long past due the invoice is and after failed collection efforts. Increase the bad debt expense account with a debit and decrease the accounts receivable account with a credit. For example, if customer Lucy has a 91-day late $125 invoice, your write-off journal entry would look like this: Bad Debts Expense - Debit $125 Accounts Receivable - Credit $125

**Direct Write-Off Method Adjustment**

When you receive money you wrote off as uncollectable, you must reverse the write-off entry and record the payment. Reverse the write-off entry by increasing the accounts receivable account with a debit and decreasing the bad debt expense account with a credit. Record the payment by increasing the cash account with a debit and decreasing the accounts receivable account with a credit.
For example, Lucy paid the invoice 75 days after you wrote it off. You would reverse the write-off journal entry like this: Accounts Receivable - Debit $125 Bad Debts Expense - Credit $125 Record the received payment. Cash - Debit $125 Accounts Receivable - Credit $125

**Allowance Method**

Using the allowance method, create an allowance account for potential bad debt. Most companies decide how much money to put in the allowance account based on the amount of company bad debt from prior years or industry norms. Increase the bad debt expense account with a debit and increase the contra-asset account, allowances for doubtful accounts, with a credit. When you decide an account is uncollectable, you write it off. Decrease the allowances for doubtful accounts account with a debit and decrease the accounts receivable account with a credit. For example, you decided you will have $1,000 in bad debt for the accounting period. Allowance account setup. Bad Debts Expense - Debit $1,000 Allowances for Doubtful Accounts - Credit $1,000 Example: Lucy has a 121-day late $125 invoice. Write-off journal entry. Allowances for Doubtful Accounts - Debit $125 Accounts Receivable - Credit $125

**Allowance Method Adjustment**

When you receive money you wrote off as uncollectable, you must reverse the write-off entry and record the payment. Reverse the write-off entry by increasing the accounts receivable account with a debit and decreasing the allowances for doubtful accounts account with a credit. Record the payment by increasing the cash account with a debit and decreasing the accounts receivable account with a credit. For, example, Lucy paid the invoice 75 days after you wrote it off. To reverse the write-off: Accounts Receivable - Debit $125 Allowance for Doubtful Debts - Credit $125 Record the payment. Cash - Debit $125 Accounts Receivable - Credit $125”

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|  |  | **Q2)** |  |  |  |  |  |  |  |  |
|  |  |  | A/R | 180,000 |  |  |  |  | Sales Revenue | 1,800,000 |
|  |  |  |  |  |  |  |  |  | Sales Returns & Allowace | 60,000 |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  | **a)** |  | Dr | Cr |  |  |  |  |  |
|  |  |  | Bad Debt |   | 2900 |  |  |  |  |  |
|  |  |  | A/R | 2900 |   |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | A/R |   | 2900 |  |  |  |  |  |
|  |  |  | Cash | 2900 |   |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  | **b) 1)** | 1% of net sales |  |  |  |  |  |  |  |
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|  |  |  |   | Dr | Cr |  |  |  |  |  |
|  |  |  | Bad Debt Expense | 13700 |   |  |  |  |  |  |
|  |  |  | Allowance For Doubtful Account |   | 13700 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | (18000-4300=13700) |  |  |  |  |  |  |  |
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|  |  | **2)** | 10% Of A/R=18000 |  |  |  |  |  |  |  |
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|  |  |  |   | Dr | Cr |  |  |  |  |  |
|  |  |  | Bad Debt Expense | 13700 |   |  |  |  |  |  |
|  |  |  | Allowance For Doubtful Account |   | 13700 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | (18000-4300=13700) |  |  |  |  |  |  |  |
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|  |  | **c) 1)** | 0.75% of Net sales= 13500 |  |  |  |  |  |  |  |
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|  |  |  |  | Dr | Cr |  |  |  |  |  |
|  |  |  | Bad Debt Expense | 13910 |   |  |  |  |  |  |
|  |  |  | Allowance For Doubtful Account |   | 13910 |  |  |  |  |  |
|  |  |  | (13500+410=13910) |  |  |  |  |  |  |  |
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|  |  | **2)** | 6% of A/R=10800 |  |  |  |  |  |  |  |
|  |  |  |  | Dr | Cr |  |  |  |  |  |
|  |  |  | Bad Debt Expense | 11210 |   |  |  |  |  |  |
|  |  |  | Allowance For Doubtful Account |   | 11210 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | (10800+410=11210) |  |  |  |  |  |  |  |

**Question: 3**

**What Is the Accounting Equation?**

“The accounting equation is considered to be the foundation of the double-entry accounting system. The accounting equation shows on a company's balance sheet whereby the total of all the company's assets equals the sum of the company's liabilities and shareholders' equity.

Based on this double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding entry (or coverage) on the credit side.

Accounting Equation

Accounting Equation Formula

{Assets}={Liabilities}+{Owner's Equity})

Assets=(Liabilities+Owner’s Equity)

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Calculating the Equation

The balance sheet holds the basis of the accounting equation:

Locate the company's total assets on the balance sheet for the period.

Total all liabilities, which should be a separate listing on the balance sheet.

Locate total shareholder's equity and add the number to total liabilities.

Total assets will equal the sum of liabilities and total equity.

As an example, let's say for the fiscal year, leading retailer XYZ Corporation reported the following on its balance sheet:

Total assets: $170 billion

Total liabilities: $120 billion

Total shareholders' equity: $50 billion

If we calculate the right-hand side of the accounting equation (equity + liabilities), we arrive at ($50 billion + $120 billion) = $170 billion, which matches the value of the assets reported by the company.”