



# UNCOLLECTIBLE ACCOUNTS RECEIVABLES

PERCENT OF SALES



# ACCOUNTS RECEIVABLES

- When sales on credit is made:
  - Book revenue and accounts receivables at the total amount of the sale.
  - But you know you won't really collect all credit sales
- At end of an accounting period (month, quarter, or year)
  - Expense the amount you won't collect
  - Reduce Accounts Receivable on balance sheet by using a contra-asset account



# PERCENT OF SALES METHOD

- Your total credit sales for the year are \$100,000.
- The year-end balance in accounts receivables is \$30,000.
- You estimate that 2% of credit sales are uncollectible.

The adjusting journal entry is:

	Debit	Credit
<b>Bad Debts Expense</b>	<b>2,000</b>	
<b>    Allowance for Bad Debts</b>		<b>2,000</b>



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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>2,000</u></b>	
<b>Net Accounts Receivables</b>		<b>28,000</b>



# WRITING OFF AN ACCOUNT

- A customer who owes you \$80 goes bankrupt, so you write off their account.

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



**SEE PART 2 FOR  
% OF A/R / AGING  
METHOD**

