



**ACCOUNTING FOR
UNCOLLECTIBLE
ACCOUNTS**

**Chapter
7**

ALLOWANCE METHOD OF RECORDING UNCOLLECTIBLE ACCOUNTS EXPENSE

Direct write off – specific customer account is determined to be uncollectible.

Con – When the direct write off method is used the uncollectible amount (expense) may be written off in a fiscal period different than the fiscal period of the sale.

Which accounting concept makes this practice a concern? Matching Expenses with Revenue

ALLOWANCE METHOD OF RECORDING UNCOLLECTIBLE ACCOUNTS EXPENSE

At the time of the sale we have no way of knowing for sure who is going to pay and who is not.

Because of this businesses will estimate the amount of uncollectible accounts based on past history.

Businesses will credit the estimated value of the uncollectible accounts to a contra account, *allowance method of recording losses from uncollectible accounts.*

ALLOWANCE METHOD OF RECORDING UNCOLLECTIBLE ACCOUNTS EXPENSE

Businesses will credit the estimated value of the uncollectible accounts to a contra account called the *allowance for uncollectible accounts*

2 Methods:

1. Percentage of sales method
2. Percentage of accounts receivable method

Regardless of the method used, the estimated amount is charged to *Uncollectible Accounts Expense*.

ADJUSTMENT USING THE PERCENTAGE OF SALES METHOD

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Step 1 Compute the estimated uncollectible accounts expense

**Net Sales X Percentage = Estimated Uncollectible Accounts
Expense**

Step 2 Record the adjustment on the worksheet

Uncollectible accounts expense - Debit

Allowance for uncollectible accounts - Credit

ADJUSTMENT USING AGING OF ACCOUNTS RECEIVABLE

- ❖ Assumes that a percentage of the accounts receivable accounts balance is uncollectible.
- ❖ Emphasis is placed estimating the amount of the AR that will not be collected.
- ❖ Analyzed using a report called the aging of accounts receivable.

ADJUSTMENT USING PERCENTAGE OF ACCOUNTS RECEIVABLE

❖ Based on past records

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Steps:

1. Compute an estimate for each age group
2. Compute the total estimate
3. Compute the addition to the allowance account

ADJUSTMENT USING PERCENTAGE OF ACCOUNTS RECEIVABLE

❖ Based on past records

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Steps:

1. Compute an estimate for each age group
2. Compute the total estimate
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WRITING OFF AN UNCOLLECTIBLE ACCOUNT-ALLOWANCE METHOD

January 5. Wrote off Candace Rhode's past due account as uncollectible, \$42.80. Memorandum No. 71.

General Ledger		Accounts Receivable Ledger	
Allowance for Uncollectible Accounts			
	Bal. 1,363.88		
Accounts Recievable		Candace Rhode	
Bal. \$45,462.79		Bal. 42.80	

WRITING OFF AN UNCOLLECTIBLE ACCOUNT-ALLOWANCE METHOD

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General Ledger		Accounts Receivable Ledger	
Allowance for Uncollectible Accounts			
\$ 42.80	Bal. 1,363.88		
Accounts Receivable		Candace Rhode	
Bal. \$45,462.79	\$ 42.80	Bal. 42.80	\$ 42.80

WRITING OFF AN UNCOLLECTIBLE ACCOUNT- ALLOWANCE METHOD

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FYI's

READ!

COLLECTING A WRITTEN OFF ACCOUNT – ALLOWANCE METHOD

April 5. Received cash in full payment of Candace Rhode's account, previously written off as uncollectible, \$42.80. Memorandum No. 92 and Receipt No. 280

General Ledger		Accounts Receivable Ledger	
Cash			
Allowance for Uncollectible Accounts			
\$ 42.80	Bal. 1,363.88		
	Reopen \$42.80		
Accounts Receivable		Candace Rhode	
Bal. \$45,462.79	\$ 42.80	Bal. 42.80	\$ 42.80
Reopen \$42.80		Reopen \$42.80	

COLLECTING A WRITTEN OFF ACCOUNT – ALLOWANCE METHOD

April 5. Received cash in full payment of Candace Rhode's account, previously written off as uncollectible, \$42.80. Memorandum No. 92 and Receipt No. 280

General Ledger		Accounts Receivable Ledger	
Cash			
Received 42.80			
Allowance for Uncollectible Accounts			
\$ 42.80	Bal. 1,363.88		
	Reopen \$42.80		
Accounts Receivable		Candace Rhode	
Bal. \$45,462.79	\$ 42.80	Bal. 42.80	\$ 42.80
Reopen \$42.80		Reopen \$42.80	Received 42.80