# **Uncollectible Accounts**

A business sells on account to encourage sales. Customers can buy merchandise even though they will not have the cash needed to pay the account until days or months later. A business that sells on account expects full payment within the terms of the sale. Before selling to a customer on account, management should perform a thorough credit check on a customer. A credit customer's financial condition may decline over time. Business customers may experience increased competition or a catastrophic event, such as a weather disaster. Individual customers may lose their employment. Regardless of the reason, creditworthy customers may later be unable to pay their accounts. Accounts receivable that cannot be collected are known as uncollectible accounts.

# **Estimating and Recording Uncollectible Accounts Expense**

Allowing customers to buy now and pay later is an effective method for increasing sales. Unfortunately, some customers may later become unable or unwilling to pay their account. These uncollectible accounts must be recorded as an expense.

The allowance method of recording losses from uncollectible accounts attempts to match the expense of uncollectible accounts in the same fiscal year the related sales are recorded. At the end of the fiscal year, the business does not know which specific accounts will become uncollectible. Therefore, an estimate of the uncollectible accounts is recorded to the contra asset account "Allowance for Uncollectible Accounts" and the expense account "Uncollectible Accounts Expense".

As we discussed the other day, the percentage of total sales on account method of estimating uncollectible accounts expense assumes that a portion of every sale on account dollar will become uncollectible.

# **Example: Restaurant Supply**

Restaurant Supply has estimated that 1% of its \$1,287,330.00 sales on account, or \$12,873.30, will eventually become uncollectible. At the end of the fiscal period, an adjustment for uncollectible accounts expense is planned on a worksheet. The Allowance for Uncollectible Accounts balance in the trial balance credit column, \$280.00, is the allowance estimate from the previous fiscal period that has not yet been identified as uncollectible.

### **TRIAL BALANCE**

ACCOUNT TITLE	UNADJ	USTED	Adjust	ments	ADJU	STED
	Debit	Credit	Debit	Credit	Debit	Credit
Accounts Receivable	142 6 2 4 50				142 6 2 4 50	
Allowance for Uncollectible Accounts		28000		12 8 7 3 30		13 1 5 3 30
Uncollectible Accounts Expense			12 8 7 3 30		12 8 T 3 30	

### **GENERAL JOURNAL**

2023 Date		Account Title	Doc. No.	Post. Ref.		De	ebit	:			Cr	edit	t	
December	31	Uncollectible Accounts Expense			12	8	7	3	,30					
		Allowance for Uncollectible Accounts								12	8	7	3	30

The adjustment for uncollectible accounts expense planned on the worksheet is recorded as an adjusting entry in the general journal and then posted to the general ledger. Note that the adjusting entry will not affect the balance of Accounts Receivable.

The book value of accounts receivable on December 31, 2023 is \$129,471.20, calculated by taking the balance of accounts receivable, \$142,624.50, and subtracting the adjusted balance of allowance for uncollectible accounts, \$13,153.30.

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# Writing Off Accounts Receivable

When a specific customer account is determined to be uncollectible, a journal entry is made to cancel the uncollectible account. The entry cancels the uncollectible amount from the general ledger account Accounts Receivable as well as the customer account in the accounts receivable subsidiary ledger. Canceling the balance of a customer account balance because the customer does not pay is called **writing off an account**.

# **Example: Restaurant Supply**

After months of unsuccessful collection efforts, Restaurant Supply decides that the past-due account of Metro Food Court is uncollectible.

January 4 Wrote off Metro Food Court's past-due account as uncollectible, \$1,621.00. M3.

Because the account of Metro Food Court has been determined to be uncollectible, the \$1,621.00 is now an actual uncollectible amount. Therefore, the amount of the uncollectible account is deducted from the allowance account. Accounts receivable is credited to reduce the balance due from customers. Metro Food Court's account is also credited to cancel the debit balance of the account. Metro Food Court's account is written off.

# **GENERAL JOURNAL**

GENERAE.													I AGE .
2024			Doc.	Post.									
Date		Account Title	No.	Ref.		D	)ebi	t			Cre	edit	
Januáry	4	Allowance for Uncollectible Accounts	МЗ	1140	1	6	2	1	00				
		Accounts Receivable – Metro Food Court		1130 110						1	6	2 1	00

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# **GENERAL LEDGER**

Account:	ACC	OUNTS RECEIVABLE												A	lccou	nt No	: 1130	)
2024			Post.											Bala	nce			
Date		Item	Ref.	Del	bit		Cre	edit			D	)ebi	it			Cred	lit	
January	1	Balance	~							78	3	4	0	30				
	4		GI			1	6	2 1	00	76	7	1	9	30				

Account:	ALLC	WANCE FOR UNCOLLECTIBL	E ACCOL	JNTS													Accou	nt l	No:	114	10
2024			Post.													Bala	ance				
Date		Item	Ref.		De	ebit			Cr	edi	t		D	ebi	it			Cr	edi	t	
January	1	Bálánce	✓														13	1	5	3	,30
	4		GI	1	6	2	1	00									11	5	3	2	,30

### ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

Customer	ME	FRO FOOD COURT									Cust	ome	er No	<b>: 1</b> 1	0
2024 Date		Item	Post. Ref.	Deb	it		Cr	redi	t				ebit lanc		
January	1	Bálánce	✓								1	6	2	1	00
	4	Written Off	GI			1	6	2	1	00				0	00

### **Practice Problem: Cross Company**

Journalize the following transactions for Cross Company completed during April 2024.

April 3 Wrote off Davidson Corp.'s past-due account as uncollectible, \$849.00. M245.

- 7 Wrote off JGF Industries' past-due account as uncollectible, \$2,488.00 M246.
- 15 Wrote off Sansing Co.'s past-due account as uncollectible, \$609.00 M247.

## **GENERAL JOURNAL**

GENERAL JOU	IRNAL							PAGE 1
2024		Doc.	Post.					
Date	Account Title	No.	Ref.	D	ebit		Cred	it

# **GENERAL LEDGER**

Account:	ACC	OUNTS RECEIVABLE												ŀ	Accou	nt l	۷o:	113	30
2024	;		Post.											Bala	ince				
Date		Item	Ref.	D	ebi	t		Cr	edit		D	)eb	it			Cı	redi	t	
April	1	Bálánce	~							12,5	4	7	5	00					

Account:	ALLC	<b>DWANCE FOR UNCOLLECTIB</b>	LE ACCOL	JNTS												ļ	Accou	int l	No:	114	40
2024	4		Post.													Bala	ince				
Date		Item	Ref.		D	ebi	t		С	redit	t		0	)eb	it			С	redi	it	
April	1	Bàlànce	~														23	5	0	0	00

### ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

Customer	DA\	IDSON CORP.								Custo	me	r No	: 15	0
2024 Date		Item	Post. Ref.	De	bit		Cre	edit				ebit ance	2	
April	1	Balance	✓								8	4	9	00

Customer	JGF	INDUSTRIES								Custo	ome	er No	o: 16	50
2024 Date		ltem	Post. Ref.	Deb	it		Cr	edi	t			ebit lanc		
April	1	Balance	~							2	4	8	8	00

Customer	SAN	SING CO.								Custo	ome	r No	): <b>1</b> 7	70
2024 Date		Item	Post. Ref.	De	bit		Cr	edi	t			ebit lanc		
April	1	Balance	~								6	0	9	00