

Lesson 8.2 : Accounting for Current Asset - Trade Receivables

8.2.1 What is Trade Receivable

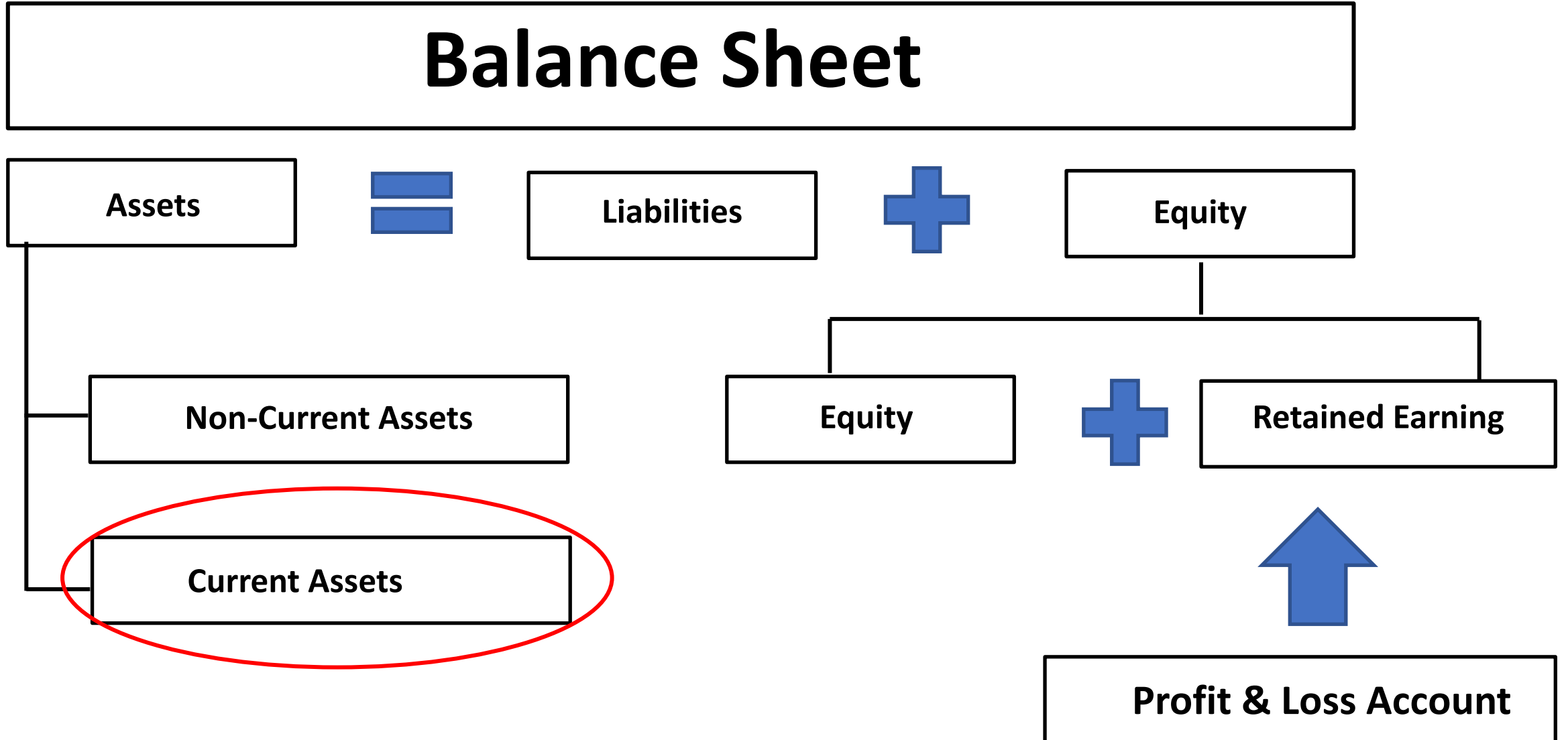
8.2.2 What is Trade Receivables Aging

8.2.3 What is Bad Debts

8.2.4 What is Doubtful Debts

8.2.5 Accounting Entries

Recap Accounting Equation & Financial Statements



Current Assets



Cash

+



Cash
Equivalents

+



Inventory

+



Accounts
Receivables

+



Prepaid
Expenses

+



Marketable
Securities

8.2.1 What is Trade Receivable

- Trade receivables are amounts billed by a business to its customers when it delivers goods or services.
- These billings are typically documented on formal invoices, which are summarized in an accounts receivable aging report.
- This report is commonly used by the collections staff to collect overdue payments from customers.
- In the general ledger, trade receivables are recorded in control accounts. Individual customers are recorded in sub-ledger namely Debtor Ledger
- Trade Receivables are classified as current assets on the balance sheet.

