

# Accounts receivable journal entry example

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What is Accounts Receivable?\*\*

Accounts receivable (AR) represent amounts owed to a company for goods or services delivered but not yet collected. It is recorded as a current asset on the balance sheet.

### **Recognizing Accounts Receivable**

Accounts receivable are recognized when:

- Goods or services have been delivered to the customer.
- The company has billed the customer.
- The customer has not yet paid the invoice.

### **Recording Accounts Receivable**

When recognizing accounts receivable, the journal entry is:

Debit: Accounts Receivable  
Credit: Sales Revenue

### **Journal Entry for AR Accrual**

When a company earns revenue but has not yet billed the customer, an accrual entry is made to recognize the AR:

Debit: Accounts Receivable  
Credit: Accrued Revenue

### **Examples of Accounts Receivable**

- Unpaid customer invoices
- Outstanding service fees
- Uncollected interest on loans

### **Writing Off Accounts Receivable**

When an accounts receivable is deemed uncollectable, it is written off by debiting Bad Debt Expense and crediting Accounts Receivable.

### **Is Accounts Receivable Debit or Credit?**

Accounts receivable is a debit balance on the balance sheet.

### **Is Accounts Receivable Cash or Accrual?**

Accounts receivable is an accrual account, meaning it is recognized based on the delivery of goods or services, regardless of whether payment has been received.

### **Journal Entry for Accounts Receivable in Deferred Revenue**

When revenue is received in advance and recognized as deferred revenue, the journal entry is:

Debit: Cash

Credit: Deferred Revenue

When the revenue is earned, the following entry is made:

Debit: Deferred Revenue

Credit: Sales Revenue

### **Accrual Entry Example**

- Rent expense accrual:

Debit: Rent Expense

Credit: Accrued Rent Payable

### **Journal Entry for Accounts Receivable**

The journal entry for accounts receivable is:

Debit: Accounts Receivable

Credit: Sales Revenue

### **Journal Entry for Accrued Receivables**

The journal entry for accrued receivables is:

Debit: Accounts Receivable

Credit: Accrued Revenue

### **AR Cycle**

The AR cycle involves the following steps:

- Issuing invoices to customers
- Recording sales and accounts receivable
- Collecting payments from customers
- Writing off uncollectable accounts

### **Treatment of Accounts Receivable**

Accounts receivable should be carefully managed to minimize bad debt and ensure timely payment. This involves tasks such as invoicing promptly, following up on overdue payments, and offering discounts for early payment.

### **Recording Collecting Accounts Receivable**

When a customer pays an invoice, the journal entry is:

Debit: Cash

Credit: Accounts Receivable

### **Journal Entry for Notes Receivable**

When a company accepts a promissory note as payment, the journal entry is:

Debit: Notes Receivable

Credit: Accounts Receivable

## Journal Entry for Bills Receivable

When a company receives a bill of exchange as payment, the journal entry is:

Debit: Bills Receivable  
Credit: Accounts Receivable

## Formula for Accounts Receivable

The formula for calculating accounts receivable is:

$$\text{Accounts Receivable} = \text{Net Sales} \times \text{Average Days Sales Outstanding}$$

## Types of Accounts Receivable

The three types of accounts receivable are:

- Trade accounts receivable: Amounts owed by customers for goods or services purchased.
- Notes receivable: Promissory notes accepted as payment.
- Other accounts receivable: Amounts owed for non-sales transactions, such as rent or interest.

## Adjusting Entries for Notes Receivable

Adjusting entries may be required to record interest revenue earned on notes receivable. The entry is:

Debit: Interest Receivable  
Credit: Interest Revenue

## Double-Entry for Payables

The double-entry for payables involves debiting Accounts Payable and crediting Cash or Purchase Discounts (if applicable).

## Is Accounts Receivable an Asset?

Yes, accounts receivable is a current asset on the balance sheet.

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