

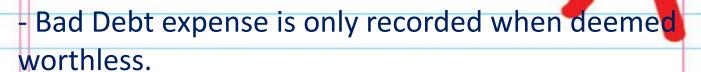
Accounting II - Simplified for You

Bad Debt Expense



Accounting for Uncollectible Receivables

1. Direct Write-Off Method



2. Allowance Method

- Bad Debt expense is recorded by creating an ESTIMATE of uncollectible amounts at the end of the period.

Direct Write Off Method

Example: AAA Inc. owes you \$5,500 and is now deemed worthless.

Journal			
Date	Account Description	Debit	Credit
31-Aug	Bad Debt Expense	5,500	
	Accounts Receivable, AAA Co		5,500
	To write off AAA Co's uncollectible receivable		

Direct Write Off Method

Reinstating bad debt previously written off and receipt of payment

	Journal		
Date	Account Description	Debit	Credit
1-Oct	Accounts Receivable, AAA Co.	1,500	
	Bad Debt Expense		1,500
	To reinstate receivable previously written off		
1-Oct	Cash	1,500	
	Accounts Receivable, AAA Co.		1,500
	To record cash receipt from AAA Co.		

- An estimate is created of what is deemed to be uncollectible at the end of the accounting period.
- Allowance for Doubtful Accounts a contra asset account is created to write off specific customer accounts

Balance Sheet presentation

Accounts Receivable \$250,000

Less: Allowance for Doubtful Accounts (30,000)

Receivables, Net \$220,000

Net Realizable Value \$220,000

Bad Debt Expense was estimated by the management

to be \$30,000 @ 12/31/13.

	Journal		
Date	Account Description	Debit	Credit
12/31/13	Bad Debt Expense	30,000	
	Allowance for Doubtful Accounts		30,000

Example: AAA Inc. owes you \$5,500 and is now deemed worthless.

Journal			
Account Description	Debit	Credit	
Allowance for Doubtful Accounts	1,500		
Accounts Receivable, AAA Co.		1,500	
To write off AAA Co's receivable as uncollectible			
/	Account Description Allowance for Doubtful Accounts Accounts Receivable, AAA Co.	Account Description Allowance for Doubtful Accounts Accounts Receivable, AAA Co.	

Reinstating bad debt previously written

off and receipt of payment

	Journal		
Date	Account Description	Debit	Credit
10/01/14	Accounts Receivable, AAA Co.	1,500	
	Allowance for Doubtful Accounts		1,500
	To reinstate receivable previously written off		
10/01/14	Cash	1,500	
	Accounts Receivable, AAA Co.		1,500
	To record cash receipt from AAA Co.		

Estimating Uncollectibles Percentage of Credit Sales Method Aging of Accounts Receivable Method



Accounting II - Simplified for You



