

Module 5: Accounting for Receivables and Bad Debts Assignment

Accounting for Receivables and Bad Debts

In their 2015 Annual Report, Under Armour Inc. disclosed the following in Note 2; Summary of Significant Accounting Policies (p. 55):

Allowance for Doubtful Accounts

The Company makes ongoing estimates relating to the collectability of accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the reserve, the Company considers historical levels of credit losses and significant economic developments within the retail environment that could impact the ability of its customers to pay outstanding balances and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Because the Company cannot predict future changes in the financial stability of its customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event the Company determines a smaller or larger reserve is appropriate, it would record a benefit or charge to selling, general and administrative expense in the period in which such a determination was made. As of December 31, 2015 and 2014, the allowance for doubtful accounts was \$5.9 million and \$3.7 million, respectively.

Under Armour Inc. also disclosed the following details (p. 89) in their 2015 Annual Report:

Schedule II Valuation and Qualifying Accounts (In thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses	Write-Offs Net of Recoveries	Balance at End of Year
<u>Allowance for doubtful accounts</u>				
For the year ended December 31, 2015	\$ 3,693	\$ 2,951	\$ (714)	\$ 5,930

Instructions: Assume that the balance in accounts receivable was \$283,000 at 12/31/14, and \$440,000 at 12/31/15. Sales for the 2015 year, all on account, amounted to \$4,000,000 (all amounts in thousands). Record the following entries below for Under Armour for 2015 and indicate the impact (↑ = increase, or ↓ = decrease) of the entries on the balance sheet and income statement categories.

1. Credit Sales for 2015
2. Write-offs of uncollectible accounts for the year
3. Collections on accounts receivable for the year (you need to calculate this number)
4. Adjusting entry to record Bad Debt Expense

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