

1. Accounts receivable are an asset and are generally presented in the current asset section of the balance sheet.
2. Gross receivables represent the total amounts owed to a company without regard to potential uncollectible accounts. Net receivables equal gross receivables less the estimated uncollectible accounts represented in the allowance for doubtful accounts.
3. The percentage of gross receivables not expected to be collected is computed by dividing the allowance for uncollectible accounts by the gross amount of accounts receivable.
4. Bad debt expense appears in general and administrative expenses in the income statement.
5. The three parts to the economic value of accounts receivable are: 1) the nominal amount owed by customers, 2) the allowance for bad debts, representing the nominal amount that is expected not to be collected, and 3) the discounted expected future cash collections of the accounts receivable (i.e., the time value of money).
6. GAAP revenue recognition criteria include: 1) an earnings process must be substantially complete, 2) an exchange takes place, and 3) collection is reasonably assured.
7. GAAP for accounts receivable ignore interest because the time period involved in the collection of a receivable is relatively short. Therefore, the "interest" component is viewed as being immaterial.

8.	Account name	Financial Type	statement
	Bad debt expense	Operating expense	Income statement
	Accounts receivable	Current asset	Balance sheet
	Allowance for doubtful accounts	Contra-asset	Balance sheet

9. "Written-off" means that a specific customer's account receivable has been taken off the books and no longer is represented as an asset.
10. Assuming an allowance method is used, the write-off of an account receivable reduces gross accounts receivable but has no effect on net income,

net accounts receivable, total assets, or the current ratio.

11. The aging method emphasizes the valuation of accounts receivable in the balance sheet. The ending balance in the allowance for doubtful accounts corresponds to the **expected** uncollectible receivables on the balance sheet. The percent-of-sales method emphasizes the relationship between the current period sales and the **expected** bad debts resulting from their sales. Its theoretical underpinning is the matching principle.
12. Since GAAP accounting for bad debts ignores interest, it overstates the value of the receivables relative to their true economic value. Therefore, the market-to-book value will be less than 1.
13. Because the percentage of sales method adjusts the percentage used if the actual experience is better or worse than estimates, bad debt expense is smoothed over time. If the balance in the allowance grows too large, the percentage of sales is lowered. If the balance is too small, the percentage is increased.
14. The aging method focuses directly on the balance of accounts receivable at the balance sheet date. The "bad debt expense" is the difference between the existing balance before the adjusting entry is made and the desired ending balance in the allowance for doubtful accounts.
Theoretically, since a careful analysis of existing accounts receivable has been made, the net receivables should be a close approximation of the value of the receivables at year end.