Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Chapter 7 Notes**

**Accounting for Uncollectible Accounts**

**7.1: Direct Write-Off Method of Recording Uncollectible Accounts**

* **Uncollectible Accounts** -
* **Writing Off an Account** -

**Recording Uncollectible Accounts Expense**

* An uncollectible account is closed by transferring the balance to a general ledger account titled \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **Direct Write-Off Method of Recording Losses from Uncollectible Accounts** -

**Practice Problem**

*Cracker, Inc. uses the direct write-off method of recording uncollectible accounts expense. A general journal is provided below. Source document is abbreviated as follows: memorandum, M.*

1. Journalize the following transactions completed during the current year.

 Jan. 10 Wrote off Melinda Sanford’s past due account as uncollectible, $261.54. M13.

 Mar. 12 Wrote off Mark Polk’s past due account as uncollectible, $45.00. M24.



**Collecting a Written-Off Account – Direct Method**

* Sometimes a customer’s written-off account is later \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. When the account is written off, the balance is recorded as an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. When the account is later collected, the amount is recorded as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Therefore, \_\_\_\_\_\_\_ journal entries are recorded for the collection of a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ account receivable:
1. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ journal entry to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the customer account.
2. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ journal entry to record the cash \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on account.
* The account \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is used for recording collection of previously written-off accounts.

**Practice Problem**

*Cracker, Inc. uses the direct write-off method of recording uncollectible accounts expense. A general journal and cash receipts journal are provided below. Source documents are abbreviated as follows: memorandum, M; receipt, R.*

1. Journalize the following transactions completed during the current year.

 Apr. 13 Received cash in full payment of Andrew Leslie’s account, previously written off as uncollectible, $67.42. M31 and R158.

 Nov. 15 Received cash in full payment of Melinda Sanford’s account, previously written off as uncollectible, $261.54. M84 and R313.





**7.2: Allowance Method of Recording Uncollectible Accounts Expense**

**Estimating Uncollectible Accounts Expense**

* When the direct write-off method is used, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ may be recorded in a fiscal period \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from the fiscal period of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Uncollectible accounts expense should be recorded in the same \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in which the sales revenue is received (concept: Matching \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_)
* At the time sales \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are made, a business has no way to know for sure which customer will not pay an amount due. Therefore, the business makes an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ based on its past history of uncollectible accounts.
* **Allowance Method of Recording Losses from Uncollectible Accounts** -

	+ Two methods are used to estimate uncollectible accounts expense:
1. Percentage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ method
2. Percentage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ method

**Adjustment Using the Percentage of Sales Method**

*Steps to Estimate Uncollectible Accounts Expense Using the Percentage of Sales Method:*

1. Compute the estimated uncollectible accounts expense by multiplying net sales by the percentage estimate:

 Net Estimated \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 \_\_\_\_\_\_\_\_\_\_\_\_\_ x \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = Accounts Expense

1. Record an adjustment on the worksheet:
* Debit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Credit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Practice Problem**

*A general journal page has been provided below.*

1. Lynum, Inc. had net sales of $245,321.09 during the current year. It estimates that the amount of uncollectible accounts expense is equal to 0.5% of net sales. Journalize the adjusting entry for uncollectible accounts expense on December 31 of the current year.



**Adjustment Using Aging of Accounts Receivable**

* The percentage of accounts receivable method assumes that a percentage of the accounts receivable balance is uncollectible. Therefore, emphasis is place on estimating a percentage of accounts receivable that will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **Aging Accounts Receivable** -

	+ For example, Rosedale sells on the terms of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and expects customers to pay in full within \_\_\_\_\_\_\_\_ days. If Rosedale has not received cash within 30 days, it mails \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to the customers. If it has not received cash after \_\_\_\_\_\_\_ days, the company make special attempts to collect the amount due. If the business has not collect after \_\_\_\_\_\_ days, it may stop \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on account to that customer until collection has been made.

**Adjustment Using Percentage of Accounts Receivable**

* Based on past records, a business determines that a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of each accounts receivable age group (30 days, 60 days, and 90 days) will become uncollectible in the future. Using these percentages, the business calculates the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ amount of estimated uncollectible accounts receivable.

