**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)**

<table>
<thead>
<tr>
<th>Notes Receivable</th>
<th>$2,000 (Face Value)</th>
<th>1/1/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% interest &gt;&gt; Annual Interest Rate</td>
<td>3/2/20 Date the note is due &gt;&gt; Maturity Date</td>
<td></td>
</tr>
<tr>
<td>Due in 60 days</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How to compute interest?

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

\[ I = P \times R \times T \]

\[ I = 2,000 \times 0.05 \times \frac{60}{360} = \$17 \quad 5-months \]

Notes Receivable (Principal) = 2,000

Interest = 17

**Maturity Value** = 2,000 + 17 = $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
Less:
NSF Checks (Non-Sufficient Funds)
Bank Service Charges
Error made by us
Adjusted Book Balance

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 10000

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 5000 ($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 us $2,000, the two entries needed are as follows:

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