

Module 4 - Types of Receivables

■ Accounts Receivable

- Amounts owed by customers on account that generally are collected within 30-60 days

■ Notes Receivable

- Formal instruments of credit that normally require interest as well as principle payments. Term of payment can be 90 days or longer.

■ Other Receivables

- Non-trade receivables such as loans to officers, interest receivable, and advances to employees



Accounts Receivable

- Valuing Accounts Receivable
 - Direct Write Off
 - Allowance Method
 - Aging
 - Percent of Accounts Receivable
 - Percentage of Sales



Accounts Receivable



■ Direct Write Off – not GAAP

- When an account is determined uncollectible the loss is charged to Bad Debts Expense
- For example The Company learns that J.Earl Highland's balance of \$200 will be uncollectible and writes it off on April 11th

4/11 Bad Debt Expense	\$200	
		Accts Receivable
		\$200

Write off J. Earl Highlands account as uncollectible



Accounts Receivable

■ Allowance Method – GAAP

- Requires estimation of bad debt at the end of the accounting cycle
- Follows the matching principle by matching estimated bad debt expense with revenue from the period
- Ensures that Accounts receivable is reported at net realizable value on the Balance Sheet
- Two methodologies for estimation
 - Percentage of accounts receivable
 - Aging schedule of accounts receivable



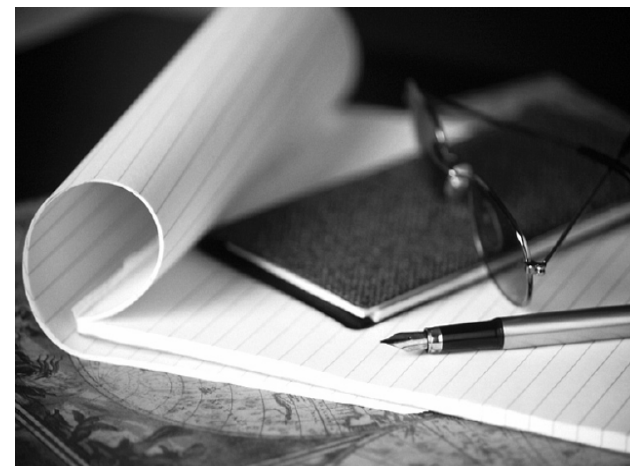
Accounts Receivable

The Company

Balance Sheet

12/31/2004

Cash		\$100,000
Accounts Receivable	80,000	
Less Allowance for Uncollectibles	(10,000)	70,000
Inventory		110,000



Accounts Receivable

The Company
Balance Sheet
12/31/2004

Cash	\$100,000
Accounts Receivable Net	70,000
Inventory	110,000



Accounts Receivable

- Allowance Method – GAAP
 - Percentage of outstanding receivables
 - Estimates bad debt from a historical percentage relationship between bad debt expense to the amount of accounts receivable



Accounts Receivable

- Allowance Method – GAAP
 - Percentage of outstanding receivable
 - For example, Dream Catcher Inc estimates its bad debt to be 2% of accounts receivable. The accounts receivable account is valued at \$80,000. The balance in the allowance for uncollectibles account is \$700
 1. Calculate the estimated bad debt
 2. Prepare journal entries to record the bad debt expense
 3. Jake Williams account of \$550 is determined to be uncollectible. Prepare a journal entry to record the write off on April 2nd



Allowance method solution 1

- \$80,000 X 2% equals \$1600 – this is the ending balance

Allowance for Uncollectibles

	\$700 beg bal
	\$900 bad debt exp
	<hr/>
	\$1,600 end bal

- 12/31 Bad Debt Expense \$900
- Allowance for Uncollectibles \$900
- Note: adjusting entry for bad debt expense*
- 4/2 Allowance for uncollectibles \$550
- Accounts receivable \$550

