

Discussion of Receivables

Accounts Receivable vs. Notes Receivable

They are both Assets.

Accounts Receivable is an oral agreement.

Notes Receivable is a written agreement.

Notes Receivables

Most of them have interest >> Interest-Bearing Notes

Initial Amount Owed by the Customer >>> Principal (Face Value)

Notes Receivable	\$ 2,000 (Face Value)	1/1/20	
5% interest >>> Annual Interest Rate			
Due in 60 days		3/2/20	Date the note is due >>> Maturity Date

How to compute interest?

Interest (I) = Principal (P) times Rate (R) times Time (Time)

$I = P * R * T$

$I = \$2,000 * .05 * 60/360 =$ \$ 17 5-months

Notes Receivable (Principal) 2,000 = \$2,000 * .05 * 5/12

Interest

	2,000	
	17	
Maturity Value	\$ 2,017	

Maturity Value (MV) = Principal (P) + Total Interest (I)

Sold Merchandise to Jones Company for \$2,000 and received a 5%, 60-days notes receivable

Date of Sale

2020

1/1 Notes Receivable - Jones Company	2,000	
Sales Revenue		2,000

3/2 Customer can pay or not pay us.

Entry if the customer pays us >> The customer HONORS the note.

3/2 Cash	2,017	
Notes Receivable - Jones Company		2,000
Interest Revenue		17

OR

Entry if the customer does not pay us >> The customer DISHONORS the note.

3/2 Accounts Receivable - Jones Company	2,017	
Notes Receivable - Jones Company		2,000
Interest Revenue		17

Bank Reconciliation

Bank Statement Balance TO Cash Account Balance (General Ledger)

Are they usually the same? NO

Why are they not the Same?

Main Reason is Timing Differences.

Balance per Bank

Add:

Deposit in Transit

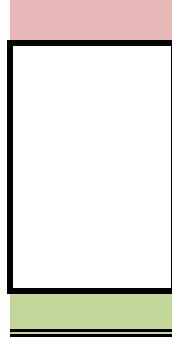
Errors by Bank

Less:

Outstanding Checks

Errors by Bank

Adjusted Bank Balance



Balance per Books

Add:

Notes Receivable (Face Value)

Interest on Notes Receivable

Electronic Fund Transfer

Interest on your Bank Account Balance

Error made by us

\$ 18

Less:

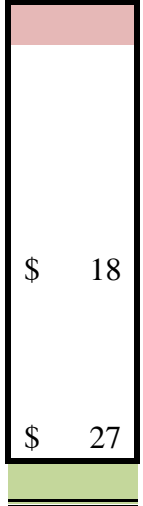
NSF Checks (Non-Sufficient Funds)

Bank Service Charges

Error made by us

\$ 27

Adjusted Book Balance



EQUAL

Error made by us/the business.

Supplies for \$ 102 Check amount

Recorded for 120

Supplies 120

Cash 120

Did we deduct too much or too little?

If too much, we add back the difference, or \$ 18

If too little/not enough, we subtract the difference

Supplies for \$ 130 Check amount

Recorded for 103

Supplies 103

Cash 103 \$ 27

Did we deduct too much or too little?

If too much, we add back the difference, or

If too little/not enough, we subtract the difference

Bad Debts

2020

Accounts Receivable XXXX >>>> Certain amounts are going to be collected in the next accounting period
Sales Revenue XXXX

Matching Rule/Principle

We match expenses to revenues in the same accounting period.

Estimate the amount of accounts receivables that the business will not collect.>> Bad Debts Expense (Uncollectible Accounts Expense)

Based on past history.

There two methods or approaches to estimate bad debts:

- 1) Income Statement Approach - Based on a % of credit sales
- 2) Balance Sheet Approach - Based on a % of Accounts Receivable or Aging of Accounts Receivable

Regardless of the Method used to estimate bad debts, the entry in terms of accounts used, are the exactly the same.

Dr: Bad Debts Expense XXXX
Cr: Allowance for Doubtful Accounts XXXX

← Contra-Asset Account>>is paired with the Accounts Receivable

Balance Sheet View

Accounts Receivable \$ 26,000
Less: Allowance for Doubtful Accounts (3,000) \$ 23,000 **Net Accounts Receivable or Net Realizable Value**

Assume:

Credit Sales 500,000
Accounts Receivable 800,000
Allowance for Doubtful Accounts 3,000

1) Bad debts is 2% of credit sales - **Income Statement Approach**

Credit Sales 500,000
Times 2% 0.02
Bad Debts Expense 10,000

Dr: Bad Debts Expense 10,000
Cr: Allowance for Doubtful Accounts 10,000

2) Bad debts is 1% of Accounts Receivable - **Balance Sheet Approach**

Accounts Receivable 800,000
Times 1% 0.01
Ending balance for the Allowance for Doubtful Accounts should be \$ 8,000

Dr: Bad Debts Expense 5,000
Cr: Allowance for Doubtful Accounts 5,000
(\$8,000 - \$3,000)

2021, John Smith, a customer, account for \$3,200 was written-off as worthless.

Dr: Allowance for Doubtful Accounts 3,200
Cr: Accounts Receivable - John Smith 3,200

What happens if a customer whose account was previously written-off, pays us?

Two entries are needed:

If John Smith send sus \$2,000, the two entries needed are as follws:

- 1) Reinstate the customer account for the amount that they are sending.

Dr: Accounts Receivable - John Smith 2,000
Cr: Allowance for Doubtful Accounts 2,000

- 2) Record the receipt of Cash

Dr: Cash 2,000
Cr: Accounts Receivable - John Smith 2,000