9 Accounting for Receivables

Learning Objectives

1. Explain how companies recognize accounts receivable.
2. Describe how companies value accounts receivable and record their disposition.
3. Explain how companies recognize notes receivable.
4. Describe how companies value notes receivable, record their disposition, and present and analyze receivables.

LEARNING OBJECTIVE 1

Explain how companies recognize accounts receivable.

Amounts due from individuals and other companies that are expected to be collected in cash.

Accounts Receivable

Amounts owed by customers on account that result from the sale of goods and services.

Notes Receivable

Written promise for amounts to be received. Normally requires the collection of interest.

Other Receivables

Nontrade receivables such as interest, loans to officers, advances to employees, and income taxes.

Types of Receivables

Amounts due from individuals and other companies that are expected to be collected in cash.

Company	Receivables as a Percentage of Total Assets
Ford Motor Company	43.2%
General Electric	41.5
Minnesota Mining and Manufacturing Company (3M)	12.7
DuPont Co.	11.7
Intel Corporation	3.9

Illustration 9-1
Receivables as a percentage of assets

Types of Receivables

Three accounting issues:

1. **Recognizing** accounts receivable.
2. **Valuing** accounts receivable.
3. **Disposing** of accounts receivable.

ETHICS NOTE

In exchange for lower interest rates, some companies have eliminated the 25-day grace period before finance charges kick in. Be sure you read the fine print in any credit agreement you sign.

Recognizing Accounts Receivable

- **Service organization** records a receivable when it performs service on account.
- **Merchandiser** records accounts receivable at the point of sale of merchandise on account.

Recognizing Accounts Receivables

Illustration: Assume that Jordache Co. on July 1, 2017, sells merchandise on account to Polo Company for $1,000 terms 2/10, n/30. Prepare the journal entry to record this transaction on the books of Jordache Co.

Jul. 1	Accounts Receivable	1,000	
	Sales Revenue		1,000

Recognizing Accounts Receivables

Illustration: On July 5, Polo returns merchandise worth $100 to Jordache Co.

Jul. 5	Sales Returns and Allowances	100	
	Accounts Receivable		100

Illustration: On July 11, Jordache receives payment from Polo Company for the balance due.

Jul. 11	Cash	882	
	Sales Discounts ($900 x .02)	18	
	Accounts Receivable		900

ANATOMY OF A FRAUD

Tasanee was the accounts receivable clerk for a large non-profit foundation that provided performance and exhibition space for the performing and visual arts. Her responsibilities included activities normally assigned to an accounts receivable clerk, such as recording revenues from various sources that included donations, facility rental fees, ticket revenue, and bar receipts. However, she was also responsible for handling all cash and checks from the time they were received until the time she deposited them, as well as preparing the bank reconciliation. Tasanee took advantage of her situation by falsifying bank deposits and bank reconciliations so that she could steal cash from the bar receipts. Since nobody else logged the donations or matched the donation receipts to pledges prior to Tasanee receiving them, she was able to offset the cash that was stolen against donations that she received but didn't record. Her crime was made easier by the fact that her boss, the company's controller, only did a very superficial review of the bank reconciliation and thus didn't notice that some numbers had been cut out from other documents and taped onto the bank reconciliation.

Total take: $1.5 million

THE MISSING CONTROL

DO IT! 1 Recognizing Accounts Receivable

On May 1, Wilton sold merchandise on account to Bates for $50,000 terms 3/15, net 45. On May 4, Bates returns merchandise with a sales price of $2,000. On May 16, Wilton receives payment from Bates for the balance due. Prepare journal entries to record the May transactions on Wilton's books.

May 1	Accounts Receivable—Bates	50,000	
	Sales Revenue		50,000
4	Sales Returns and Allowances	2,000	
	Accounts Receivable—Bates		2,000
16	Cash ($48,000 - $1,440)	46,560	
	Sales Discounts ($48,000 x .03)		1,440
	Accounts Receivable—Bates		48,000

LEARNING OBJECTIVE 2

Describe how companies value accounts receivable and record their disposition.

Valuing Accounts Receivables

- Current asset.
- Valuation (cash realizable value).

Alternative Terminology
You will sometimes see *Bad Debt Expense* called *Uncollectible Accounts Expense*.

Uncollectible Accounts Receivable

- Sales on account raise the possibility of accounts not being collected.
- Companies record credit losses as debits to **Bad Debt Expense**.

