

I-07.03

Wangming Lu Energy Company builds specially designed blades for generators used in wind energy farming operations. The company started the year with the following accounts receivable position:

Accounts receivable	\$ 10,500,000
Less: Allowance for uncollectibles	<u>(320,500)</u> \$ 10,179,500

During the year, a customer, Windy Point Power Company, was devastated by an unusually severe storm. At that time, Wangming concluded that it is highly unlikely that Windy Point would ever be able to pay their outstanding balance of \$150,000. This account was written off against the allowance account. Much later in the year, Windy Point was rescued by a group of investors who offered to pay \$90,000 toward the unpaid balance, provided Wangming would permanently forgive the other \$60,000 and resume selling product to Windy Point. Wangming agreed, and has since resumed doing business with Windy Point.

During the year, sales on account amounted to \$25,689,000. Collections on account totaled \$21,300,500 (excluding the Windy Point collection).

During the year, accounts written-off (not including the Windy Point transaction) were \$123,000. At year's end, a detailed analysis of accounts receivable was performed, and it was concluded that the allowance account should contain a balance of \$475,000.

(a) Prepare summary journal entries:

To record the write-off of the Windy Point receivable

To restore the portion of the Windy Point receivable that was collected

To record the collection of the Windy Point receivable

To record sales on account

To record collections on account

To record the write-off of accounts

To establish the correct balance in the allowance for uncollectibles

(b) Prepare a table including column headings for Accounts Receivable, Allowance for Uncollectibles, Net Realizable Value, and Uncollectible Accounts Expense. Show how each entry from part (a) impacts these components. The first one is done as an example on the preprinted worksheet.