Bachelor of Economics
THAMMASAT UNIVERSITY

Thammasat University
Faculty of Economics
Bachelor of Economics (International Program)

AC201
Fundamental Accounting

Semester 1/2012

Course Materials

Topic:

Chapter 6 Reporting and Interpreting
Sales Revenue, Receivables, and CAsh

Session:

Session #7

Instructor:

Assistant Professor Dr. Orapan Yolrabil

CHAPTER 6: REPORTING AND INTERPRETING SALES REVENUE, RECEIVABLES, AND CASH

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Cash

- ***Cash*, the most liquid of assets, is the standard medium of exchange and the basis for measuring and accounting for all other items.**
  - Cash consists of coin, currency, and available funds on deposit at the bank.

Bank Reconciliation

- **Bank reconciliation**
  - A bank reconciliation is the process of comparing (reconciling) the ending cash balance in the company's records and the ending balance reported by the bank on the montly bank statement.
    - It is an important part of internal control.
      - Need for calculating a true cash balance.
  - Two "sections" to be reconciled
    - balance per bank
    - balance per books
  - If there are any mistakes or transactions that have not been recorded in the company's books, adjusting journal entries will be needed.
    - Book errors: These are numerical errors made by either the company or the bank. The most common is transposition of numbers.

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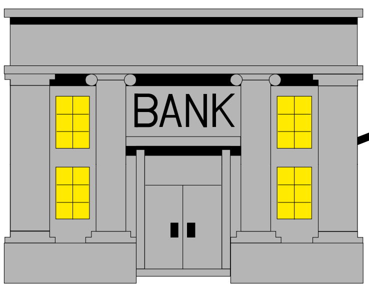
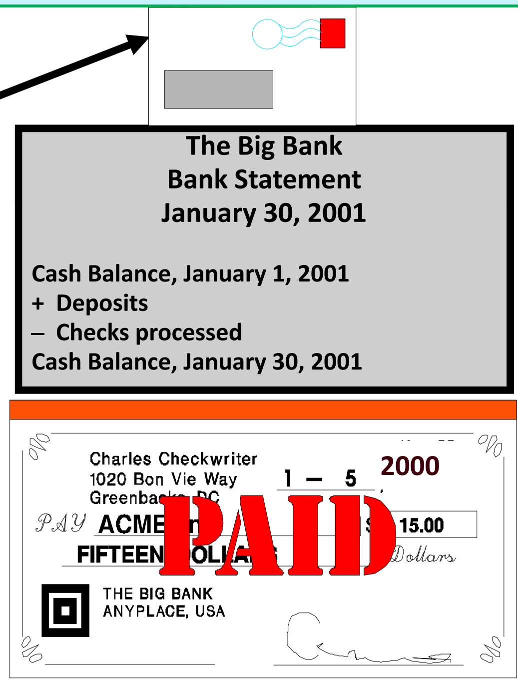
Bank Statement

Bank statement: Monthly report from a bank that shows deposits recorded, checks cleared, other debits, and credits, and a running bank balance.





Shows the beginning bank balance, deposits made, checks paid, other debits and credits in the month, and the ending bank balance.

Bank Reconciliation (Cont.)

Possible Differences Between What You and Your Bank Know

Your bank may not know about . . .	You may not know about . . .
1. Errors made by the bank	3. Interest the bank has put into your account
2. Time lags	4. Service charges taken out of your account
a. Deposits that you made recently	5. Customer checks you deposited but that bounced
b. Checks that you wrote recently	6. Errors made by you

- **Adjustments to BANK balance**
  - Deposit in transit: The deposit that has not been processed by the bank as of the bank statement date, usually because it was made at or near the end of the month.
  - Outstanding check: A check that has been written and deducted from a company's cash account but have not cleared by the bank as of the bank statement date.

Bank Reconciliation (Cont.)

- **Adjustments to BOOK balance**
  - Bank credits: These are additions made by the bank to a company's account before they are recorded by the company. The most common source is interest paid by the bank on the account balance.
  - Bank debits: These are deductions made by the bank that have not yet been recorded by the company. The most common are monthly service charges, NSF checks, and bank transfers out of the account.
    - NSF (Not sufficient funds) check: A check that is not honored by a bank because of insufficient cash in the check writer's account.
    - Bank Service Charge: The bank automatically reduces the depositor's account balance for monthly fee for servicing an account.

Bank Reconciliation - Illustration

Cash Balance on Bank Records

Cash Balance on Book Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	15,000
- Withdrawals	-12,000
= End. B/L	**23,000**

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	12,000
End. B/L	**23,000**		

Balance per bank **Balance per book**

Adjustments to Balance Per Bank:
- Deposits in Transit
- Outstanding Checks
- Bank Errors

Adjustments to Balance Per Book:
- Deposits by Bank
- Bank Charges
- NSF Checks
- Book Errors

Adjustments to Balance Per Bank: Deposits in Transit

Cash Balance on Bank Records

Cash Balance on Book Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	???
- Withdrawals	-12,000
= End. B/L	**8,000**
Adjustments:	
+ Deposits in transit	15,000
= Adjusted B/L	**23,000**

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	12,000
End. B/L	**23,000**		

Adjustments to Balance Per Bank:
Deposits in Transit

Adjustments to Balance Per Bank: Outstanding Checks

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	15,000
- Withdrawals	???
= End. B/L	**35,000**
Adjustments:	
- Outstanding checks	-12,000
= Adjusted B/L	**23,000**

