

Recording the Write-Off of an Uncollectible Account:

- When companies have exhausted all means of collecting a past-due account and collection appears impossible, the company should write off the account.
- In the credit card industry, for example, it is standard practice to write off accounts that are 210 days past due.

Example (4): The financial vice president of Brown Furniture authorizes a write-off of the £1,000 balance owed by Randall plc on March 1. The entry to record the write-off is:

Allowance for Doubtful Accounts	1,000
Accounts Receivable	1,000
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Assume that on July 1, Randall plc pays the £1,000 amount that Brown had written off on March 1. These are the entries:

Accounts Receivable	1,000
Allowance for Doubtful Accounts	1,000
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Cash	1,000
Accounts Receivable	1,000
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A write-off affects only balance sheet accounts—not income statement accounts. The write-off of the account reduces both Accounts Receivable and Allowance for Doubtful Accounts. Cash realizable value in the balance sheet, therefore, remains the same.

Example (5): At December 31, 2024, Baghdad Co. reported the following information on its balance;

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

During 2025, 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.

Solution:

(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
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Bal.	1210000		

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

Example (6): The ledger of G.K. Reid Company at the end of the current year shows Accounts Receivable \$120,000, Sales Revenue \$840,000, and Sales Returns and Allowances \$30,000.

Instructions:

(a) If G.K. Reid uses the direct write-off method to account for uncollectible accounts, journalize the adjusting entry at December 31, assuming G.K. Reid determines that L. Gaga's

\$1,400 balance is uncollectible.

(b) If Allowance for Doubtful Accounts has a credit balance of \$2,100 in the trial balance, journalize the adjusting entry at December 31, assuming bad debts are expected to be (1) 1% of

net sales, and (2) 10% of accounts receivable.

(c) If Allowance for Doubtful Accounts has a debit balance of \$200 in the trial balance, journalize

the adjusting entry at December 31, assuming bad debts are expected to be (1) 0.75% of net sales and (2) 6% of accounts receivable

Solution:

(a) Dec. 31 Bad Debts Expense..... 1,400
 Accounts Receivable—Fell 1,400

(b) (1) Dec. 31 Bad Debts Expense..... 8,100
 [(\$840,000 – \$30,000) X 1%]
 Allowance for DoubtfulAccounts 8,100

(2) Dec. 31 Bad Debts Expense..... 9,900
Allowance for Doubtful Accounts..... 9,900
[$(\$120,000 \times 10\%) - \$2,100$]

(c) (1) Dec. 31 Bad Debts Expense..... 6,075
[$(\$840,000 - \$30,000) \times .75\%$]
Allowance for Doubtful Accounts 6,075

(2) Dec. 31 Bad Debts Expense..... 7,400
Allowance for Doubtful Accounts..... 7,400
[$(\$120,000 \times 6\%) + \200]
