

Accounting Department – Second Stage

**Intermediate accounting**

**Second semester**

**2022/2023**

**Accounting for Receivables**

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## **Types of Receivables:**

Amounts due from individuals and other companies that are expected to be collected in cash.

**Account Receivable:** Amounts owed by customers that result from the sale of goods and services.

**Notes Receivable** : Claims for which formal tools of credit are issued as proof of debt.

**Other Receivables:** “Nontrade” (interest, loans and advances to employees, and income taxes refundable).

**Example:**

**Assume that JJT Co. on July 1, 2010, sells merchandise on account to Polo Company for \$1,000 terms 2/10, n/30. Prepare the journal entry to record this transaction on the books of JJT Co.**

Jul. 1 Account receivable 1000  
    sales                      1000

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**On July 5, Polo returns merchandise worth \$100 to JJT Co.**

Jul 5 Sales Return and Allowances 100  
    Account Receivable              100

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**On July 11, JJT receives payment from Polo Company for the balance due.**

Jul 11 Cash                      882  
    Sale discount    18  
    Account Receivable 900

## **Valuing Accounts Receivables:**

- Are reported as a current asset on the balance sheet.
- Are reported at the amount the company thinks they will be able to collect.
- Sales on account increase the possibility of accounts not being collected.
- Valuation can be difficult because an unknown amount of receivables will become uncollectible.

### **Methods of Accounting for Uncollectible Accounts**

1-Direct Method.

2-Allowance Method.

### **1-The Direct an Uncollectible Account:**

Assume that the financial vice-president of Hampson Furniture authorizes a write-off of the \$500 balance owed by R.A.Ware on March 1, 2011.The entry to record is:

Mar. 1	Bad Debts Account	500	
			Receivable Account
			500

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Mar 31	profit &loss	500	
			Bad Debts Account
			500

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## 2- Allowance Method for Uncollectible Accounts:

Companies **estimate** uncollectible accounts rerecord estimated uncollectible, companies debit **Bad Debts Expense** and credit Allowance for Doubtful Accounts (a contra-asset account).

### Recording Estimated Uncollectible:

#### Example:

Assume that Hampson Furniture has credit sales of \$1,200,000 in 2010. Of this amount, \$200,000 remains uncollected at December 31. The credit manager estimates that \$12,000 of these sales will be uncollectible. The adjusting entry to record the estimated uncollectible is:

Dec. 31	Bad Debts Account	12,000	
	Receivable Account		12,000

Dec. 31	Allowance for doubtful account	12,000	
	Bad Debts Account		12,000

# HAMPSON FURNITURE

## Balance Sheet (partial)

### Current assets

Cash		\$ 14,800
<b>Accounts receivable</b>	<b>\$200,000</b>	
<b>Less: Allowance for doubtful accounts</b>	<b><u>12,000</u></b>	<b>188,000</b>
Merchandise inventory		310,000
Prepaid expense		<u>25,000</u>
Total current assets		\$537,800

### **3- Recovery of an Uncollectible Account:**

Assume that on July 1, R. A. Ware pays the \$500 amount that Hampson had written off on March 1. These are the entries:

Jul 1	Account Receivable	500
	Bad debts collectable	500

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Jul 1	Cash	500
	Account Receivable	500

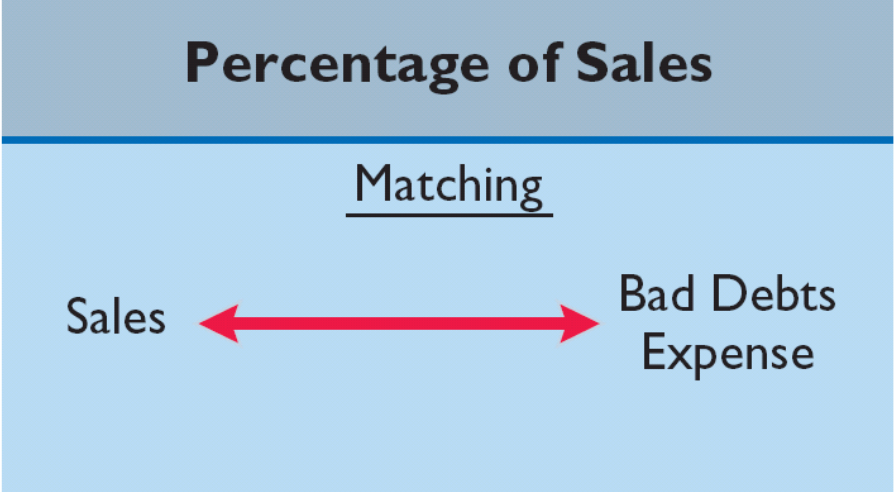
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Jul 1	Bad debts collectable	500
	profit & loss	500

