

## ACCT 101 – Chapter 7

- I. **Receivables** – monetary claims against other entities (in other words, someone owes you money)
  - A. **Accounts Receivable** - The most common kind of receivable – an open, revolving account that arises from sales of services or merchandise on account. They are usually for a relatively short period of time, due in 30 – 60 days. They are classified on the Balance Sheet as a current asset.
  - B. **Notes Receivable** – Interest bearing amounts that customers owe on a formal, written, legal document. If they are due within a year they are classified as current assets. If the amounts are due after a year's time, then they are classified as long-term assets. Notes are used for longer-term obligations, or as extra protection from customer's that may have some doubtfulness as to their creditworthiness.
  - C. **Other Receivables** - Any other types of receivables not mentioned above. Some types are income tax refunds that may be due, interest receivable, employee receivables, etc.

## II. Uncollectible Accounts Receivable

### A. Allowance Methods

Advantages: 1) records the estimated bad debts expense in the period when the related sale is recorded (Matching Principle), 2) reports accounts receivable on the balance sheet at the estimated amount of cash to be collected (Net Realizable Value)

#### New Accounts

1.

a.

2.

a.

Three types of transactions affect the Allowance for Doubtful Accounts:  
 1) year-end adjustment; 2) write-off of an uncollectible account,  
 3) re-instatement of an account previously written off

Allowance for Doubtful Accounts	
Beg. Balance Write-offs	Beg. Balance reinstatements Year-end adjustment

3.

### 1. Percentage of Sales Method

1.

2.

3.

4.

Allowance for Doubtful Accts.
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Bad Debt Expense

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

## 2. Analysis of Accounts Receivable Aging

1.

2.

3.

4.

5.

<u>Age Interval</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Not due.....	\$58,650	2%	\$1,173
1-30 days past due.....	13,220	4%	529
31-60 days past due.....	8,930	14%	1,250
61-90 days past due.....	4,000	25%	1,000
Over 90 days past due.....	3,200	50%	1,600
	<u>\$88,000</u>		<u>\$5,552</u>

Allowance for Doubtful Accts.

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Bad Debt Expense

	DATE		DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021						1
2	Dec	31					2
3							3
4							4

Or...Bad Debts are estimated at 6% of the year end Accounts Receivable balance.

Allowance for Doubtful Accts.	Bad Debt Expense
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	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021					1
2	Dec 31					2
3						3
4						4

**3. Actual Write-Offs** – during the allowance process, we are only speculating which accounts *might* not be collected. Once we know for sure that the account will not be collected, the account must be removed from the accounting records.

- a. On February 27, 2022, Terry Yockey Co. wrote off the \$650 owed by Sue Flay as uncollectible. Assume the company uses the Analysis of the aging method for estimating bad debts.

Accounts Receivable	Allowance for Doubtful Accounts
88,000	5,552

	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1	2022					1
2	Feb 27					2
3						3
4						4

- b. Notice that the expense account is NOT used in the write-off process. That is because the expense relating to this uncollectible account was debited in the year of the sale when we estimated our Allowance for Doubtful Accounts.

#### 4. Recovering a Bad Debt

On June 9, 2022, Sue Flay paid the \$650 owed, which had previously written off.

Accounts Receivable	Allowance for Doubtful Accounts
88,000	650
	650
	5,552

	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1	2022					1
2	Jun	9				2
3						3
4						4
5		9				5
6						6
7						7

#### B. Notes Receivable

Notes receivable are similar to accounts receivable as they represent amounts owed by customers. However, a note is a more formal document as it is for one transaction only, is for a specific amount, charges interest, and has a specific due date.

Conversion of an A/R to a note - notes receivable are often created when a customer with a traditional Accounts Receivable balance requests an extension of time to pay. In this case, the accounts receivable is converted into a notes receivable.

On July 6, 2021, Terry Yockey Co. accepted a \$12,000, 8%, 60-day note on account from Sue Flay.

	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021					1
2	Jul	6				2
3						3
4						4

Acceptance of a note for a sale of merchandise - a note may be accepted from a customer from a sale of merchandise instead of a traditional accounts receivable. This may be due to the customer's history of slow payment on account or from a new customer who has not yet established credit.

On 7/6/21, Terry Yockey Co. accepted a \$12,000, 8%, 60-day note from Sue Flay for the sale of merchandise. The cost of the merchandise sold is \$7,800.

	DATE		DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021						1
2	July	6					2
3							3
4							4
5							5
6							6

C. Determine the due date of a note

D. Calculate the interest amount of the Note Receivable

E. Payment of a Note at the Due Date - Terry Yockey Co. received the total amount due from Sue Flay on the due date.

	DATE		DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021						1
2							2
3							3
4							4

F. Dishonoring of a Note Receivable - Sue Flay did not pay the amount due on the due date of the note.

	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1	2021					1
2						2
3						3
4						4

At the end of the current year, the accounts receivable account has a debit balance of \$290,000, and net sales for the year total \$1,300,000. Record the adjusting entry for the provision for doubtful accounts under each of the following assumptions:

- 1) The allowance account before adjustment has a credit balance of \$1,750.
  - (a) Uncollectible Accounts expense is estimated at  $\frac{1}{2}$  of 1% of net sales
  - (b) Experience indicates that historically 5.5% of the year end accounts receivable balance will be uncollectible.
  
- 2) The allowance account before adjustment has a debit balance of \$800.
  - (a) Uncollectible Accounts expense is estimated at  $\frac{3}{4}$  of 1% of net sales
  - (b) Experience indicates that historically 7% of the year end accounts receivable balance will be uncollectible.

	DATE	DESCRIPTION	P/R	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13

On January 1, 2021, the beginning of the fiscal year for Brighton Early Company, the Allowance for Doubtful Accounts ledger account had a credit balance of \$17,560. The Brighton Early Company completed the following selected transactions during 2021. (Hint: record all the transactions for the Allowance for Doubtful Accounts in a T-account as you go)

- Jan. 21 Reinstated the account of Jon Hillis Inc. which had been written off in the preceding year as uncollectible. Recorded the receipt of \$2,025 cash in full payment of his account.
- Feb. 28 Wrote off the \$8,500 balance owed by Desmond Co., which has declared bankruptcy.
- June 7 Received 40% of the \$8,000 balance owed by Collins Company and wrote off the remainder as uncollectible.
- Aug 29 Reinstated the account of Harper, Inc., which had been written off two years earlier as uncollectible. Received \$900 cash in full payment of the account.
- Dec 30 Wrote off the following accounts as uncollectible: Regina Co., \$1,050; Gracie Inc., \$1,260; Harris Furniture, \$1,775; Parker Company, \$820
- Dec. 31 Record the adjusting entry for the Allowance for Doubtful Accounts assuming that Bad Debt Expense is estimated at 1% of Net Sales of \$3,500,000.
- Dec. 31 Record the adjusting entry for the Allowance for Doubtful Accounts assuming instead that the provision for bad debts is based on an analysis of the \$435,500 of Accounts Receivable and it was estimated that 5% of Accounts Receivable will be uncollectible.

NAME \_\_\_\_\_

# GENERAL JOURNAL

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DATE		DESCRIPTION	P/R	DEBITS	CREDITS
1					1
2					2
3					3
4					4
5					5
6					6
7					7
8					8
9					9
10					10
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