Valuing Accounts Receivable

Methods of Accounting for Uncollectible Accounts

Direct Write-Off

Theoretically undesirable:

- No matching.
- Receivable not stated at cash realizable value.
- Not acceptable for financial reporting.

Allowance Method

Losses are estimated:

- Better matching.
- Receivable stated at cash realizable value.
- Required by GAAP.

Valuing Accounts Receivable

How are these accounts presented on the Balance Sheet?

Accounts Receivable

Beg.	500	
End.	500	

Allowance for Doubtful Accounts

	25	Beg.
	25	End.

LO 2

Valuing Accounts Receivable

ABC Corporation
Balance Sheet (partial)

Current Assets:			
Cash		$	330
Accounts receivable	500		
Less: Allowance for doubtful accounts	(25)		475
Inventory			812
Prepaid expense			40
Total current assets			1,657

Valuing Accounts Receivable

Alternate Presentation

ABC Corporation
Balance Sheet (partial)

Current Assets:		
Cash	$	330
Accounts receivable, net of $25 allowance		475
Inventory		812
Prepaid expense		40
Total current assets		1,657

Valuing Accounts Receivable

Journal entry for credit sale of $100?

Accounts Receivable	100	
Sales		100

Accounts Receivable

	Debit	Credit
Beg.	500	
End.	500	

Allowance for Doubtful Accounts

Debit	Credit	
	25	Beg.
	25	End.

Valuing Accounts Receivable

Journal entry for credit sale of $100?

Accounts Receivable	100	
Sales		100

Accounts Receivable

Beg.	500		
Sale	100		
End.	600		

Allowance for Doubtful Accounts

		25	Beg.
		25	End.

Valuing Accounts Receivable

Collected $333 on account?

Cash	333	
Accounts Receivable		333

Accounts Receivable

Beg.	500	
Sale	100	
End.	600	

Allowance for Doubtful Accounts

	25	Beg.
	25	End.

Valuing Accounts Receivable

Collected $333 on account?

Cash	333	
Accounts Receivable		333

Accounts Receivable

Beg.	500		
Sale	100	333	Coll.
End.	267		

Allowance for Doubtful Accounts

		25	Beg.
		25	End.

Valuing Accounts Receivable

Adjustment of $15 for estimated bad debts?

Bad Debt Expense	15	
Allowance for Doubtful Accounts		15

Accounts Receivable

Beg.	500		
Sale	100	333	Coll.
End.	267		

Allowance for Doubtful Accounts

		25	Beg.
		25	End.

Valuing Accounts Receivable

Adjustment of $15 for estimated bad debts?

Bad Debt Expense	15	
Allowance for Doubtful Accounts		15

Accounts Receivable

Beg.	500		
Sale	100	333	Coll.
End.	267		

Allowance for Doubtful Accounts

	25	Beg.
	15	Est.
	40	End.

Valuing Accounts Receivable

Write-off of uncollectible accounts for $10?

Allowance for Doubtful Accounts	10	
Accounts Receivable		10

Accounts Receivable

Beg.	500		
Sale	100	333	Coll.
End.	267		

Allowance for Doubtful Accounts

		25	Beg.
		15	Est.
		40	End.

Valuing Accounts Receivable

Write-off of uncollectible accounts for $10?

Allowance for Doubtful Accounts	10	
Accounts Receivable		10

Accounts Receivable

Beg.	500		
Sale	100	333	Coll.
		10	W/O
End.	257		

Allowance for Doubtful Accounts

		25	Beg.
		15	Est.
W/O	10		
		30	End.

Valuing Accounts Receivable

ABC Corporation
Balance Sheet (partial)

Current Assets:		
Cash	$	330
Accounts receivable, net of $30 allowance		227
Inventory		812
Prepaid expense		40
Total current assets		1,409

LO 2

Valuing Accounts Receivable

DIRECT WRITE-OFF METHOD FOR UNCOLLECTIBLE ACCOUNTS

Illustration: Assume that Warden Co. writes off M. E. Doran's $200 balance as uncollectible on December 12. Warden's entry is:

Bad Debt Expense	200	
Accounts Receivable—M. E. Doran		200

Theoretically undesirable:

- No matching.
- Receivable not stated at cash realizable value.
- Not acceptable for financial reporting.

