CONCEPT: NET RECEIVABLES – ALLOWANCE FOR DOUBTFUL ACCOUNTS

● __________ requires the creation of an allowance account to conform with the ______________ principle.

☐ ***Bad Debt Expense*** – _____________ that result from extending credit, but not getting paid

☐ ***Allowance for Doubtful Accounts*** – a ________________ account paired with _______________

- The Allowance is an ______________ of bad debt in our accounts receivable

Year 1 → Credit Sales	February Year 2 → Deemed uncollectible by the company

- There are two ways to calculate bad debt expense using the allowance method:

1. ***Percentage-of-Sales Method*** – Bad debt expense is estimated as a percentage of __________ sales
   > In this method, you calculate bad debt expense and then find the ending balance in the allowance
2. ***Aging-of-Receivables Method*** – Ending balance in ADA is estimated based on the ________ of each receivable
   > In this method, you calculate the ending balance in the allowance and then find bad debt expense

EXAMPLE:

A company regularly sells items on account. Currently, accounts receivable total $12,000. However, the company estimates that $800 of this amount is uncollectible. Record the journal entry to create the allowance.

Journal Entry:

Assets	=	Liabilities	+	Equity

$$Net\ Accounts\ Receivable = Gross\ Accounts\ Receivable - Allowance\ for\ Doubtful\ Accounts$$

T-accounts for AR and ADA