**Chapter 8: Receivable accounts**

**Accounts Receivable;** **Notes Receivable; Interest Receivable**

**They are current asset accounts; Normal balance of accounts is Debit.**

**Accounts Receivable** is your customer owed money to our company from our credit sales to them.

**Notes Receivable** is the promissory note received from the borrower/customers.

**Interest Receivable** is the accrued interest on the Notes receivable.

This chapter focusses on how we **record transactions** about the receivable accounts in the accounting period, how we prepare **adjusting entries** at the end of accounting period, and how **we present them in the accounting report.**

Jan1 Dec 31

If you made credit sales to your customer, and your company uses Periodic Inventory system. How do you record the transaction?

Dr. Accounts Receivable xxx

Cr. Sales Revenue xxx

At the end of accounting period, we are going to prepare **adjusting entry** which is related to Accounts Receivable.

**How do we present Accounts Receivable**? What is the name of report which we present Accounts Receivable?

We present it in the **Classified Statement of financial position**.

ABC Company Limited

Classified Statement of Financial Position (Partial)

December 31, 2020

(Jan 1 – Dec 31, 2020)

Assets

**Current Assets:**

Cash

**Accounts Receivable……………………………………………………100,000**

Less: Allowances for Doubtful Accounts**……………………… 8,630** **91,370**

(Net cash realizable value of AR)

We have **customers on account** (100,000 Baht) on December 31, 2020. When we study in deep of our **Accounts Receivable**, we found that the Accounts Receivable compose of various individual customers who owed us money.

We study in deep of our Accounts Receivable by preparing **Aging Schedule of Accounts** **Receivable**. It is the way to analyze our **customer on account** according to the pending time period that they owed us.

**Aging Schedule of Accounts Receivable**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Not Yet Due** | **Number of days past due** | | | |
| **Customer** | **Total** | **1-30** | **31-60** | **61-90** | **Over 90** |
| A Co. | 2,000 |  |  |  |  | 2,000 |
| B Co. | 3,000 |  |  |  | 3,000 |  |
| C Co. | 5,000 | 5,000 |  |  |  |  |
| D Co. | 7,000 |  |  | 7,000 |  |  |
| E Co. | 30,000 | 30,000 |  |  |  |  |
| F Co. | 15,000 |  |  |  | 15,000 |  |
| G Co. | 28,000 | 28,000 |  |  |  |  |
| H Co. | 10,000 | \_\_\_\_\_\_\_\_\_\_ | 10,000 | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
| **TOTAL** | **100,000** | **63,000** | **10,000** | **7,000** | **18,000** | **2,000** |
| **Estimate % of uncollectible** |  | **1%** | **5%** | **10%** | **30%** | **70%** |
| **Total Estimated uncollectible amount** | **8,630** | **630** | **500** | **700** | **5,400** | **1,400** |

What is “**Allowances for Doubtful Accounts”**? It is a **Contra-asset account**; it is also a **valuing account**. Normally, its balance is on Credit, but some time, you would see its balance would be on Debit.

**Non-current Assets:**

Equipment 500,000

Less: Accumulated Depreciation – Equipment xx,xxx xx,xxx

Book value of Equipment

**In the Aging Schedule of AR**, what **estimation base** we used in my estimation for uncollectible accounts?

It is **% of AR** (or the amount that relates to AR) in my estimation for uncollectible accounts

We need to record adjusting entry at the end of accounting period.

**Allowances for Doubtful Accounts**

Beg. Balance 1,000

**Adj 7,630**

**Adjusted Bal 8,630**

**Adjusting entry on Dec 31, 2020:**

Dr. Bad Debt Expense 7,630

Cr**. Allowances for Doubtful Accounts 7,630**

Sometimes the management would estimate percentage in total, like **4%, 5% or 7% of AR balance** instead of preparing the **aging schedule**.

**For example**, AR Balance at the end of Accounting Period (Dec 31, 2020) = 100,000 Baht. The management estimated that 8.5% of AR would be uncollectible:

**(100,000 x 8.5% = 8,500 Baht)**

Allowance for Doubtful Account

Unadjusted bal. 1,000

Adjusting 7,500

**Adjusted bal. 8,500** (= 8.5% of AR)

Dec 31, 2020 (Adjusting entry)

Dr. Bad Debt Expense 7,500

Cr. Allowances for Doubtful Accounts 7,500

ABC Company Limited

Classified Statement of Financial Position (Partial)

December 31, 2020

Assets

**Current Assets:**

Cash

Accounts Receivable……………………………………………………**100,000**

Less: Allowances for Doubtful Accounts**……………………… 8,500** **91,500**

What we have learned so far is how to prepare **adjusting entry** at the end of accounting period for uncollectible accounts. We call it “**Allowance Method of Accounting for uncollectible accounts”**. There are **two estimation bases.**

1) We have learned how to use **% of AR** or amount related to AR. If w*e do the Aging Schedule, we also apply % of AR.*

2) The management can use **% of sales** in their estimation for uncollectible accounts

If we use % of sales, how we prepare **adjusting entry** at the end of accounting period.

Example: Net credit sales of this year period (Jan 1 – Dec 31, 2020) was 1,000,000 Baht. Mgt estimated that 0.70% of net credit sales would be uncollectible in the next year period.

% of sales: 1,000,000 x 0.70% = 7,000 Baht

Dec 31, 2020: (Adjusting entry)

Dr. Bad Debt Expenses 7,000

Cr. Allowance for Doubtful Accounts 7,000

Allowance for Doubtful Account

Unadjusted bal. 1,000

Adjusting 7,000

**Adjusted bal. 8,000**

ABC Company Limited

Classified Statement of Financial Position (Partial)

December 31, 2020

Assets

**Current Assets:**

Cash

Accounts Receivable……………………………………………………**100,000**

Less: Allowances for Doubtful Accounts**……………………… 8,000** **92,000**

**In conclusion:**

We use **Allowance Method of accounting for A/R**, there are 2 estimation bases, i.e**., %** **of AR** (or amount related to AR), and **% of Sales**. Using different base of estimation will affect the **adjusting entry** at the end of accounting period, and how we present **Accounts Receivable** and **Allowances for Doubtful Accounts** in the Statement **of financial position. GAAP (Generally Accepted Accounting Principle) recommends us** to use **Allowance Method of accounting for A/R** for the companies in the market.

Why **GAPP** recommends us to use the **Allowance Method of accounting for AR**? Because most companies in the market have a **high volume of credit sales**, it causes the **high volume of A/R** at the end of period.

Adjusting entry at the end of accounting period is:

Dr. Bad Debt Expense *(it is Operating expense)* xxx

Cr. Allowances for Doubtful Accounts *(Contra-Asset)* xxx

It depends on what **estimation base** you use. There are 2 estimation bases, i.e., **% of AR** **or % of sales.**

You can get more understanding from doing Problem 4 in the textbook.