Accounts Receivable

ALLOWANCE METHOD FOR UNCOLLECTIBLE ACCOUNTS

1. Companies **estimate** uncollectible accounts receivable.
2. Debit **Bad Debt Expense** and credit **Allowance for Doubtful Accounts** (a contra-asset account).
3. Companies debit **Allowance for Doubtful Accounts** and credit **Accounts Receivable** at the time the specific account is **written off** as uncollectible.

ALLOWANCE METHOD

RECORDING ESTIMATED UNCOLLECTIBLES

Illustration: Hampson Furniture has credit sales of $1,200,000 in 2017, of which $200,000 remains uncollected at December 31. The credit manager estimates that $12,000 of these sales will prove uncollectible.

Dec. 31	Bad Debt Expense	12,000	
	Allowance for Doubtful Accounts		12,000

RECORDING UNCOLLECTIBLES

Illustration 9-3
Presentation of allowance
for doubtful accounts

HAMPSON FURNITURE Balance Sheet (partial)		
Current assets		
Cash		$ 14,800
Accounts receivable	**$200,000**	
Less: Allowance for doubtful accounts	**12,000**	**188,000**
Inventory		310,000
Supplies		25,000
Total current assets		$537,800

The amount of $188,000 represents the expected **cash realizable value** of the accounts receivable at the statement date.

ALLOWANCE METHOD

RECORDING WRITE-OFF OF AN UNCOLLECTIBLE ACCOUNT

Illustration: The vice-president of finance of Hampson Furniture on March 1, 2018, authorizes a write-off of the $500 balance owed by R. A. Ware. The entry to record the write-off is:

Mar. 1	Allowance for Doubtful Accounts	500	
	Accounts Receivable—R. A. Ware		500

Illustration 9-4 General ledger balances after write-off

Accounts Receivable		Allowance for Doubtful Accounts	
Jan. 1 Bal. 200,000	Mar. 1 **500**	Mar. 1 **500**	Jan. 1 Bal. 12,000
Mar. 1 Bal. 199,500			Mar. 1 Bal. 11,500

ALLOWANCE METHOD

RECOVERY OF AN UNCOLLECTIBLE ACCOUNT

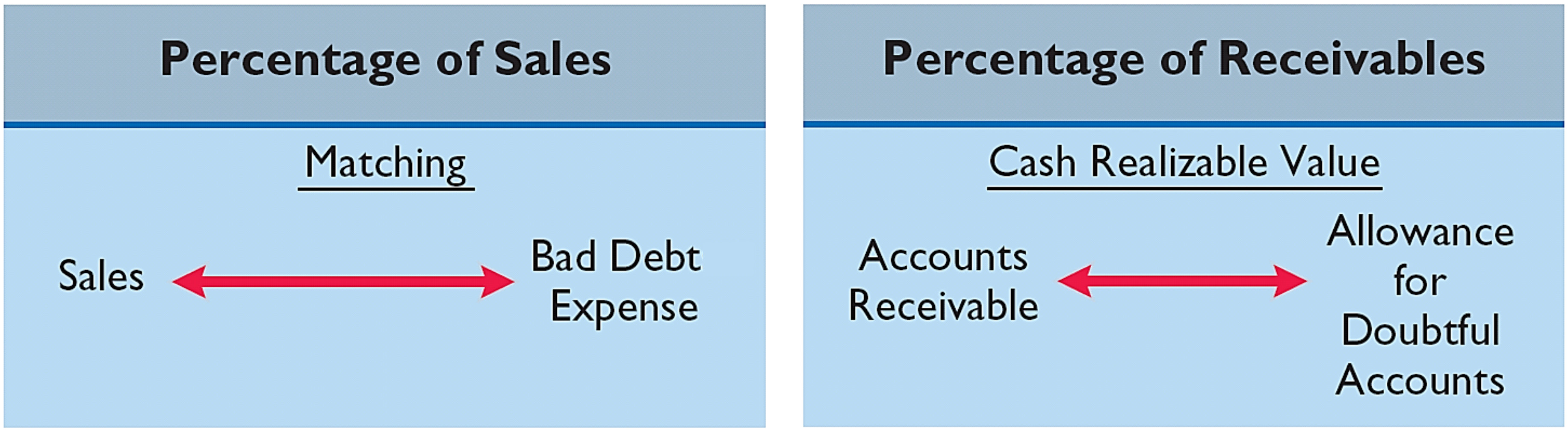
Illustration: On July 1, R. A. Ware pays the $500 amount that Hampson had written off on March 1. Hampson makes these entries:

July 1	Accounts Receivable—R. A. Ware	500	
	Allowance For Doubtful Accounts		500
1	Cash	500	
	Accounts Receivable—R. A. Ware		500

ALLOWANCE METHOD

ESTIMATING THE ALLOWANCE

Illustration 9-6
Comparison of bases for estimating uncollectibles



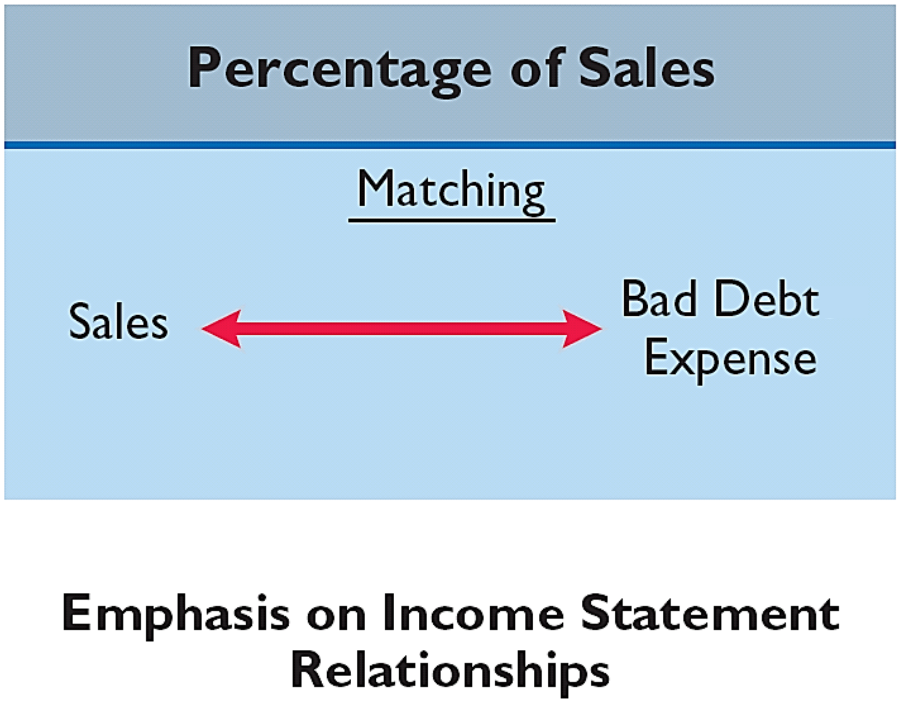
Emphasis on Income Statement Relationships

Emphasis on Balance Sheet Relationships

ALLOWANCE METHOD

ESTIMATING THE ALLOWANCE

Illustration 9-6
Comparison of bases for estimating uncollectibles



Management estimates what percentage of credit sales will be uncollectible. This percentage is based on past experience and anticipated credit policy.

ALLOWANCE METHOD

Percentage-of-Sales

Illustration: Assume that Gonzalez Company elects to use the percentage-of-sales basis. It concludes that 1% of net credit sales will become uncollectible. If net credit sales for 2017 are $800,000, the adjusting entry is:

Dec. 31	Bad Debt Expense	8,000 *	
	Allowance For Doubtful Accounts		8,000

* $800,000 x 1%

ALLOWANCE METHOD

Percentage-of-Sales

- Emphasizes matching of expenses with revenues.
- Adjusting entry to record bad debts **disregards** the existing balance in Allowance for Doubtful Accounts.