Note: write off of Jake Williams account

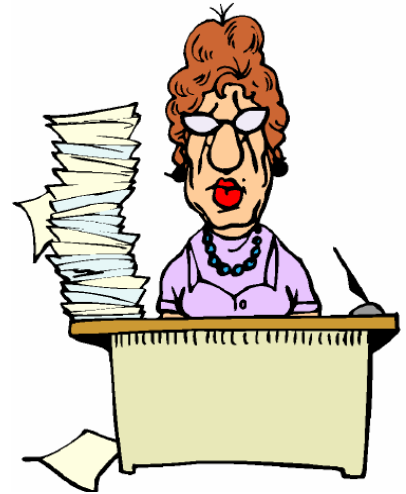


Accounts Receivable

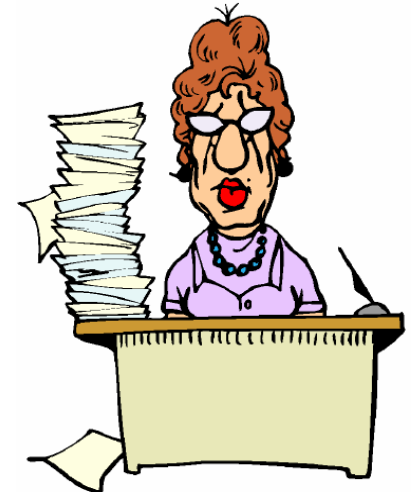
- Allowance Method – GAAP

- Aging schedule

- Schedule where the customer balances are classified by the length of time. Percentage estimates of bad debt is determined by the age of the customer balance



Accounts Receivable



- Allowance Method – GAAP

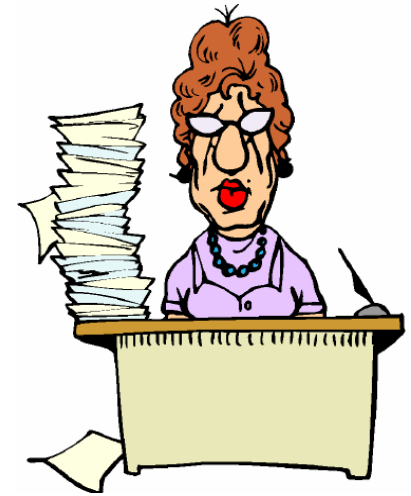
- Aging schedule
- Schedule where the customer balances are classified by the length of time. Percentage estimates of bad debt is determined by the age of the customer balance

Customer	Total	Not Yet Due	1-30 days	31-60 days	61-90 days	Over 90 days
James Brown	\$2,300		\$2,300			
Ellie Mae Jones	690			\$690		
Virginia Banks	1,250				\$1,000	\$250
Lex Luther Jr.	920	\$920				
Estimated percentage uncollectible		1%	2%	5%	10%	25%



Accounts Receivable

- Allowance Method – GAAP
 - Aging schedule
 - Calculate the estimated bad debt from the schedule
 - Prepare Journal entries to record the bad debt expense assuming an allowance for uncollectible beg balance of \$ 150



Customer	Total	Not Yet Due	1-30 days	31-60 days	61-90 days	Over 90 days
James Brown	\$2,300		\$2,300			
Ellie Mae Jones	690			\$690		
Virginia Banks	1,250				\$1,000	\$250
Lex Luther Jr.	920	\$920				
Estimated percentage uncollectible		1%	2%	5%	10%	25%



Allowance method solution 2

- $\$920 \times 0.01$ equals \$ 9.20
 - $\$2,300 \times 0.02$ equals \$ 46.00
 - $\$690 \times 0.05$ equals \$ 34.50
 - $\$1000 \times 0.10$ equals \$ 100.00
 - $\$250 \times 0.25$ equals \$ 62.50
 - Total estimate \$ 252.20
 - Beginning balance for Allowance for Uncollectibles is \$150.00 thus bad debt expense for the year is \$252.20 minus \$150.00 for a total of \$102.20
- 12/31 Bad Debt Expense \$102.20
Allowance for Uncollectibles \$102.20



Accounts Receivable

- Percentage of Sales Method
- Estimates bad debt from a historical percentage relationship between bad debt expense to the amount of sales for the period
- For example, Wired Inc estimates 0.8% bad debt expense as a percentage of the \$1,453,200 Sales made during the year . The beginning balance for Allowance for Uncollectibles is \$42,000
 1. Calculate the estimated bad debt expense
 2. Prepare journal entries to record the bad debt expense and indicate the ending balance for Allowance for Uncollectibles



% of sales method solution

- $\$1,453,200 \times 0.008$ equals $\$11,626$

12/31 Bad Debt Expense $\$11,626$

Allowance for Uncollectibles $\$11,626$

- Ending balance for Allowance for Uncollectibles is $\$42,000 + \$11,626$ for a total of $\$53,626$.

Allowance for Uncollectibles

	42,000 BB
	11,626
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	53,626 EB

