

B-07.05

Wiggins Corporation utilizes an accounting software package that is capable of producing a detailed aging of outstanding accounts receivable. Following is the aging schedule as of December 31, 20X2.

AGE	AMOUNT OUTSTANDING
0 to 30 days	\$ 1,200,000
31 to 60 days	700,000
61 to 120 days	200,000
Over 120 days	25,000

Casper Wiggins has owned and operated Wiggins Corporation for many years and has a very good sense of the probability of collection of outstanding receivables, based on an aging analysis. The following table reveals the likelihood of collection:

AGE	PROBABILITY OF COLLECTION
0 to 30 days	98%
31 to 60 days	90%
61 to 120 days	75%
Over 120 days	50%

- (a) Prepare an aging analysis and show how accounts receivable and the related allowance for uncollectibles should appear on the balance sheet at December 31.
- (b) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a \$15,000 credit.
- (c) Prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a \$5,000 debit. How could the allowance account have contained a debit balance?