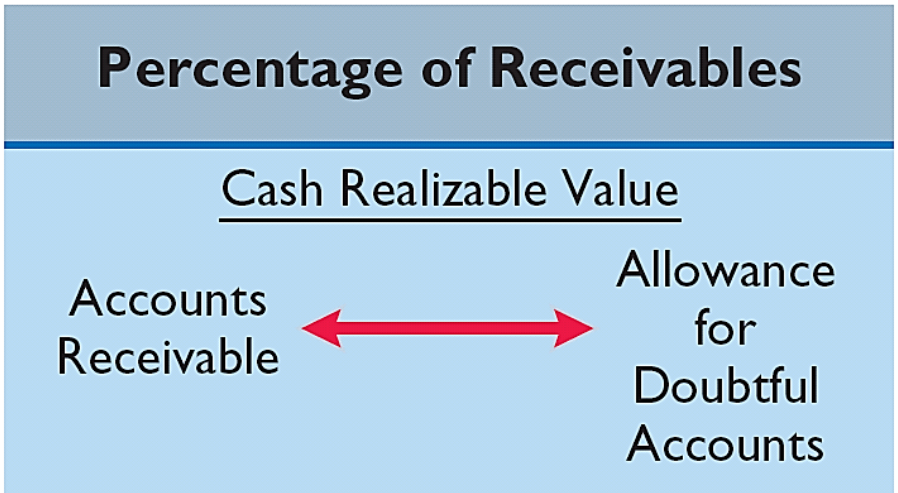
Illustration 9-7 Bad debt accounts after posting

Bad Debt Expense		Allowance for Doubtful Accounts	
Dec. 31 Adj. **8,000**			Jan. 1 Bal. 1,723
			Dec. 31 Adj. **8,000**
			Dec. 31 Bal. 9,723

ALLOWANCE METHOD

ESTIMATING THE ALLOWANCE

Illustration 9-6
Comparison of bases for estimating uncollectibles



Emphasis on Balance Sheet Relationships

Management establishes a percentage relationship between the amount of receivables and expected losses from uncollectible accounts.

ALLOWANCE METHOD

Helpful Hint Where appropriate, companies may use only a single percentage rate.

Aging the accounts receivable - customer balances are classified by the length of time they have been unpaid.

Illustration 9-8

Customer	Total	Not Yet Due	Number of Days Past Due 1–30	31–60	61–90	Over 90
T. E. Adert	$ 600		$ 300		$ 200	$ 100
R. C. Bortz	300	$ 300				
B. A. Carl	450		200	$ 250		
O. L. Diker	700	500			200	
T. O. Ebbet	600			300		300
Others	36,950	26,200	5,200	2,450	1,600	1,500
	$39,600	$27,000	$5,700	$3,000	$2,000	$1,900
Estimated Percentage Uncollectible		2%	4%	10%	20%	40%
Total Estimated Bad Debts	**$ 2,228**	$ 540	$ 228	$ 300	$ 400	$ 760

ALLOWANCE METHOD

ESTIMATING THE ALLOWANCE

Illustration: Assume the unadjusted trial balance shows Allowance for Doubtful Accounts with a credit balance of $528. Prepare the adjusting entry assuming $2,228 is the estimate of uncollectible receivables from the aging schedule.

Dec. 31	Bad Debt Expense	1,700	
	Allowance For Doubtful Accounts		1,700

Illustration 9-9 Bad debts accounts after posting

Bad Debt Expense		Allowance for Doubtful Accounts	
Dec. 31 Adj. **1,700**			Bal. 528
			Dec. 31 Adj. **1,700**
			Bal. 2,228

Disposing of Accounts Receivables

Companies sell receivables for two major reasons.

1. Receivables may be the only reasonable source of cash.

2. Billing and collection are often time-consuming and costly.

Disposing of Accounts Receivables

SALE OF RECEIVABLES

Factor

- Finance company or bank.
- Buys receivables from businesses and then collects the payments directly from the customers.
- Typically charges a commission to the company that is selling the receivables.
- Fee ranges from 1-3% of the receivables purchased.

SALE OF RECEIVABLES

Illustration: Assume that Hendredon Furniture factors $600,000 of receivables to Federal Factors. Federal Factors assesses a service charge of 2% of the amount of receivables sold. The journal entry to record the sale by Hendredon Furniture is as follows.

($600,000 x 2% = $12,000)

Cash	588,000	
Service Charge Expense	12,000	
Accounts Receivable		600,000

Disposing of Accounts Receivables

CREDIT CARD SALES

- Recorded the same as cash sales.
- Retailer pays card issuer a fee of 2 to 6% for processing the transactions.

CREDIT CARD SALES

Illustration: Anita Ferreri purchases $1,000 of compact discs for her restaurant from Karen Kerr Music Co., using her Visa First Bank Card. First Bank charges a service fee of 3%. The entry to record this transaction by Karen Kerr Music is as follows.

Cash	970	
Service Charge Expense	30	
Sales Revenue		1,000

Accounting Across the Organization — Nordstrom

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How Does a Credit Card Work?

