ACCOUNTS RECEIVABLE

The term **Receivables** refers to amounts due from individuals and companies. Receivables are claims that are expected to be collected in cash.

Accounts receivable classifications:

1. **Accounts receivable** are amounts customers owe on account. They result from the sale of goods and services.

2. **Notes receivable** represent claims for which formal instruments of credit are issued as evidence of the debt.

3.**Other receivables** include nontrade receivables such as interest receivable loans to company officers, advances to employees, and income taxes refundable.

-Recognizing Accounts Receivable:

Recognizing accounts receivable is relatively straightforward : To review, assume that AL-Iraqi Co. on July 1, 2012, sells merchandise on account to Baghdad Company for $1,000, terms 2/10, n/30. On July 5, Baghdad returns merchandise worth $100 to AL- Iraqi Co. On July 11, AL-Iraqi receives payment from Baghdad Company for the balance due. The journal entries to record these transactions on the books of AL-Iraqi Co. are as follows.(Cost of goods sold entries are omitted.)

Solution:

July 1/	Accounts Receivable- Baghdad Company	1000	
	Sales Revenue		1000
	(To record sales on account)		
July 5/	Sales Returns and Allowances	100	
	Accounts Receivable- Baghdad Co.		100
	(To record merchandise returned)		

July 11/	Cash	882		……… ($900 2 $18)
	Sales Discounts	18		………($900 ×0 .02)
	Accounts Rec.- Baghdad Co.		900	

(To record collection of accounts receivable)

-Valuing Accounts Receivable:

Once companies record receivables in the accounts, the next question is: How should they report receivables in the financial statements? Companies report accounts receivable on the balance sheet as an asset. But determining the amount to report is sometimes difficult because some receivables will become uncollectible.

Two methods are used in accounting for uncollectible accounts: (1) the direct write-off method and (2) the allowance method. The following sections explain these methods.

1**. Direct- method**: when a company determines a particular account to be uncollectible, it charges the loss to Bad Debts Expense.

Assume, for example, that Ali Co. writes off as uncollectible Ahmed $200 balance on December 12. Warden's entry is:

Dec. 12/	Bad Debts Expense	200	
	Accounts Receivable Ahmed		200

(To record write-off of Ahmed account)

2. Allowance method: The allowance method of accounting for bad debts involves estimating uncollectible accounts at the end of each period. This provides better matching on the income statement. It also ensures that companies state receivables on the balance sheet at their cash (net) realizable value.

Recording Estimated Uncollectibles: Assume that Amer Furniture Co. has credit sales of $1200000 in 2012. Of this amount, $200000 remains uncollected at December 31. The credit manager estimates that $12000 of these sales will be uncollectible. The adjusting entry to record the estimated uncollectibles increases (debits) Bad Debts Expense and increases (credits) Allowance for Doubtful Accounts, as follows.

Dec. 31/	Bad Debts Expense	12000	
	Allowance for Doubtful Accounts		12000
	(To record estimate of uncollectible accounts)		

Balance Sheet (partial)

Current assets		
Accounts receivable	$200000	
Less: Allowance for doubtful accounts	12000	188000

Estimating the Allowance: Two bases are used to determine this amount: (1) percentage of sales, and (2) percentage of receivables.

1. percentage of sales: In the percentage-of-sales basis, management estimates what percentage of credit sales will be uncollectible. This percentage is based on past experience and anticipated credit policy

Example /1: Assume that Al-forat Co. To use the percentage-of-sales basis. It concludes that 1% of net credit sales will become uncollectible. If net credit sales for 2018 are $800000.

Instructions:

Compute and Prepare the journal entries for the transactions

Solution: . the estimated bad debts expense is (1% × $800000)= $8,000

Dec. 31/	Bad Debts Expense	8000	
	Allowance for Doubtful Accounts		8000
	(To record estimated bad debts for year)		

After the adjusting entry is posted, assuming the allowance account already has a credit balance of $1750, the accounts of Gonzalez Company will show the following:

Bad Debts Expense	
Dec. 31 8000	

Allowance for Doubtful Accounts	
	Jan. 1 Bal. 1750
	Dec. 31 8000
	Dec. 31 Bal. 9750

2.percentage of receivables: Under the percentage-of-receivables basis، management estimates what percentage of receivables will result in losses from uncollectible accounts.

Example /2: : Assume that the balance of A/R for Al-forat Co. at Des.31,2018 IQD 200000, The estimated that percentage of bad debts 3% of accounts receivables. The balance off the allowance for bad debts at Des.31,2018 IQD 2000.

Instructions:

Compute and Prepare the journal entries for the transactions

Bad Debts Expense = 200000×0.03= IQD 6000…. 6000-2000= 4000

Dec. 31/	Bad Debts Expense	4000	
	Allowance for Doubtful Accounts		4000

(To record estimated bad debts for year)

Bad Debts Expense	
Dec. 31 4000	

Allowance for Doubtful Accounts	
	Jan. 1 Bal. 2000
	Dec. 31 4000
	Dec. 31 Bal. 6000

Example /3: At December 31, 2011, Baghdad Co. reported the following information on its balance;

Accounts receivable	$960,000
Less: Allowance for doubtful accounts	80,000

During 2012, the company had the following transactions related to receivables.

1. Sales on account $3200000

2. Sales returns and allowances 50000

3. Collections of accounts receivable 2810000

4. Write-offs of accounts receivable deemed uncollectible 90000

5. Recovery of bad debts previously written off as uncollectible 24000

Instructions

(a) Prepare the journal entries to record each of these five transactions.

(b) Enter the January 1, 2012, balances in Accounts Receivable and Allowance for Doubtful Accounts, post the entries to the two accounts (use T accounts), and determine the balances.

(a) 1.	Accounts Receivable	3200000	
	Sales		3200000
2.	Sales Returns and Allowances	50000	
	Accounts Receivable		50000
3.	Cash	2810000	
	Accounts Receivable		2810000
4.	Allowance for Doubtful Accounts	90000	
	Accounts Receivable		90000
5.	Accounts Receivable	24000	
	Allowance for Doubtful Accounts		24000
	Cash	24000	
	Accounts Receivable		24000

(b)

Accounts Receivable

Bal.	960000	(2)	50000
(1)	3,200,000	(3)	2810000
(5)	24,000	(4)	90000
		(5)	24000
Bal.	1210000		

Allowance for Doubtful Bal.

(4)	90,000	Bal.	80000
		(5)	24000
		Bal.	14,000