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	12,000
End. B/L	**23,000**		

Adjustments to Balance Per Bank: Outstanding Checks

Adjustments to Balance Per Bank: Bank Errors

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	15,000
- Withdrawals	-12,000
	???
= End. B/L	**≠ 23,000**
Adjustments:	
+/- Bank errors	???
= Adjusted B/L	**23,000**

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	12,000
End. B/L	**23,000**		

Adjustments to Balance Per Bank: Bank Errors

Adjustments to Balance Per Book: Deposits by Bank

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	12,500
- Withdrawals	-12,000
+ N/R collected	2,000
+ Interest earned	500
= End. B/L	**23,000**

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	12,500	Withdrawals	12,000
N/R collected	???		
Interest earned	???		
End. B/L	**20,500**		

Adjustments:

+ N/R collected	2,000
+ Interest earned	500
= Adjusted B/L	**23,000**

Dr. Cash	**2,500**	
Cr. N/R		**2,000**
Interest revenue		**500**

Adjustments to Balance Per Book: Deposits by Bank

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Adjustments to Balance Per Book: Bank Charges

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	15,000
- Withdrawals	-11,500
- Service charges	-500
= End. B/L	**23,000**

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	11,500
		Service charges	???
End. B/L	**23,500**		

Adjustments:

- Service charges	-500
= Adjusted B/L	**23,000**

Dr. Service charges expense	**500**	
Cr. Cash		**500**

Adjustments to Balance Per Book: Bank Charges

Adjustments to Balance Per Book: Non-Sufficient-Fund Checks

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	20,000
- Withdrawals	-12,000
- NSF checks	-5,000
= End. B/L	**23,000**

Adjustments to Balance Per Book: Non-sufficient-fund Checks

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	20,000	Withdrawals	12,000
		NSF checks	???
End. B/L	**28,000**		

Adjustments:

- NSF checks	-5,000
= Adjusted B/L	**23,000**

Dr. A/R	**5,000**	
Cr. Cash		**5,000**

Adjustments to Balance Per Book: Book Errors

Cash Balance on Bank Records

Bank Statement	
Beg. B/L	20,000
+ Deposits	15,000
- Withdrawals	-12,000
= End. B/L	**23,000**

Adjustments to Balance Per Book: Book Errors

Cash Balance on Book Records

Cash			
Beg. B/L	20,000		
Deposits	15,000	Withdrawals	12,000
	???		???
End. B/L	**≠ 23,000**		

Adjustments:

+/- Book errors	???
= Adjusted B/L	**23,000**

Dr. ???	**???**	
Cr. ???		**???**

Bank Reconciliation

- **Bank reconciliation:**
  - The process of systematically comparing the cash balance as reported by the bank with the cash balance on the company's books and explaining any differences.

Balance per bank	XXX	**Balance per book**	XXX
Addition to bank balance:		**Addition to book balance:**	
Deposit in transit	XXX	Deposit by bank	XXX
Bank errors	XXX	Interest revenue	XXX
		Book errors	XXX
Deductions from bank balance:		**Deductions from book balance:**	
Outstanding checks	(XXX)	Service charge	(XXX)
Bank errors	(XXX)	NSF checks	(XXX)
		Book errors	(XXX)
Adjusted cash balance	**XXX**	**Adjusted cash balance**	**XXX**

All reconciling items on the book side require an adjusting entry to the cash account.

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Example: Bank Reconciliation

- **Prepare a July 31 bank reconciliation statement and the resulting journal entries for the Simmons Company.**
  - The July 31 bank statement indicated a cash balance of 9,610 Baht, while the cash ledger account on that date shows a balance of 7,430 Baht.
    - Outstanding checks totaled 2,417 Baht.
    - A 500 Baht check mailed to the bank for deposit had not reached the bank at the statement date.
    - The bank returned a customer's NSF check for 225 Baht received as payment of an account receivable.
    - The bank statement showed 30 Baht interest earned on the bank balance for the month of July.
    - Check #781 for supplies cleared the bank for 268 Baht but was erroneously recorded in our books as 240 Baht.
    - A 486 Baht deposit by Acme Company was erroneously credited to our account by the bank.

Simmons Company
Bank Reconciliation
July 31, 20X3

Balance per bank statement, July 31		9,610	Balance per depositor's records, July 31		7,430
Additions:			Additions:		
Deposit in transit		500	Interest		30
Deductions:			Deductions:		
Bank error	486		Recording error	28	
Outstanding checks	2,417	2,903	NSF check	225	253
Adjusted cash balance		7,207	Adjusted cash balance		7,207

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jul	31	Dr. Cash	30	
		Cr. Interest Revenue		30
	31	Dr. Supplies Inventory	28	
		Cr. Cash		28
	31	Dr. Accounts Receivable	225	
		Cr. Cash		225
		To adjust cash balance per book		

Example of Financial Statement Presentation and Disclosure: Cash

[Source: www.farmhouse.co.th]

BALANCE SHEETS

President Bakery Public Company Limited
As at 31 December 2010 and 2009

(Unit : Baht)

