CH. 9 · PART 1 CHEAT CARD — ACCOUNTS RECEIVABLE & THE ALLOWANCE METHOD

1 THE THREE MOMENTS — official form, every entry

① ESTIMATE · every year-end

Bad Debt Expense	**4,000**	
Allowance for Doubtful Accounts		**4,000**

estimate now — same period as the sales. matching saved.

② WRITE OFF · a name dies

Allowance for Doubtful Accounts	**2,000**	
Accounts Receivable — (name)		**2,000**

NO expense today — and

NRV does NOT move.

③ RECOVER · the name pays

Accounts Receivable — (name)	**2,000**	
Allowance for Doubtful Accounts		**2,000**
Cash	**2,000**	
Accounts Receivable — (name)		**2,000**

reinstate first, then collect

2 THE PRESENTATION — the three lines that tell the truth

Accounts receivable, gross	**100,000**
Less: allowance for doubtful accounts	**(4,000)**
NET REALIZABLE VALUE	**96,000**

read it like an auditor:

what they OWE · what we DOUBT

= what we'll GET

3 TWO ROADS TO THE NUMBER

% OF SALES · the flow

expense = % × net credit sales

record AS COMPUTED — ignore the balance already in the allowance

AGING · the pile → PLUG the T-account

a DEBIT beg. sits HERE — ADDS

Beg. balance — given	**1,000**
ADJUSTMENT = the PLUG	**3,000**
END — the aging total	**4,000 ✓**

THE EXAM TRAP: a write-off changes NOTHING — not NRV · not total assets · not expense

CH. 9 · PART 2 CHEAT CARD — NOTES RECEIVABLE: THE PAPER, THE INTEREST & THE TWO FATES

1 CREATION — the note is born

the 3 doors in

① LEND cash ② a big SALE

③ SETTLE an overdue A/R

door ③ writes THIS entry

Notes Receivable	**10,000**	
Accounts Receivable — Cedar Auto		10,000

an asset SWAP — and now it EARNS

face 10,000 · 6% · 90 days

2 COLLECTED — with interest

paid IN FULL at maturity (honored)

Cash	**10,150**	
Notes Receivable		10,000
Interest Revenue		150

CASH = MATURITY VALUE = FACE + INTEREST = 10,150

the lender's interest formula

INTEREST = FACE × RATE × TIME

10,000 × 6% × 90/360 = $150

3 NOT PAID — two cases

(a) still EXPECT to collect

Accts Receivable — Cedar Auto	**10,150**	
Notes Receivable		10,000
Interest Revenue		150

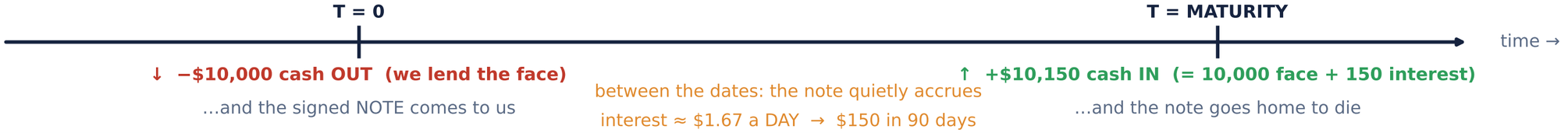
they legally owe FACE + INTEREST

(b) NO chance — WRITE IT OFF

Allowance for Doubtful Accts	**10,000**	
Notes Receivable		10,000

FACE only — never book dead interest

THE TIMELINE — through the LENDER'S eyes (our books): ↓ cash OUT · ↑ cash IN (flip every arrow and you have the MAKER's line)



WHY A NOTE BEATS A HANDSHAKE: ① stronger LEGAL CLAIM · ② INTEREST every single day · ③ NEGOTIABLE — sell it by endorsement

MANNERS & THE CALENDAR: notes are valued at net realizable value — the allowance guards them too · maturity: OMIT issue date, INCLUDE due date