**Practice Problem**

*A general journal page has been provided below.*

1. The aging of accounts receivable for Kersten, Inc., as of December 31 of the current year and estimated percentages of uncollectible accounts by age group are given below. Calculate the estimated balance of Allowance for Uncollectible Accounts. Then journalize the adjusting entry for uncollectible accounts expense. The balance of Allowance for Uncollectible Accounts on December 31 before adjusting entries are recorded is $63.24.

|  |  |  |  |
| --- | --- | --- | --- |
| **Age Group** | **Amount** | **Percentage** | **Uncollectible** |
| Not yet due | $8,619.18 | 0.1% |  |
| 1-30 days | 2,254.83 | 0.2% |  |
| 31-60 days | 862.57 | 0.3% |  |
| 61-90 days | 2,574.57 | 0.8% |  |
| Over 90 days | 350.90 | 50.0% |  |
| Totals | $14,662.05 | ------ |  |
| Current Balance of Allowance for Uncollectible Accounts |  |
| Estimated Addition to Allowance for Uncollectible Accounts |  |



**Writing Off an Uncollectible Account – Allowance Method**

* The procedures for writing off an account are the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ regardless of the allowance \_\_\_\_\_\_\_\_\_\_\_\_\_\_ used to calculate the estimated uncollectible accounts expense.
* This transaction is recorded in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ journal and looks like this:
	+ Debit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ Credit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Collecting a Written-Off Account – Allowance Method**

* The two parts of the transaction to record the collection of a previously written-off account are as follows:
	+ In the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ journal:
		- Debit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
		- Credit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ In the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ journal
		- Debit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
		- Credit: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**7.3: Accounts Receivable Turnover Ratio**

**Calculating the Accounts Receivable Turnover Ratio**

* If a business does not collect amounts \_\_\_\_\_\_\_\_\_\_ from customers promptly, too large a share of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the business will be in accounts receivable and not immediately \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* One way to analyze the collection \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of a business is to calculate the accounts receivable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ratio.
* **Accounts Receivable Turnover Ratio** -

	+ It is calculated by dividing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on account by the average \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of accounts receivable.
	+ **Book Value of Accounts Receivable** -
	+ Example: An accounts receivable turnover ratio of 7.1 times means that a business turns over (or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) its average accounts receivable about \_\_\_\_\_\_\_\_\_\_\_\_\_\_ times a year.
	+ The number of days in a \_\_\_\_\_\_\_\_\_\_\_\_\_ divided by the accounts receivable turnover ratio yields the average number of \_\_\_\_\_\_\_\_\_\_\_ required to pay.

**Analyzing Accounts Receivable Turnover Ratios**

* A business hopes to see a steady increase in the turnover ratio, which shows a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the number of days it takes a customer to pay on account.
* A business might take several steps to create a more favorable accounts receivable turnover ratio:
1. Send \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of account to customers more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, including a request for prompt payment.
2. \_\_\_\_\_\_\_\_ sell on account to a customer who has an account for which payment is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ more than 30 days.
3. Encourage more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ sales and fewer sales on account.
4. Conduct a more rigorous \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ check on new customers before extending credit to them.

**Practice Problem**

Millikin Industries offers its customers n/30 credit terms. The turnover ratio for the prior year was 8.7. The following account balances were obtained from Millikin Industries’ records for the current year.

 **Account January 1 December 31**

 Accounts Receivable $163,874.05 $186,383.48

 Allowance for Uncollectible Accounts $6,544.83 $7,745.86

 Net Sales on Account $872.895.94

1. Calculate the accounts receivable turnover ratio for the current year.

**Accounts Receivable Turnover Ratio:**

 *Accounts - Allow. for = Book Value of*

 *Receivable Uncoll. Accounts Accounts Receivable*

 *Beginning* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 *Ending* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 *Beginning Book Ending Book Average Book*

 *Value of + Value of ÷ 2 = Value of*

 *Accounts Receivable Accounts Receivable Accounts Receivable*

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ÷ 2 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 *Net Sales on Account ÷ Average Book Value = Accounts Receivable*

 *of Accts. Receivable Turnover Ratio*

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ÷ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Calculate the average number of days for payment.

**Average Number of Days for Payment:**

 *Days in ÷ Accounts Receivable = Average Number of*

 *a Year Turnover Ratio Days for Payment*

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ÷ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Is Millikin Industries effective in collecting its accounts receivable?

Millikin Industries has reduced/increased (circle one) the time required to collect the average account receivable. With n/30 credit terms, Millikin appears to be doing a reasonably good/bad (circle one) job in collecting its accounts receivable on a timely basis.