	Note	Financial statements in which the equity method is applied 2010	2009	Separate financial statements 2010	2009
Assets					
Current assets					
Cash and cash equivalents	6	385,066,986	85,947,113	385,066,986	85,947,113
Trade accounts receivable					
Related party	7, 9	120,973	66,313	120,973	66,313
Unrelated parties - net	7	529,960,712	452,864,675	529,960,712	452,864,675
Total trade accounts receivable - net		530,081,685	452,930,988	530,081,685	452,930,988
Inventories	8	140,930,621	116,929,748	140,930,621	116,929,748
Other current assets		14,109,410	10,100,648	14,109,410	10,100,648
Total current assets		1,070,188,702	665,908,497	1,070,188,702	665,908,497

4.2 Cash and cash equivalents

Cash and cash equivalents consist of cash and deposits at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

6. CASH AND CASH EQUIVALENTS

(Unit : Baht)

	2010	2009
Cash	1,817,524	2,215,520
Bank deposits	24,249,462	19,731,593
Bank of Thailand bond	359,000,000	64,000,000
Total	385,066,986	85,947,113

As at 31 December 2010, bank deposits in saving accounts, fixed deposits and bond carried interests between 0.25 and 1.92 percent per annum (2009: between 0.13 and 1.07 percent per annum).

Receivables

- **Receivables are *claims held against customers and others for money, goods, or services*.**
  - For financial statement purposes, companies classify receivables as either *current (short-term)* or *noncurrent (long-term).*
    - Companies expect to collect current receivables within a year or during the current operating cycle, whichever is longer.
      - They classify all other receivables as noncurrent.
  - Receivables are further classified in the Statement of Financial Position as either *trade* or *nontrade* receivables.
  - Accounts receivable VS Notes receivable
    - Accounts receivable are oral promises of the purchaser to pay for goods and services sold.
    - Notes receivable are written promises to pay a certain sum of money on a specified future date.

Recognition of Accounts Receivable

- **In most receivables transactions, the amount to be recognized is the *exchange price* between the two parties .**
  - The exchange price is the amount due from the debtor (a customer or a borrower).
  - Two factors may complicate the measurement of the exchange price:
    - The availability of discounts (trade and cash discounts), and
    - The length of time between the sale and the due date of payments (the interest element).



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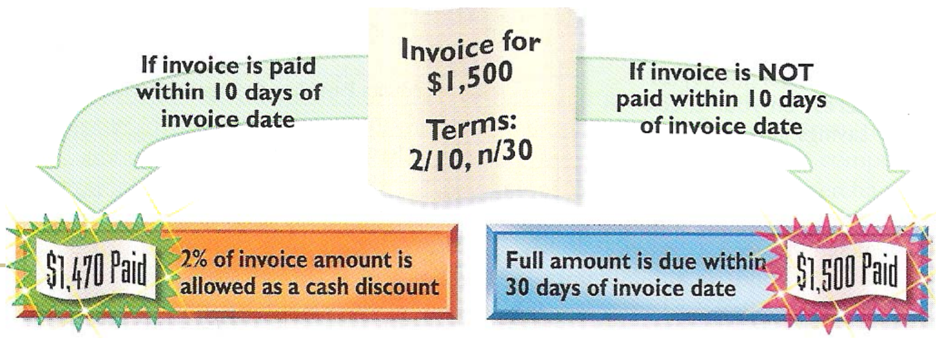
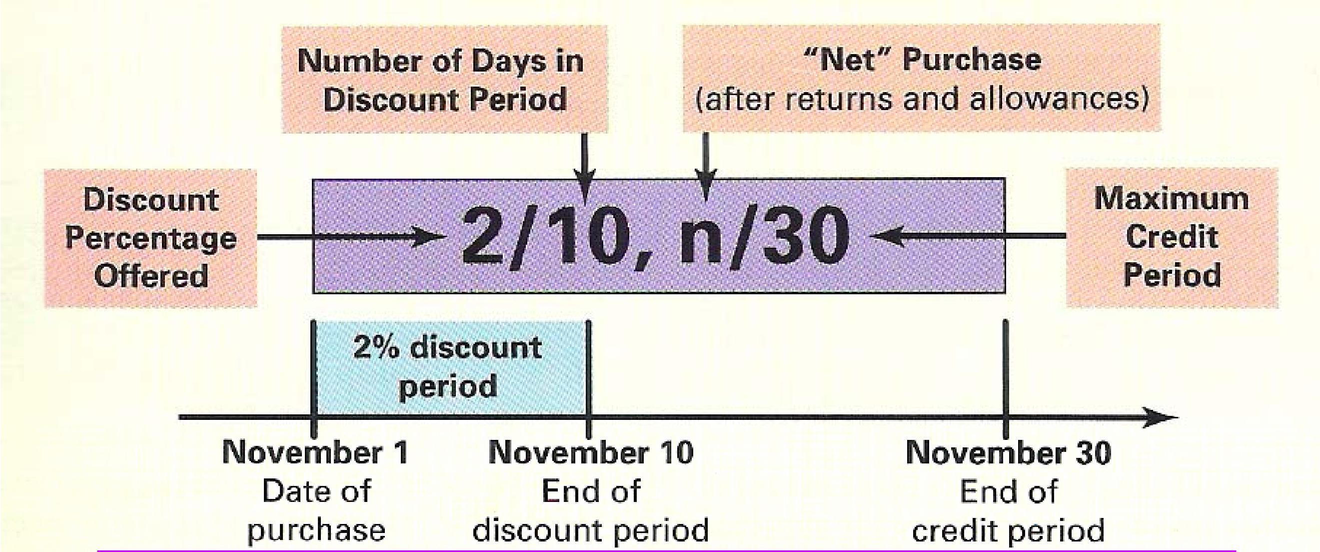
Trade and Cash Discounts

- **Trade Discounts:**
  - Prices may be subject to a trade or quantity discount.
    - Companies use such trade discounts to avoid frequent changes in catalogs, to alter prices for different quantities purchased, or to hide the true invoice price from competitors.
    - Trade discounts are commonly quoted in percentages.
- **Cash Discounts**
  - Companies offer cash discounts to induce prompt payment.
    - Cash discounts generally read in terms such as 2/10, n/30, or 2/10, E.O.M., net 30, E.O.M.