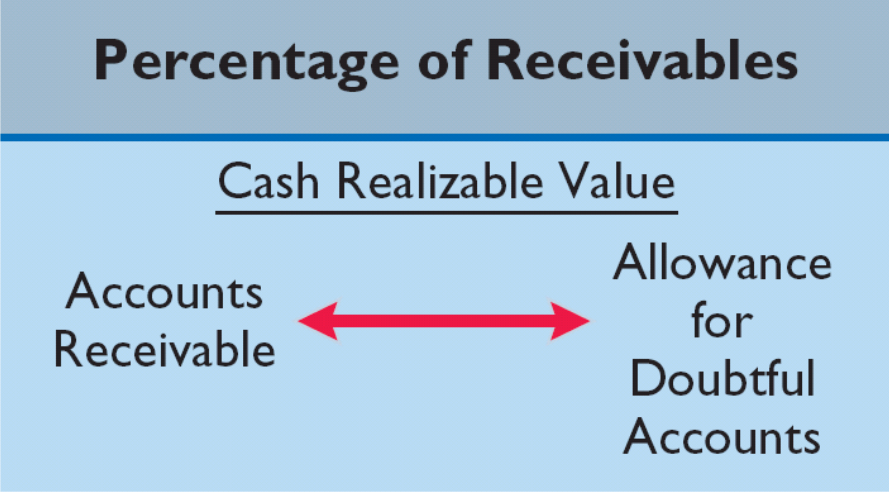
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# Bases Used for Allowance Method:



**Emphasis on Income Statement Relationships**



**Emphasis on Balance Sheet Relationships**



## 2-Percentage-of-Receivables:

### Example:

	A	B	C	D	E	F	G
1				Number of Days Past Due			
2			Not				
3	Customer	Total	Yet Due	1-30	31-60	61-90	Over 90
4	T. E. Adert	\$ 600		\$ 300		\$ 200	\$ 100
5	R. C. Bortz	300	\$ 300				
6	B. A. Carl	450		200	\$ 250		
7	O. L. Diker	700	500			200	
8	T. O. Ebbet	600			300		300
9	Others	36,950	26,200	5,200	2,450	1,600	1,500
10		<u>\$39,600</u>	<u>\$27,000</u>	<u>\$5,700</u>	<u>\$3,000</u>	<u>\$2,000</u>	<u>\$1,900</u>
11	Estimated Percentage Uncollectible		2%	4%	10%	20%	40%
12	Total Estimated Bad Debts	<u><b>\$ 2,228</b></u>	<u>\$ 540</u>	<u>\$ 228</u>	<u>\$ 300</u>	<u>\$ 400</u>	<u>\$ 760</u>

If the trial balance shows Allowance for Doubtful Accounts with a credit balance of \$528, the company will make the following adjusting entry.

$$\underline{2,228 - 528 = 1700}$$

Dec.31	Expenses Debts for Doubtful Account	1700	
	Allowance for Doubtful Account		1700

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Dec.31	profit & loss	1700	
	Expenses Debts for Doubtful Account	1700	

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Dec.31	Allowance for Doubtful Account	2228	
	Bad debts Expenses		2228

## **Adjusting of allowance for doubtful account :**

### **There are three cases:**

- 1- The balance of allowance for a doubtful account equal balance of bad debt account:
- 2- The balance of allowance for a doubtful account more than balance of bad debt account:
- 3- The balance of allowance for a doubtful account less than balance of bad debt account:

## **1- The balance of allowance for a doubtful account equal balance of bad debt:**

**Q 1 :** The following are balances from the trial balance of AAE Co. in 31/12/2020

Receivable Account	8,500,000	Dr.
Bad debts	350,000	Dr.
Allowance for doubtful Account	600,000	Cr.

