

Financial Accounting Recitation 2 (B Term)

Dian Jiao

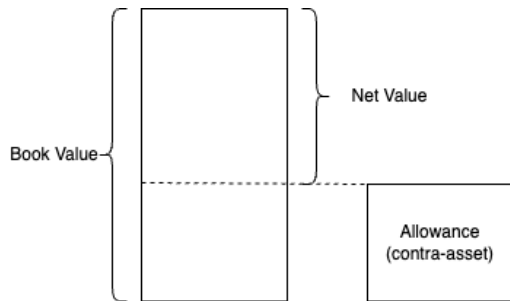
Columbia Business School

Nov 1, 2024

Road Map

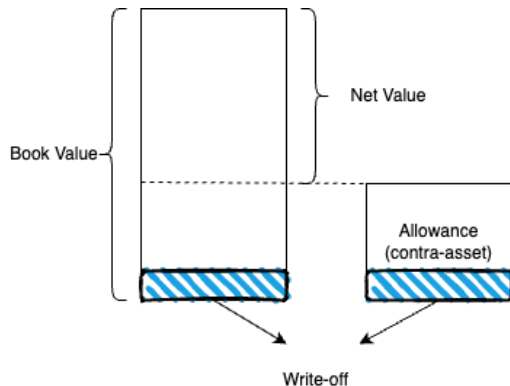
- Recap of Receivables (PS6)
- Recap of PP&E (PS7)
- Walk through PS6

Recognition



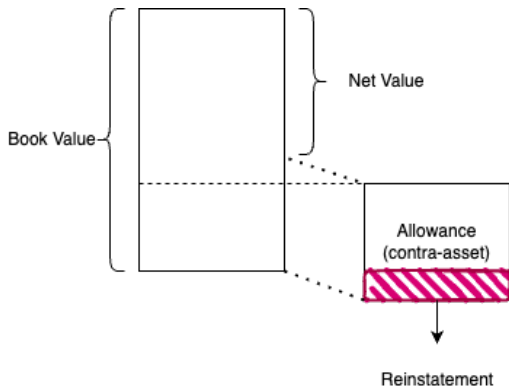
- Recognize the potential default on the receivables at sale (matching principle & conservatism)
 - Dr. bad debt expense
 - Cr. allowance for doubtful accounts
- B/S and I/S approaches

Write-offs



- Write off both BDA and A/R in case of actual defaults
 - Dr. allowance for doubtful accounts
 - Cr. accounts receivable
- The net realizable value is unchanged

Reinstatement



- A Written-off account is reinstated when a customer pays back the A/R
 - Dr. accounts receivable
 - Cr. allowance for doubtful accounts
- Record the collection of A/R
 - Dr. cash
 - Cr. accounts receivable
- BV & total assets unchanged, cash ↑, allowance ↑, NV ↓
- Conservatism: more allowance reserved for future...

PP&E

- Ending PP&E = Beginning PP&E + Purchase - Sale/Disposal (All in gross values)
- Ending Acc Dep = Beginning Acc Dep + Dep Exp - Acc Dep Related to Sale/Disposal
- Gain/Loss on Sale of PP&E = Proceeds - (Gross Value of PP&E - Related Acc Dep)
(Gain if positive and loss if negative)
- Typical roadmap: 1) Use one equation to back out one unknown, x; 2) Use the intermediary result, x, to back out other unknowns in other equations