Credit Terms and Cash Discounts

When manufacturers and wholesalers sell their products on account, the credit terms are stated in the invoice.



Read as: "Two ten, net thirty"

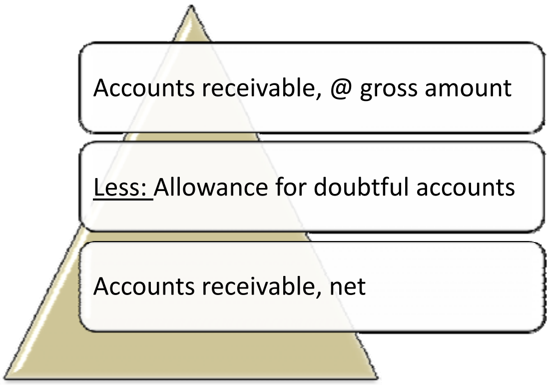
Net Sales Calculation

- **Gross sales: Total recorded sales before deducting any sales discounts or sales returns and allowances.**
  - **Sales returns and allowances:** A contra-revenue account in which the return of, or allowance for reduction in the price of, merchandise previously sold is recorded.
  - **Sales discount:** A reduction in the selling price that is allowed if payment is received within a specified period.
- **Net sales: Gross sales less sales discounts and sales returns and allowances.**

Gross sales		912,000
Less: Sales returns and allowances	8,000	
Sales discounts	4,000	12,000
Net sales		900,000

Valuation of Accounts Receivable

- **Companies value and report short-term receivables at net realizable value – the net amount they expect to receive in cash.**
  - Determining net realizable value requires estimating both uncollectible receivables and any returns or allowances to be granted.
    - Gross Accounts Receivable – Allowance for Doubtful Accounts = Net Realizable Value of Accounts Receivable



Uncollectible Accounts Receivable

- **Uncollectible Accounts Receivable**
  - Sales on any basis other than cash make uncertain the possibility of collecting the account.
  - An uncollectible account receivable is a loss of revenue that requires, through proper entry in the accounts, a decrease in the assets and a related decrease in income and shareholders' equity.

Accounts receivable (A)

Beg. B/L	XX	Cash collection	XX
Credit sales earned	XX	Write-off of A/R	XX
End. B/L	XX		

Accounting Treatments of Uncollectible Accounts

METHODS FOR RECORDING UNCOLLECTIBLES

1. Direct Write-Off Method

No entry is made until a specific account has definitely been established as uncollectible. Then the loss is recorded by crediting Accounts receivable and Debiting Bad debt expense.

2. Allowance Method

An estimate is made of the expected uncollectible accounts from all sales made on account or from the total of outstanding receivables. This estimate is entered as an expense and an indirect reduction in accounts receivable (via an increase in the allowance for doubtful accounts)

Accounting for Uncollectible A/R

①Direct Write-off Method

- Violate matching concept
- No estimation needed

Date	General Journal	Debit	Credit
During	Dr. Bad debt expense [EXP+, NI-, RE-, E-]	?	
Year XX	Cr. A/R [A-]		?
	To record direct write-off of A/R		

A		=	L	+	E	
A/R [A-]	xx				Bad debt expense [EXP+, R/E-, E-]	xx

Accounting for Uncollectible A/R (Cont.)

②Allowance Method

- Enhance matching
- Involve accounting estimates

Date	General Journal	Debit	Credit
Dec.31	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	?	
Year XX	Cr. Allowance for doubtful A/C [XA+, A-]		?
	To record doubtful A/C expense		
During	Dr. Allowance for doubtful A/C [XA-, A+]	?	
Year XX	Cr. A/R [A-]		?
	To record write-off of A/R		

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	xx				Doubtful account expense [EXP+, R/E-, E-]	xx
Allowance for doubtful accounts [XA-, A+]	xx					
A/R [A-]	xx					

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Two Methods Compared

- **Direct write-off method records the bad debt in the period in which a company determines that it cannot collect a specific receivable.**
  - Facts, not estimates.
  - Simple and convenient to apply.

- **Allowance method enters the expense on an estimated basis in the accounting period in which sales on account occur.**
  - Match costs with revenues.
  - Receivables are stated at estimated realizable value on the Statement of Financial Position.

