


Accounting II - Simplified for You

Estimating Uncollectible Receivables



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Percentage of Sales Method

The management estimates Bad Debt Expense (uncollectible amounts) based on credit sales for the period. Decisions are made based on historical performance, industry standards & internal measures.

Percentage of Sales Method

For example: ABC Company's credit sales for the year is \$2.5 million and management estimates 1.5% of this will be uncollectible. Bad debt expense will be

\$ 2,500,000

X

1.50%

=

\$ 37,500

Percentage of Sales Method

Bad Debt Expense Journal Entry

Date	Account Description	Debit	Credit
12/31/13	Bad Debt Expense	37,500	
	Allowance for Doubtful Accounts		37,500
	To record bad debt expense using the % of credit sales method \$2.5M x 1.5% = \$37,500		

Receivable from AAA, Inc. is subsequently deemed as worthless.

Date	Account Description	Debit	Credit
02/01/14	Allowance for Doubtful Accounts	1,500	
	Accounts Receivable, AAA Co.		1,500
	To write off AAA Co's receivable as uncollectible		

Percentage of Sales Method

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.		

Aging of Accounts Receivable

This method uses the aging accounts receivable report to estimate the amount of uncollectible amounts for the end of the period. The longer a receivable remains outstanding, the chances of collecting become more difficult.

Aging of Accounts Receivable

Unique Designs Aging of Accounts Receivable Report as of 12/31/13									
Customer	Balance	Not Past Due	1-30	31-60	61-90	91-180	181-365	Over 365	
Randall's Inn	5,450	200			250			5,000	
Boys Clothing	10,555	8,555	2,000						
Miracle, Inc.	3,750			3,750					
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Ashlons Co	5,795	2,560	3,230						
Total	289,500	202,650	23,160	8,685	4,343	26,900	12,000	11,762	
Percent Uncollectible		1%	2%	2.50%	5.00%	37%	50%	95%	
Estimate of Uncollectible Amounts	30,051	2,027	463	217	217	9,953	6,000	11,174	

Aging of Accounts Receivable

Accounts Receivable		Allowance for Doubtful Accounts	
XXX	XXX		1,000 Balance as of 09/30/13
XXX	XXX		
XXX			29,051 Bad Debt Expense
289,500			30,051

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Aging of Accounts Receivable


Bad Debt Expense Journal Entry

Journal			
Date	Account Description	Debit	Credit
12/31/13	Bad Debt Expense	29,051	
	Allowance for Doubtful Accounts		29,051

To record bad debt expense based on estimated amounts uncollectible per aging of accounts receivable analysis

Follow the same procedures for reinstating bad debts using the % of credit sales method

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