8.2.2 What is AR Aging / Debtor Aging

- Accounts receivable aging is the process of distinguishing open accounts receivables based on the length of time an invoice has been outstanding.
- Accounts receivable aging is useful in determining the allowance for doubtful accounts.
- The aged receivables report tabulates those invoices owed by length, often in 30-day segments, for quick reference.

8.2.2 What is AR Aging / Debtor Aging

Aged Accounts Receivable

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Aged as of 31 December, 2020
Aged by Due Date
All Amounts in LCY
Customer: Gen. Bus. Posting Group: TD-OTHERS

Aged Overdue Amounts

No.	Name	Balance	Not Due	1 - 31 days	32 - 61 days	62 - 92 days	Before 92 days
TD00002		155,182.50	0.00	75,000.00	3,277.50	65,865.00	11,040.00
TD00003		1,283.69	0.00	1,283.69	0.00	0.00	0.00
TD00004		2,676.45	0.00	2,676.48	-0.03	0.00	0.00
TD00005		24,479.79	0.00	24,479.79	0.00	0.00	0.00
TD00006		735.09	0.00	735.09	0.00	0.00	0.00
TD00013		-1,070.56	0.00	-740.59	-329.97	0.00	0.00
TD00015		7,461.56	0.00	3,308.94	414.90	172.60	3,565.12
TD00025		-1,484.76	0.00	-140.64	-118.93	-176.79	-1,048.40
TD00038		211.60	0.00	0.00	0.00	0.00	211.60
TD00051		-2,393.08	0.00	-277.50	-401.10	-705.90	-1,008.58
TD00060		-1,312.75	0.00	0.00	0.00	0.00	-1,312.75
TD00061		1,185.01	0.00	0.00	0.00	0.00	1,185.01
TD00070		4,845.48	0.00	4,845.48	0.00	0.00	0.00
TD00075		-71,118.05	0.00	-399.00	-70,098.79	-3,011.46	2,391.20
TD00076		3,000.00	0.00	0.00	0.00	0.00	3,000.00
TD00084		35.55	0.00	0.00	0.00	0.00	35.55
TD00091		-108,956.24	0.00	-36,971.88	-71,984.36	0.00	0.00
TD00094		5,865.00	0.00	5,865.00	0.00	0.00	0.00

8.2.3 What is Bad Debt & Bad Debts Recovered

- Bad debt refers to loans or outstanding balances owed that are no longer deemed recoverable and must be written off.
- Bad debts can be written off on both business and individual tax returns.
- Bad debt recovery is a payment received for a debt that was written off and considered uncollectible.
- Bad debt recovery must be claimed as part of its gross income.

8.2.4 What is Doubtful Debt

- Doubtful debts are those debts which a business or individual is unlikely to be able to collect.
- This is done to avoid over-stating the assets of the business as trade debtors are reported net of Doubtful debt.
- Also known as a Provision for Doubtful Debts, this is an asset contra account listed within the current asset section of the balance sheet
- There are two main ways to estimate an allowance for bad debts: the percentage sales method and the accounts receivable aging method. This is called general provision
- Practically, only specific doubtful debts is provided for. Specific Provision refer to specific bankrupt customer was identified and provide as doubtful debts.

8.2.4 What is Doubtful Debt

Current assets

Inventories	10	2,415,534	3,697,351
Trade receivables	11	1,538,074	250,550
Other receivables	12	2,430,399	2,883,927

11. TRADE RECEIVABLES

	<u>31.12.2019</u>	<u>30.6.2018</u>
	RM	RM
Trade receivables	1,538,686	250,550
Less: Allowance for expected credit losses	<u>(612)</u>	<u>-</u>
	<u>1,538,074</u>	<u>250,550</u>

8.2.5 Accounting Entries

(a) When sales goods or services to customer

Dr	Trade Receivables – ABC Sdn Bhd
Cr	Sales

(b) When Customer pay us money

Dr	Bank
Cr	Trade Receivables – ABC Sdn Bhd

(c) When Customer declared bankrupt and cannot pay

Dr	Bad Debts Written Off (P&L)
Cr	Trade Receivables – ABC Sdn Bhd

(d) When bankrupt customer pay back later

Dr	Bank
Cr	Other Income - Bad Debts Recovered (P&L)

8.2.5 Accounting Entries

- (a) When estimate / increase in doubtful debts
- | | | |
|----|------------------------------------|-----------------------------------|
| Dr | Provision for Doubtful Debts – P&L | |
| | Cr | Provision for Doubtful Debts - BS |
- (b) When decrease in doubtful debts
- | | | |
|----|-----------------------------------|------------------------------------|
| Dr | Provision for Doubtful Debts – BS | |
| | Cr | Provision for Doubtful Debts – P&L |