Estimation Techniques

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	?	
Year XX	Cr. Allowance for doubtful A/C [XA+, A-]		?
	To record doubtful A/C expense for the period		

A	=	L	+	E
Allowance for doubtful accounts [XA+, A-] xx				Doubtful account expense [EXP+, R/E-, E-] xx

Estimation of Doubtful A/C Expense

I/S Approach	B/S Approach	
❶Percentage of Sales	❷Percentage of A/R	❸Aging of A/R

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Financial Statement Items

Statement of Comprehensive Income

- Revenue
- Doubtful A/C expense

Statement of Financial Position

- A/R
- Less: Allowance for doubtful A/C
- = Net Realizable Value

I/S Approach
Focus on matching concept

B/S Approach
Focus on net realizable value

Allowance for Doubtful A/C

Allowance for doubtful A/C			
		Beg. B/L	XXX
A/R Write-off	XXX	Doubtful A/C exp	XXX
		End. B/L	**XXX**

To I/S

To B/S

Allowance for doubtful accounts:	
Beginning balance	XX
+ Doubtful accounts expense	XX
- Accounts receivable write-off	(XX)
= Ending balance	XX

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	xx				Doubtful account expense [EXP+, R/E-, E-]	xx
Allowance for doubtful accounts [XA-, A+]	xx					
A/R [A-]	xx					

No effect on NRV and NI

Decrease NRV and NI

A/R Example

- **Information:**
  - The company uses allowance method to account for doubtful A/C expense. The company has the following information during Year 1 – Year 3:

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

  - **Option #1:** Percentage of Sales
    - Based on past experience, the company estimated that 2% of sales will be uncollectible.
  - **Option #2:** Percentage of A/R
    - Based on past experience, the company estimated that 5% of A/R will be uncollectible.
  - **Option #3:** Aging of A/R
    - Based on past experience, the percentage estimated to be uncollectible for each age group is as follows: Not yet due 2%, 1-30 days past due 5%, 31-60 days past due 8%, and Over 61 days past due 10%.

1. Percentage-of-Sales Approach

- **Percentage-of-sales approach**
  - If there is a fairly stable relationship between previous years' credit sales and bad debts, then a company can convert that relationship into a percentage and use it to determine this year's bad debt expense.
    - The percentage-of-sales approach matches costs with revenues because it relates the charge to the period in which a company records the sale.

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❶Percentage of Sales – I/S Approach

Step 1
- Determine doubtful A/C expense
  - □% x Sales = Doubtful A/C expense

Step 2
- Determine allowance for doubtful A/C
  - Beg. B/L – A/R Write-off + Doubtful A/C expense = End. B/L

Step 3
- Prepare journal entries
  - To record A/R Write-off
  - To record doubtful A/C expense

Step 4
- Present information on Financial Statements
  - Statement of Comprehensive Income (Sales, Doubtful A/C expense)
  - Statement of Financial Position (A/R, Allowance for doubtful A/C)

➊Percentage of Sales – I/S Approach – (Yr. 1)

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #1:** Percentage of Sales
  - Based on past experience, the company estimated that 2% of sales will be uncollectible.
    - Year 1:
      - » Calculation: 2% x Sales 2,500,000 = 50,000 → Doubtful A/C expense

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-50,000				Doubtful account expense [EXP+, R/E-, E-]	-50,000
Allowance for doubtful accounts [XA-, A+]	+0					
A/R [A-]	+0					

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➊Percentage of Sales – I/S Approach – (Yr. 1) (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 1)	0
A/R Write-off (Yr. 1)	0	Doubtful A/C exp (Yr. 1)	50,000
		End. B/L (Yr. 1)	**50,000**

Allowance for doubtful accounts:	
Beginning balance	0
+ Doubtful accounts expense	50,000
- Accounts receivable write-off	0
= Ending balance	50,000

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	0	
Year 1	Cr. A/R [A-]		0
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	50,000	
Year 1	Cr. Allowance for doubtful A/C [XA+, A-]		50,000
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 1

Sales	2,500,000
Doubtful A/C expense	50,000

B/S Yr. 1

A/R	850,000
Less: Allowance for doubtful A/C	(50,000)
Net realizable value	800,000

❶Percentage of Sales – I/S Approach – Yr. 2

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #1:** Percentage of Sales
  - Based on past experience, the company estimated that 2% of sales will be uncollectible.
    - Year 2:
      - » Calculation: 2% x Sales 3,800,000 = 76,000 → Doubtful A/C expense

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-76,000				Doubtful account expense [EXP+, R/E-, E-]	-76,000
Allowance for doubtful accounts [XA-, A+]	+37,500					
A/R [A-]	-37,500					

❶Percentage of Sales – I/S Approach – Yr. 2

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
A/R Write-off (Yr. 2)	37,500	Beg. B/L (Yr. 2)	50,000
		Doubtful A/C exp. (Yr. 2)	76,000
		End. B/L (Yr. 2)	**88,500**

Allowance for doubtful accounts:	
Beginning balance	50,000
+ Doubtful accounts expense	76,000
- Accounts receivable write-off	-37,500
= Ending balance	88,500

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	37,500	
Year 2	Cr. A/R [A-]		37,500
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	76,000	
Year 2	Cr. Allowance for doubtful A/C [XA+, A-]		76,000
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 2

Sales	3,800,000
Doubtful A/C expense	76,000

B/S Yr. 2

A/R	975,000
Less: Allowance for doubtful A/C	(88,500)
Net realizable value	886,500

❶Percentage of Sales – I/S Approach – Yr. 3

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #1:** Percentage of Sales
  - Based on past experience, the company estimated that 2% of sales will be uncollectible.
    - Year 3:
      - » Calculation: 2% x Sales 4,200,000 = 84,000 → Doubtful A/C expense

A		= L +	E	
Allowance for doubtful accounts [XA+, A-]	-84,000		Doubtful account expense [EXP+, R/E-, E-]	-84,000
Allowance for doubtful accounts [XA-, A+]	+90,000			
A/R [A-]	-90,000			

