



Accounting II - Simplified for You

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Bad Debt Expense



Accounting for Uncollectible Receivables

1. Direct Write-Off Method

- Bad Debt expense is only recorded when deemed worthless.

2. Allowance Method

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

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Direct Write Off Method

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

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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


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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.		

Allowance Method

- 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	<u>(30,000)</u>
Receivables, Net	\$220,000
Net Realizable Value	\$220,000

Allowance Method

Bad Debt Expense was estimated by the management to be \$30,000 @ 12/31/13.

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Journal

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

Allowance Method

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

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Journal			
Date	Account Description	Debit	Credit
08/31/13	Allowance for Doubtful Accounts	1,500	
	Accounts Receivable, AAA Co.		1,500
	To write off AAA Co's receivable as uncollectible		

Allowance Method

Reinstating bad debt previously written off and receipt of payment

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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

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