Most of you know how to use a credit card, but do you know what happens in the transaction and how the transaction is processed? Suppose that you use a Visa card to purchase some new ties at Nordstrom. The salesperson swipes your card, which allows the information on the magnetic strip on the back of the card to be read. The salesperson then enters in the amount of the purchase. The machine contacts the Visa computer, which routes the call back to the bank that issued your Visa card. The issuing bank verifies that the account exists, that the card is not stolen, and that you have not exceeded your credit limit. At this point, the slip is printed, which you sign.

Visa acts as the clearing agent for the transaction. It transfers funds from the issuing bank to Nordstrom's bank account. Generally this transfer of funds, from sale to the receipt of funds in the merchant's account, takes two to three days.

In the meantime, Visa puts a pending charge on your account for the amount of the tie purchase; that amount counts immediately against your available credit limit. At the end of the billing period, Visa sends you an invoice (your credit card bill) which shows the various charges you made, and the amounts that Visa expended on your behalf, for the month. You then must "pay the piper" for your stylish new ties.

Assume that Nordstrom prepares a bank reconciliation at the end of each month. If some credit card sales have not been processed by the bank, how should Nordstrom treat these transactions on its bank reconciliation? (Go to **WileyPLUS** for this answer and additional questions.)

LO 2

DO IT! 2 Uncollectible Accounts Receivable

Brule Co. has been in business five years. The ledger at the end of the current year shows:

Accounts Receivable	$30,000 Dr.
Sales Revenue	$180,000 Cr.
Allowance for Doubtful Accounts	$2,000 Dr.

Bad debts are estimated to be 10% of receivables. Prepare the entry to adjust Allowance for Doubtful Accounts.

Solution:

Bad Debt Expense	5,000 *	
Allowance for Doubtful Accounts		5,000

* [(0.1 x $30,000) + $2,000]

LEARNING OBJECTIVE 3

Explain how companies recognize notes receivable.

Companies may grant credit in exchange for a promissory note. A **promissory note** is a written promise to pay a specified amount of money on demand or at a definite time.

Promissory notes may be used

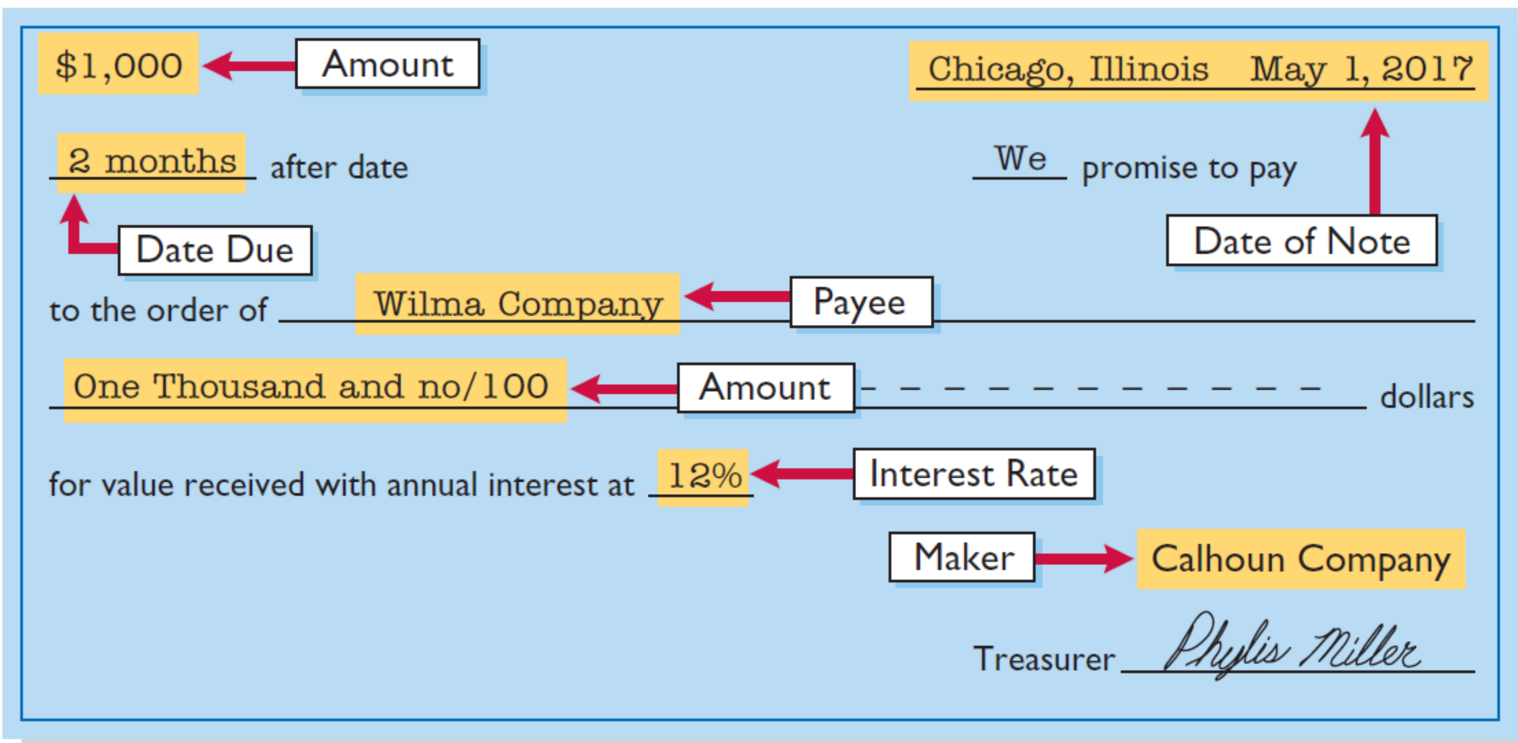
1. when individuals and companies lend or borrow money,
2. when amount of transaction and credit period exceed normal limits, or
3. in settlement of accounts receivable.

