Accounts Receivable & Bad Debts Master Reference Sheet

Allowance Method vs. Direct Write-Off, % of Sales, Aging of AR & Recovery Entries | US GAAP

1. ALLOWANCE METHOD VS. DIRECT WRITE-OFF METHOD

Feature	Allowance Method (GAAP Mandated)	Direct Write-Off (Non-GAAP / Tax Only)
Matching Principle	Satisfied: Matches bad debts in period of sale.	Violated: Bad debt recorded only when uncollectible.
Balance Sheet Valuation	AR reported at **Net Realizable Value (NRV)**.	AR overstated on Balance Sheet.
Year-End Estimation Entry	**Dr. Bad Debt Expense • Cr. Allowance for DA**	*No entry at year-end.*
Write-Off Entry	**Dr. Allowance for DA • Cr. Accounts Rec.**	**Dr. Bad Debt Expense • Cr. Accounts Rec.**

2. ESTIMATING BAD DEBTS: % OF SALES VS. AGING OF RECEIVABLES

Estimation Method	Focus & Formula	How Allowance Account Balance Is Treated
Percentage of Credit Sales (Income Statement Approach)	**Bad Debt Exp = Net Credit Sales × % Estimated**	Calculated figure is the **exact amount of the journal entry**! Existing balance in Allowance account is **IGNORED**.
Aging of Receivables (Balance Sheet Approach)	**Target Allowance = ∑ (Age Category × % Default)**	Calculated figure is the **desired ending balance** in Allowance. Bad Debt Expense is the plug adjusting current balance to target.

3. RECOVERY OF AN ACCOUNT PREVIOUSLY WRITTEN OFF

Step 1: Re-establish Customer Account: Dr. Accounts Receivable • Cr. Allowance for Doubtful Accounts
Step 2: Record Cash Collection: Dr. Cash • Cr. Accounts Receivable
Notice: Bad Debt Expense is completely unaffected upon subsequent recovery!

© everythingaboutaccounting.info • Free Printable Study Cheat Sheets • Accounts Receivable & Bad Debts