

# **UNCOLLECTIBLE**

## **A/R**

## **PART 2**



**PERCENT OF RECEIVABLES/AGING OF RECEIVABLES**



# PERCENT OF RECEIVABLES METHOD

- This is your first year in operation.
- Your total credit sales for the year are \$100,000.
- The year-end balance in accounts receivables is \$30,000.
- You estimate 10% of accounts receivables are uncollectible.

The adjusting journal entry is:

	Debit	Credit
Bad Debts Expense	3,000	
Allowance for Bad Debts		3,000



# PERCENT OF RECEIVABLES METHOD

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The Balance Sheet will show:

<b>Accounts Receivables</b>	<b>30,000</b>	
<b>- Allowance for Bad Debts</b>	<b><u>3,000</u></b>	
<b>Net Accounts Receivables</b>		<b>27,000</b>



# **% OF RECV – SECOND YEAR**

- On 12/31, there is a \$3,000 credit balance in the allowance account.
- The year-end balance in accounts receivables is \$70,000.
- You estimate 10% of accounts receivables are uncollectible.
- Ending balance should be \$7,000, so adjustment must be?

The adjusting journal entry is:

	Debit	Credit
<b>Bad Debts Expense</b>	<b>4,000</b>	
<b>Allowance for Bad Debts</b>		<b>4,000</b>



# USING T-ACCOUNTS FOR % OF A/R METHOD

## EXAMPLE 1

Allowance for Bad Debts	
	3,000
	4,000
	7,000

## EXAMPLE 2

Allowance for Bad Debts	
5,000	
	12,000
	7,000



# THE TWO METHODS

- Percent of sales
  - Journal entry for the amount you compute
- Percent of receivables or aging of receivables
  - Amount you compute should be the ending balance in the allowance account
  - Use t-account to determine amount for the journal entry



# WRITING OFF AN ACCOUNT

- A customer who owes you \$80 goes bankrupt, so you write off their account.
  - Doesn't make any difference on which method you used to estimate the allowance

	Debit	Credit
<b>Allowance for Bad Debts</b>	80	
<b>Accounts Receivables</b>		80



**IT'S YOUR  
TURN!!**