❶Percentage of Sales – I/S Approach – Yr. 3 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 3)	88,500
A/R Write-off (Yr. 3)	90,000	Doubtful A/C exp. (Yr. 3)	84,000
		End. B/L (Yr. 3)	**82,500**

Allowance for doubtful accounts:	
Beginning balance	88,500
+ Doubtful accounts expense	84,000
- Accounts receivable write-off	-90,000
= Ending balance	82,500

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	90,000	
Year 3	Cr. A/R [A-]		90,000
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	84,000	
Year 3	Cr. Allowance for doubtful A/C [XA+, A-]		84,000
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 3

Sales	4,200,000
Doubtful A/C expense	84,000

B/S Yr. 3

A/R	1,250,000
Less: Allowance for doubtful A/C	(82,500)
Net realizable value	1,167,500

2. Percentage-of-Receivable Approach

- **Percentage-of-Receivables Approach**
  - This procedure provides a reasonably accurate estimate of the receivables' realizable value. But it does not fit the concept of matching cost and revenues.
  - Companies may apply this method using, one composite rate that reflects an estimate of the uncollectible receivables. Or, companies may set up an aging schedule of the various age categories.
    - An aging schedule also identifies which accounts requires special attention by indicating the extent to which certain accounts are past due.
  - The ending balance in Allowance for doubtful accounts is the amount of total receivables estimated to be uncollectible.

❷Percentage of A/R – B/S Approach

Step 1
- Determine allowance for doubtful A/C
  - □% x A/R = Allowance for doubtful A/C (End. B/L→ Desired B/L)

Step 2
- Determine doubtful A/C expense
  - End. B/L – (Beg. B/L – A/R Write-off) = Doubtful A/C expense

Step 3
- Prepare journal entries
  - To record A/R Write-off
  - To record doubtful A/C expense

Step 4
- Present information on Financial Statements
  - Statement of Comprehensive Income (Sales, Doubtful A/C expense)
  - Statement of Financial Position (A/R, Allowance for doubtful A/C)

❷Percentage of A/R – B/S Approach – Yr. 1

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #2:** Percentage of A/R
  - Based on past experience, the company estimated that 5% of A/R will be uncollectible.
    - Year 1:
      - » Calculation: 5% x A/R 850,000 = 42,500 → Allowance for doubtful A/C

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-42,500				Doubtful account expense [EXP+, R/E-, E-]	-42,500
Allowance for doubtful accounts [XA-, A+]	+0					
A/R [A-]	+0					

❷Percentage of A/R – B/S Approach – Yr. 1 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 1)	0
A/R Write-off (Yr. 1)	0	Doubtful A/C exp (Yr. 1)	42,500
		End. B/L (Yr. 1)	**42,500**

Allowance for doubtful accounts:	
Beginning balance	0
+ Doubtful accounts expense	42,500
- Accounts receivable write-off	0
= Ending balance	42,500

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	0	
Year 1	Cr. A/R [A-]		0
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	42,500	
Year 1	Cr. Allowance for doubtful A/C [XA+, A-]		42,500
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 1	
Sales	2,500,000
Doubtful A/C expense	42,500

B/S Yr. 1	
A/R	850,000
Less: Allowance for doubtful A/C	(42,500)
Net realizable value	807,500

❷Percentage of A/R – B/S Approach – Yr. 2

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #2:** Percentage of A/R
  - Based on past experience, the company estimated that 5% of A/R will be uncollectible.
    - Year 2:
      - » Calculation: 5% x A/R 975,000 = 48,750 → Allowance for doubtful A/C

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-43,750				Doubtful account expense [EXP+, R/E-, E-]	-43,750
Allowance for doubtful accounts [XA-, A+] A/R [A-]	+37,500 -37,500					

❷Percentage of A/R – B/S Approach – Yr. 2 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 2)	42,500
A/R Write-off (Yr. 2)	37,500	Doubtful A/C exp (Yr. 2)	43,750
		End. B/L (Yr. 2)	**48,750**

Allowance for doubtful accounts:	
Beginning balance	42,500
+ Doubtful accounts expense	43,750
- Accounts receivable write-off	-37,500
= Ending balance	48,750

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	37,500	
Year 2	Cr. A/R [A-]		37,500
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EX[+, NI-, RE-, E-]	43,750	
Year 2	Cr. Allowance for doubtful A/C [XA+, A-]		43,750
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 2

Sales	3,800,000
Doubtful A/C expense	43,750

B/S Yr. 2

A/R	975,000
Less: Allowance for doubtful A/C	(48,750)
Net realizable value	926,250

❷Percentage of A/R – B/S Approach – Yr. 3

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #2:** Percentage of A/R
  - Based on past experience, the company estimated that 5% of A/R will be uncollectible.
    - Year 3:
      - » Calculation: 5% x A/R 1,250,000 = 62,500 → Allowance for doubtful A/C
      - » Effect on accounting equation:

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-103,750				Doubtful account expense [EXP+, R/E-, E-]	-103,750
Allowance for doubtful accounts [XA-, A+]	+90,000					
A/R [A-]	-90,000					

AC201 Fundamental Accounting

Percentage of A/R – B/S Approach – Yr. 3 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
A/R Write-off (Yr. 3)	90,000	Beg. B/L (Yr. 3)	48,750
		Doubtful A/C exp. (Yr. 3)	103,750
		End. B/L (Yr. 3)	**62,500**