### **If you know:**

1. At the end of the current year the company decided to conceder 250,000 bad debts.
2. The company decided to formation the Allowance for doubtful to the next year 4% of receivable account.

### **Requirement:**

1. Recording the Accounting entries and post to ledger.

Show the effect on the profit and loss account and balance sheet in 31/12/2020. (partial).

## **2 - The balance of allowance for a doubtful account more than balance of bad debt:**

**Q 2:** The following are balances from the trial balance of Kurdistan Co. in 31/12/2019

Receivable Account	6,500,000	Dr.
Bad debts	150,000	Dr.
Credit Sales	8,000,000	Cr.
Allowance for doubtful Account	600,000	Cr.

### **If you know:**

1. At the end of the current year the company decided to conceder 300,000 bad debts.
2. The company decided to formation the Allowance for doubtful to the next year 2% of Credit sales account.

### **Requirement:**

1. Recording the Accounting entries and post to ledger.
2. Show the effect on the profit and loss account and balance sheet in 31/12/2019. (partial).

### **3 - The balance of allowance for a doubtful account less than balance of bad debt:**

**Q3:**The following are balances from the trial balance of Cihan Co. in 31/12/2020

Receivable Account	4,250,000	Dr.
Bad debts	150,000	Dr.
Allowance for doubtful Account	300,000	Cr.

#### **If you know:**

1. At the end of the current year the company decided to conceder 250,000 bad debts.
2. The company decided to formation the Allowance for doubtful to the next year 4% of receivable account.

#### **Requirement:**

- 1-Recording the Accounting entries and post to ledger.
- 2- Show the effect on the profit and loss account and balance sheet in 31/12/2020. (partial).



## **Notes Receivable:**

Companies may grant credit in exchange for a promissory note. A promissory note is a written promise to pay a specified amount of money on demand or at a definite time.

Promissory notes may be used:

when individuals and companies lend or borrow money,

when amount of transaction and credit period exceed normal limits, or in adjusting of receivable account.

## Determining the Maturity Date:

Note expressed in terms of

● Months

● Days

## Computing Interest:

$$\text{Face Value of Note} \times \text{Annual Interest Rate} \times \text{Time in Terms of One Year} = \text{Interest}$$

## **Example:**

Assuming that Calhoun Company wrote \$1,000, two-month, 12% promissory note to settle an open account, Wilma Company makes the following entry for the receipt of the note.

Notes Receivable	1000	
Account Receivable		1000

## **Collection of Notes Receivables:**

### **Example:**

Assume that Betty Co. lends Wayne Higley Inc. \$10,000 on June 1, accepting a five-month, 9% interest-bearing note. Assuming that Betty Co. presents the note to Wayne Higley Inc. on the due date, Betty Co.'s entry to record the collection is:

$$\underline{\underline{10000 \times 9\% \times 5/12 = 375}}$$

Nov. 1	Cash	10375	
	Notes Receivable		10000
	Interest revenue	375	

## Q4:

1- On January 10, 2010, Edmunds Co. sold merchandise on account to Jeff Gallup for \$13,600, n/30. On February 9, Jeff Gallup gave Edmunds Co. accepting a three-month, 10% interest-bearing note in adjusting of this account.

2- On due date Edmunds Co. adjusting note receivable account and interest.

**Prepare the journal entry to record the sale and the adjusting of the account receivable.**

Jan.10	Account Receivable	13,600	
	Sales		13,600

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Feb. 9	Notes Receivable	13,600	
	Account Receivable		13,600

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**13,600 X 10% X 3/12 = 340**

May.10	Cash	13940	
	Note Receivable	13600	
	Interest Revenue		340