3.Hachey Company has accounts receivable of $95,100 at March 31, 2007. An analysis of the accounts shows these amounts.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Balance, March 31 |  |
| Month of Sale |  | 2007 | 2006 |
| March |  | $65,000 | $75,000 |
| February |  | 12,600 | 8,000 |
| December and January |  | 10,100 | 2,400 |
| November and October |  | 7,400 | 1,100 |
|  |  | $95,100 | $86,500 |

Credit terms are 2/10, n/30. At March 31, 2007, there is a $2,200 credit balance in Allowance

for Doubtful Accounts prior to adjustment. The company uses the percentage of

receivables basis for estimating uncollectible accounts. The company’s estimates of bad

debts are as shown on page 402.

|  |  |
| --- | --- |
| Age of Accounts | Estimated Percentage |
| Current | 2% |
| 1–30 days past due | 7 |
| 31–90 days past due | 30 |
| Over 90 days | 50 |

***Instructions***

(a) Determine the total estimated uncollectibles.

(b) Prepare the adjusting entry at March 31, 2007, to record bad debts expense.(c) Discuss the implications of the changes in the aging schedule from 2006 to 2007.

4. For several years, a number of **Food Lion, Inc.**, grocery stores were unprofitable. The company closed, and continues to close, some of these locations. It is apparent that the company will not be able to recover the cost of the assets associated with the closed stores. Thus, the current value of these impaired assets must be written down.

A recent **Food Lion** income statement reports a $9.5 million charge against income pertaining

to the write-down of impaired assets.

**a.** Explain why **Food Lion** must write down the current carrying value of its unprofitable stores.

**b.** Explain why the recent $9.5 million charge to write down these impaired assets is considered

a noncash expense.