

**Effective Bookkeeping and Payroll**

**Chapter 12 - Accounts Receivable and Bad  
Debts**

**WORKBOOK**

## Accounts Receivable – Aging

**Accounts receivable** is the asset which shows that we are owed cash by another company or individual. We have provided goods and have earned revenue.

All companies should produce an Aging of Accounts Receivable. This is a report wherein customers and their outstanding balances are listed according age of the receivable.

The Bookkeeper is often responsible for preparing the aging report and the related entries to the general ledger and accounts.

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## Accounts Receivable – Aging

- The report will alert management if there is a customer who is current or has not paid in over 30 days, 60 days, older than 90 days.
- The older a receivable, the more likely that customer will not pay.
- This report can also alert management as to whether or not they should extend further credit to the customer (Credit Hold) or require cash on delivery (COD).

ACCOUNTS RECEIVABLE BY AGE						
CUSTOMER	TOTAL	NOT DUE	1 – 30 PAST	31 – 60 PAST	61 – 90 PAST	OVER 90 PAST
Customer Name						
Customer Name						
Others as a group						
Totals						
Percentages						

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## Accounts Receivable – Aging

Customer information is entered, aging is entered and the percent of each category is calculated. Percentages are used for trend analysis by management.

ACCOUNTS RECEIVABLE BY AGE						
CUSTOMER	TOTAL	NOT DUE	1 – 30 PAST	31 – 60 PAST	61 – 90 PAST	OVER 90 PAST
Customer Name	600.00		400.00	200.00		
Customer Name	150.00	150.00				
Others as a group	3,500.00	2,750.00	250.00		125.00	475.00
<b>Totals</b>	<b>4,250.00</b>	<b>2,900.00</b>	<b>650.00</b>	<b>200.00</b>	<b>125.00</b>	<b>375.00</b>
Percentages	100	68%	15%	5%	3%	9%

*First and foremost, data is used to follow up with customers who are late!!*

[illegible]

## Accounts Receivable – Aging

An analysis of the collectability of receivables is then prepared.

- The percentages are based on company experience
- An estimate of uncollectable amounts is provided.

Schedule for Estimating Uncollectibility of Receivables December 31, 2014			
AMOUNT	ACCOUNTS RECEIVABLE	LIKELY % UNCOLLECTIBLE	ESTIMATED UNCOLLECTIBLE
Not yet due	2,900.00	2 %	58.00
1-30 days past due	650.00	5 %	32.50
31-60 days past due	200.00	10 %	20.00
61-90 days past due	125.00	25 %	31.25
Over 90 days past due	375.00	70 %	262.50
Totals	4,250.00		404.25

## Accounts Receivable – Accounts

**Bad Debt Expense** is an expense account that is used to recognize expected future uncollectible accounts.

**Allowance for Doubtful Accounts** is a contra-asset account to record the amount of Account Receivable expected to become uncollectable.

**Note:** *It is normal to have a certain amount of bad debt. If you have none, your credit policy is likely too strict and loosening it should have a favorable impact on revenue and profit.*

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The Allowance Method - Recording the estimated uncollectible accounts based on the aging report will require the following entry:

Debit to expense

Credit to the contra-asset account

**\*The conservatism and matching principles at work\***

## Accounts Receivable – The Balance Sheet

Current Assets		
Cash		\$20,000
Account receivable	\$40,000	
Less: Allowance for doubtful accounts	<u>(2,000)</u>	38,000
Merchandise Inventory		50,000
Prepaid expense		<u>4,000</u>
Total Current Assets		\$112,000

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## Bad Debts – Writing Off

When all efforts to collect a customer account have been exhausted, the company considers a customer's account to be uncollectable, it is "written off", removed from the books.

ABC Legal Services General Journal				Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Mar 28	Allowance for Doubtful Account		125.00	
	A/R Paula Plenty			125.00
	Write off of Paula Plenty receivable.			

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## Bad Debts – Recovering

If a customer should happen to pay a debt that has already been written off, the customer account needs to be reinstated for the amount paid.

This requires two transactions.

ABC Legal Services General Journal				Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Apr 8	A/R Paula Plenty		125.00	
	Allowance for Doubtful Accounts			125.00
	To reverse the write off of PP account			

  

Apr 8	Cash		125.00	
	A/R Paula Plenty			125.00
	To record collection from Paula Plenty			

Sometimes, a small company will write off the bad debt directly to the Bad Debts Expense account.

ABC Legal Services General Journal				Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Mar 23	Bad Debts Expense		125.00	
	A/R Paula Plenty			125.00
	Write off.			

If the customer later pays, the entry is simply reversed.

ABC Legal Services General Journal				Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Apr 8	Cash		125.00	
	Bad Debts Expense			125.00
	Recovered written off invoice.			

## Sale of Receivables

**Waiting on Invoices to be Paid?  
Turn Them Into Cash Now!**

Invoice Factoring  
and Accounts  
Receivable



**Funding Decisions within 24 Hours**  
**713-364-5550**  
[info@caprockllc.com](mailto:info@caprockllc.com)

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## Sale of Receivables – Entry

The entry to record the sale of accounts receivable is as follows:

ABC Legal Services General Journal				Page GJ1
Date 2015	Description	Post Ref.	Debit	Credit
Mar 20	Cash		100,000	
	Factoring Expense		5,000	
	Accounts Receivable			105,000
	Factor Accounts worth \$105,000			

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## Accounts Receivable Turnover

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Sales}}{\text{Average Gross Receivables}} = \frac{\$100,000}{\left( \frac{\$30,000 + \$20,000}{2} \right)} = \frac{\$100,000}{\$25,000} = 4 \text{ times}$$

If you have 30 day terms, this is **BAD!!**

4 x 30 days = 90 days

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Questions

and

Answers

## Review Questions:

1. Which of the following is true about the aging of accounts receivable:
  - A. It details receivables that will not be collected
  - B. It quantifies receivables that must be written off
  - C. The older a receivable, the more likely that a customer will not pay
  - D. Only A and B
2. True or False: Allowance for doubtful accounts is a contra-asset account to record the amount of account receivable expected to become uncollectable.
3. True or False: Recording estimated uncollectible accounts receivable is done because of the business entity principle.
4. True or False: If a company collects a receivable that was previously written off, you first debit accounts receivable and credit the allowance for doubtful accounts.
5. Which of the following is true when a company sells its receivables:
  - A. Receivables can be bought back within 30 days of sale
  - B. The buyer will charge a percentage of the receivables purchased
  - C. The buyer is called a factor
  - D. Only B and C



## Answer Key:

1. C  
An aging shows simply the age of all receivables. It does not mean the receivables will not be paid.
2. A  
True. Allowance for doubtful accounts is a contra-asset account to record the amount of account receivable expected to become uncollectable.
3. B  
False. The conservatism and matching principle require that estimates of uncollectible accounts be recorded as expense.
4. A  
True. If a company collects a receivable that was previously written off, you first debit accounts receivable and credit the allowance for doubtful accounts.
5. D  
Receivables cannot be repurchased after they are sold.