EXAM TRAPS: MATURITY VALUE already INCLUDES the interest — never add it twice · rates are ALWAYS annual · hopeless dishonor books NO interest

CH. 9 · PART 3 CHEAT CARD — SELLING RECEIVABLES: FACTORING · CREDIT CARDS · THE RATIOS

1 WITH RECOURSE — risk stays OURS

sell 1,000 — factor can come back

Cash	900	
Loss on Sale of Receivables	120	
Accounts Receivable		1,000
Recourse Liability		20

record the liability THE DAY YOU SELL

if the customer defaults, WE make the factor whole — a real obligation, so it goes on the books at once

2 WITHOUT RECOURSE — clean sale

sell 1,000 — the factor's funeral

Cash	870	
Loss on Sale of Receivables	100	
Receivable from Factor	30	
Accounts Receivable		1,000

check: 870 + 100 + 30 = 1,000 ✓

factor eats the defaults → charges a BIGGER fee — sleep costs extra · the 30 is the holdback, paid to us later

3 CREDIT CARDS — in disguise

every swipe = a CASH sale

Cash	960	
Service Charge Expense	40	
Sales Revenue		1,000

fee ≈ 2–6% of the invoice

revenue IN FULL — the fee is OUR cost

issuer pays in a day or two · collects from the cardholder · absorbs losses — never the store's problem

THE TWO NUMBERS BANKERS GRADE YOU BY

A/R TURNOVER = net credit sales ÷ average A/R → 500,000 ÷ 100,000 = 5× a year

DAYS TO COLLECT = 365 ÷ turnover → 365 ÷ 5 = 73 days per IOU

READ THEM: HIGHER turnover · FEWER days = healthy · days stretching = doubt growing, an allowance needs feeding

EXAM TRAPS: with recourse → record a RECOURSE LIABILITY · card fee = expense, NEVER a revenue discount · without recourse = bigger fee

CH. 9 CHEAT CARD — THE RECEIVABLES PLAYBOOK

1 ACCOUNTS RECEIVABLE — estimate · write-off · recover

① ESTIMATE · year-end

	Dr	Cr
Bad Debt Expense	4,000	
Allowance		4,000

match to the sales period

② WRITE-OFF · a name dies

	Dr	Cr
Allowance	2,000	
Accounts Receivable		2,000

no expense · NRV unchanged

③ RECOVER · they pay

	Dr	Cr
Accounts Receivable	2,000	
Allowance		2,000

then collect it like any day

2 NOTES RECEIVABLE — a written, interest-bearing promise

RECEIVE the note

	Dr	Cr
Notes Receivable	10,000	
Accounts Receivable		10,000

interest = FACE × RATE × TIME

HONORED at maturity

	Dr	Cr
Cash	10,150	
Notes Receivable		10,000
Interest Revenue		150

MV = face + interest

DISHONORED

	Dr	Cr
Accounts Receivable	10,150	
Notes Receivable		10,000
Interest Revenue		150

A/R hopeful · still owed

3 SELL FOR CASH TODAY — credit cards · factoring

CREDIT-CARD sale

	Dr	Cr
Cash	960	
Service Charge Exp	40	
Sales Revenue		1,000

fee = OUR cost

FACTOR · WITH recourse

	Dr	Cr
Cash	900	
Loss on Sale	120	
Accounts Receivable		1,000
Recourse Liability		20

FACTOR · WITHOUT recourse

	Dr	Cr
Cash	870	
Due from Factor	30	
Loss on Sale	100	
Accounts Receivable		1,000

PRESENTATION — net realizable value

Accounts receivable, gross	100,000
Less: allowance for doubtful accounts	(4,000)
NET REALIZABLE VALUE	96,000

RATIOS

receivables turnover = net credit sales ÷ average net receivables

days to collect = 365 ÷ turnover

THE EXAM TRAPS: maturity value INCLUDES interest · write-off changes NOTHING · aging gives the ENDING balance, the expense is the PLUG