Accounting Notes

Bad Debts, Credit Card Sales, Notes Receivable

Receivables:

Accounts Receivable - amounts to be collected from customers for goods or services provided
Notes Receivable - a written promise for the future collection of cash

Accounting for Uncollectible Accounts:

Allowance Method: - recording collection losses on the basis of estimates

Two methods of estimating the Uncollectible Accounts expense:

Percent of Sales - Income Statement approach
- computes uncollectible accounts expense as a percentage of net credit sales

Adjusting Entry:

Uncollectible Accounts Exp	Net credit sales * %	
Allowance for D. A.		Net credit sales * %

Aging of Accounts Receivable - Balance Sheet approach
- estimates bad debts by analyzing individual accounts receivables according to the length of time they are past due.

Customer Name	1-30		31-60		61-90		Over 90		Total
Names	X								X
	X								X
			X						X
							X		X
					X				X
Totals	X		X		X		X		XX
% Uncollectible	%		%		%		%		
Allow. for D.A Bal.	X	+	X	+	X	+	X	=	X

Desired Ending Balance

Adjusting Entry:

Uncollectible Accounts Exp	Desired End Bal. - Current Bal.	
Allowance for D.A		Desired End Bal. - Current Bal.

Writting off an Uncollectible Account:

Allowance for D.A.	Amount uncollectible	
Acct. Rec. - Customer name		Amount uncollectible

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Direct Write-off Method - accounts are written off when determined to be uncollectible

Writting off an uncollectible account:

Uncollectible Accounts Exp	Amount Uncollectible	
Acct. Rec. - Customer name		Amount Uncollectible

Recoveries of Uncollectible Accounts:

Two entries are required: (1) reverse the write off of the account
(2) record the cash collection of the account

Reinstating the Account:

Acct. Rec. - Customer name	Amount written off	
Allowance for D.A.		Amount written off

Collection on the Account:

Cash	Amount received	
Acct. Rec. - Customer name		Amount received

Credit Card and Bankcard Sales:

Non Bank Credit card sales - cash is not received at point of sale (Amer. Ex., Discover)

Credit Sale:

Acct. Rec. - credit card name	Difference	
Credit card Discount Exp.	Sales Amt * %	
Sales		Full Sales amount

Collection of sale:

Cash	Amount owed	
Acct. Rec. - credit card name		Amount owed

Bankcard sales - cash is considered to be received at the point of sale (Visa, Mastercard)

Bankcard Sale:

Cash	Difference	
Credit card discount Exp.	Sales Amt * %	
Sales		Full Sales amount

Notes Receivable:

Determining the maturity date of a note:

Step 1: Start of with the term (length) of the note
Step 2: Subtract the number of days remaining in the current month
Step 3: Subtract the number of days in the following month. Keep repeating this step until the result is less than the number of days for the next full month. This resulting number will be the day in which the note matures in the next month.

Example: Find the maturity date for a 120 day note dated on September 14, 1999

Term of the Note:	120 days
Days left in Sept. (30 - 14)	16
	104 days remaining
Days in Oct.	31
	73 days remaining
Days in Nov.	30
	43 days remaining
Days in Dec.	31
	12 days remaining

Maturity date would be the 12th day of January 2000.

Computing Interest on a note:

Principal of note * Interest % * Time = Interest Amount

Time can be expressed in years, months or days depending on the term of the note or the date on which the interest is being calculated.

If time is expressed in months then time is should as a fraction of a year by dividing the number of months the interest is being calculated for by 12.

Time = (# of months) / 12

If time is expressed in days then time is shown as a fraction of a year by dividing the number of day the interest is being calculated for by 360. NOTE: Use 360 instead of 365.

Time = (# of days) / 360

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Recording Notes Receivable:

If note was received because we lent out money:

Notes Receivable	Face Value	
Cash		Face Value

If note was received as a payment on an accounts receivable:

Notes Receivable	Face Value	
Accounts Receivable		Face Value

The collection of the note at maturity:

Cash	Maturity Value	
Notes Receivable		Face Value
Interest Revenue		Interest Received

Accruing of Interest on a Note:

Interest Receivable	(Principal * I% * Time)	
Interest Revenue		(Principal * I% * Time)

Discounting of Notes Receivables:

There are five basic steps involved when discounting a note:

Step 1: Compute interest due on the note . . . . . (Principal * I% * Time)
Step 2: Compute maturity value of the note . . . . . (Principal + Interest)
Step 3: Compute the number of days the bank will hold the note . . . . . (Term of Note - # of days past)
Step 4: Compute the bank š interest on the note . . . (MV * I% * Time)
Step 5: Compute the proceeds to be received . . . . . (MV - Bank š Interest)

If the proceeds > maturity value:

Cash	Proceeds	
Notes Receivable		Face Value
Interest Revenue		Difference

Discounting of Notes Receivable:

If the proceeds < maturity value

Cash	Proceeds	
Interest Expense	Difference	
Note Receivable		Face Value

Accounting for Dishonored Notes:

If a note is dishonored (not paid on time) by the maker of the note, then note receivable must be transferred to accounts receivable for the maturity value of the note.

Accounts Receivable	Maturity Value	
Note Receivable		Face Value
Interest Revenue		Interest Earned

If the note was discounted to a bank and was then dishonored by the maker, then we must pay the bank the maturity value of the note plus a protest fee. This amount will then be charged to the person who gave us the note as an accounts receivable.

Accounts Receivable	Maturity Value + Protest fee	
Cash		Maturity Value + Protest fee

Financial Ratios:

$$\text{Acid-Test (Quick) Ratio} = \frac{\text{Cash + ST Investments + Net current receivables}}{\text{Total Current Liabilities}}$$

$$\text{Day's Sales in Receivables} = \frac{\text{Average Net Receivables}}{\text{Net Sales}} * 365$$