Allowance for doubtful accounts:	
Beginning balance	48,750
+ Doubtful accounts expense	103,750
- Accounts receivable write-off	-90,000
= Ending balance	62,500

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C [XA-, A+]	90,000	
Year 3	Cr. A/R [A-]		90,000
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense [EXP+, NI-, RE-, E-]	103,750	
Year 3	Cr. Allowance for doubtful A/C [XA+, A-]		103,750
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 3

Sales	4,200,000
Doubtful A/C expense	103,750

B/S Yr. 3

A/R	1,250,000
Less: Allowance for doubtful A/C	(62,500)
Net realizable value	1,187,500

Aging Accounts Receivable

- **A more refined and accurate method of estimating the appropriate ending balance in the Allowance for Doubtful Accounts.**
- **Requires a company to base its calculations on how long its receivables have been outstanding.**
- **Each receivable is categorized according to age, such as**
  - Current
  - 1-30 days past due
  - 31-60 days past due, etc.
- **The total amount in each classification is multiplied by an appropriate uncollectible percentage (determined by experience).**

○***Calculation:*** **(☐% X A/R B/L) + (☐% X A/R B/L) + (☐% X A/R B/L)**

❸Aging of A/R – B/S Approach

Step 1
- Determine allowance for doubtful A/C
  - Per aging schedule = Allowance for doubtful A/C (End. B/L→ Desired B/L)

Step 2
- Determine doubtful A/C expense
  - End. B/L – (Beg. B/L – A/R Write-off) = Doubtful A/C expense

Step 3
- Prepare journal entries
  - To record A/R Write-off
  - To record doubtful A/C expense

Step 4
- Present information on Financial Statements
  - Statement of Comprehensive Income (Sales, Doubtful A/C expense)
  - Statement of Financial Position (A/R, Allowance for doubtful A/C)

❸Aging of A/R – B/S Approach – Yr. 1

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #3:** Aging of A/R
  - Based on past experience, the percentage estimated to be uncollectible for each age group is as follows: Not yet due 2%, 1-30 days past due 5%, 31-60 days past due 8%, and Over 61 days past due 10%.
    - Year 1: Aging schedule is as follows:

Age Group	A/R	% Uncollectible	Allowance for Doubtful A/C
Not yet due	350,000	2%	7,000
1-30 days past due	250,000	5%	12,500
31-60 days past due	130,000	8%	10,400
over 61 days past due	120,000	10%	12,000
	850,000		**41,900**

❸Aging of A/R – B/S Approach – Yr. 1 (Cont.)

» Calculation: Per aging schedule = 41,900 → Allowance for doubtful A/C

» Effect on accounting equation:

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-41,900				Doubtful account expense [EXP+, R/E-, E-]	-41,900
Allowance for doubtful accounts [XA-, A+]	+0					
A/R [A-]	+0					

❸Aging of A/R – B/S Approach – Yr. 1 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 1)	0
A/R Write-off (Yr. 1)	0	Doubtful A/C exp (Yr. 1)	41,900
		End. B/L (Yr. 1)	**41,900**

Allowance for doubtful accounts:	
Beginning balance	0
+ Doubtful accounts expense	41,900
- Accounts receivable write-off	0
= Ending balance	41,900

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C	0	
Year 1	Cr. A/R		0
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense	41,900	
Year 1	Cr. Allowance for doubtful A/C		41,900
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 1

Sales	2,500,000
Doubtful A/C expense	41,900

B/S Yr. 1

A/R	850,000
Less: Allowance for doubtful A/C	(41,900)
Net realizable value	808,100

AC201 Fundamental Accounting

❸Aging of A/R – B/S Approach – Yr. 2

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #3:** Aging of A/R
  - Based on past experience, the percentage estimated to be uncollectible for each age group is as follows: Not yet due 2%, 1-30 days past due 5%, 31-60 days past due 8%, and Over 61 days past due 10%.
    - Year 2: Aging schedule is as follows:

Age Group	A/R	% Uncollectible	Allowance for Doubtful A/C
Not yet due	500,000	2%	10,000
1-30 days past due	180,000	5%	9,000
31-60 days past due	175,000	8%	14,000
over 61 days past due	120,000	10%	12,000
	975,000		**45,000**

❸Aging of A/R – B/S Approach – Yr. 2 (Cont.)

- Calculation: Per aging schedule = 45,000 → Allowance for doubtful A/C
- Effect on accounting equation:

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-40,600				Doubtful account expense [EXP+, R/E-, E-]	-40,600
Allowance for doubtful accounts [XA-, A+]	+37,500					
A/R [A-]	-37,500					

AC201 Fundamental Accounting

❸Aging of A/R – B/S Approach – Yr. 2 (Cont.)

- Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 2)	41,900
A/R Write-off (Yr. 2)	37,500	Doubtful A/C exp (Yr. 2)	40,600
		End. B/L (Yr. 2)	**45,000**

Allowance for doubtful accounts:	
Beginning balance	41,900
+ Doubtful accounts expense	40,600
- Accounts receivable write-off	-37,500
= Ending balance	45,000

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C	37,500	
Year 2	Cr. A/R		37,500
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense	40,600	
Year 2	Cr. Allowance for doubtful A/C		40,600
	To record doubtful A/C expense for the period		

- Financial statement presentation:

I/S Yr. 2

Sales	3,800,000
Doubtful A/C expense	40,600

B/S Yr. 2

A/R	975,000
Less: Allowance for doubtful A/C	(45,000)
Net realizable value	930,000

❸Aging of A/R – B/S Approach – Yr. 3

- **Information:**

	Year 1	Year 2	Year 3
Sales	2,500,000	3,800,000	4,200,000
A/R	850,000	975,000	1,250,000
A/R Write-off	0	37,500	90,000

- **Option #3:** Aging of A/R
  - Based on past experience, the percentage estimated to be uncollectible for each age group is as follows: Not yet due 2%, 1-30 days past due 5%, 31-60 days past due 8%, and Over 61 days past due 10%.
    - Year 3: Aging schedule is as follows:

Age Group	A/R	% Uncollectible	Allowance for Doubtful A/C
Not yet due	680,000	2%	13,600
1-30 days past due	220,000	5%	11,000
31-60 days past due	200,000	8%	16,000
over 61 days past due	150,000	10%	15,000
	1,250,000		**55,600**

AC201 Fundamental Accounting

❸Aging of A/R – B/S Approach – Yr. 3 (Cont.)

» Calculation: Per aging schedule = 55,600 → Allowance for doubtful A/C

» Effect on accounting equation:

A		=	L	+	E	
Allowance for doubtful accounts [XA+, A-]	-100,600				Doubtful account expense [EXP+, R/E-, E-]	-100,600
Allowance for doubtful accounts [XA-, A+]	+90,000					
A/R [A-]	-90,000					

❸Aging of A/R – B/S Approach – Yr. 3 (Cont.)

» Allowance for doubtful A/C:

Allowance for doubtful A/C			
		Beg. B/L (Yr. 3)	45,000
A/R Write-off (Yr. 3)	90,000	Doubtful A/C exp (Yr. 3)	100,600
		End. B/L (Yr. 3)	**55,600**

Allowance for doubtful accounts:	
Beginning balance	45,000
+ Doubtful accounts expense	100,600
- Accounts receivable write-off	-90,000
= Ending balance	55,600

Date	General Journal	Debit	Credit
During	Dr. Allowance for doubtful A/C	90,000	
Year 3	Cr. A/R		90,000
	To record A/R write-off		

Date	General Journal	Debit	Credit
Dec. 31,	Dr. Doubtful A/C expense	100,600	
Year 3	Cr. Allowance for doubtful A/C		100,600
	To record doubtful A/C expense for the period		

» Financial statement presentation:

I/S Yr. 3

Sales	4,200,000
Doubtful A/C expense	100,600

B/S Yr. 3

A/R	1,250,000
Less: Allowance for doubtful A/C	(55,600)
Net realizable value	1,194,400

AC201 Fundamental Accounting

Uncollectible Accounts Summary

COMPARISON OF METHODS FOR ESTIMATING UNCOLLECTIBLES

Percentage-of-Sales	**Percentage-of-Receivables**
Matching	**Net realizable value**
Sales ⟷ *Doubtful accounts expense*	*Accounts receivable* ⟷ *Allowance for doubtful accounts*
Income Statement Approach	**Balance Sheet Approach**

Example of Financial Statement Presentation and Disclosure: Receivables

[Source: www.farmhouse.co.th]

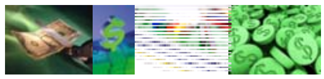
BALANCE SHEETS

President Bakery Public Company Limited

As at 31 December 2010 and 2009

(Unit : Baht)

	Note	Financial statements in which the equity method is applied 2010	Financial statements in which the equity method is applied 2009	Separate financial statements 2010	Separate financial statements 2009
Assets					
Current assets					
Cash and cash equivalents	6	385,066,986	85,947,113	385,066,986	85,947,113
Trade accounts receivable					
Related party	7, 9	120,973	66,313	120,973	66,313
Unrelated parties - net	7	529,960,712	452,864,675	529,960,712	452,864,675
Total trade accounts receivable - net		530,081,685	452,930,988	530,081,685	452,930,988
Inventories	8	140,930,621	116,929,748	140,930,621	116,929,748
Other current assets		14,109,410	10,100,648	14,109,410	10,100,648
Total current assets		1,070,188,702	665,908,497	1,070,188,702	665,908,497



4.3 Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experience and analysis of debt aging.

Allowance for doubtful accounts

In determining an allowance for doubtful accounts, the management needs to make judgment and estimates based upon, among other things, past collection history, aging profile of outstanding debts and the prevailing economic condition.

7. TRADE ACCOUNTS RECEIVABLE

The balances of trade accounts receivable as at 31 December 2010 and 2009, aged on the basis of due dates are summarised below.

(Unit : Baht)

	2010	2009
Age of receivables		
Related party		
Not yet due	120,973	66,313
Trade accounts receivable - related party	120,973	66,313
Unrelated parties		
Not yet due	312,135,903	273,209,720
Past due		
Up to 3 months	217,670,173	179,666,563
3 - 6 months	154,626	-
6 - 12 months	11,618	-
Total trade accounts receivable - unrelated parties	529,972,320	452,876,283
Less : Allowance for doubtful accounts	(11,608)	(11,608)
Trade accounts receivable - unrelated parties - net	529,960,712	452,864,675
Trade accounts receivable - net	530,081,685	452,930,988

Aging of Accounts Receivable

Net Realizable Value of Accounts Receivable