Notes Receivable

To the **Payee**, the promissory note is a **note receivable**.

To the **Maker**, the promissory note is a **note payable**.

Illustration 9-11



Notes Receivable

Determining the Maturity Date

Note expressed in terms of

- Months
- Days

Computing Interest

Illustration 9-14
Formula for computing interest

$$\text{Face Value of Note} \times \text{Annual Interest Rate} \times \text{Time in Terms of One Year} = \text{Interest}$$

Notes Receivable

Computing Interest

When counting days, **omit** the date the note is issued, but **include** the due date.

Illustration 9-15

Terms of Note	Interest Computation						
	Face	×	Rate	×	Time	=	Interest
\$ 730, 12%, 120 days	\$ 730	×	12%	×	**120/360**	=	\$ 29.20
\$1,000, 9%, 6 months	\$1,000	×	9%	×	**6/12**	=	\$ 45.00
\$2,000, 6%, 1 year	\$2,000	×	6%	×	**1/1**	=	\$120.00

Helpful Hint
The interest rate specified is the *annual rate*.

Recognizing Notes Receivable

Illustration: Calhoun Company wrote a $1,000, two-month, 12% promissory note dated May 1, to settle an open account. Prepare entry would Wilma Company makes for the receipt of the note.

May 1	Notes Receivable	1,000	
	Accounts Receivable		1,000

DO IT! 3 Recognizing Notes Receivable

Gambit Stores accepts from Leonard Co. a $3,400, 90-day, 6% note dated May 10 in settlement of Leonard's overdue account. (a) What is the maturity date of the note? (b) What is the interest payable at the maturity date?

(a) The maturity date is August 8, computed as follows.

Term of note:	90 days
May (31 − 10)	
June	
July	
Maturity date: August	

(b) The interest payable at the maturity date is $51, computed as follows.

Face	×	Rate	×	Time	=	Interest
	×		×		=	

LEARNING OBJECTIVE 4

Describe how companies value notes receivable, record their disposition, and present and analyze receivables.

Valuing Notes Receivable

- Report short-term notes receivable at their **cash (net) realizable value**.
- Estimation of cash realizable value and bad debt expense are done similarly to accounts receivable.
- Allowance for Doubtful Accounts is used.

Notes Receivable

Disposing of Notes Receivable

1. Notes may be held to their maturity date.
2. Maker may default and payee must make an adjustment to the account.
3. Holder speeds up conversion to cash by selling the note receivable.

Disposing of Notes Receivable

HONOR OF NOTES RECEIVABLE

- Maker pays it in full at its maturity date.

DISHONOR OF NOTES RECEIVABLE

- Not paid in full at maturity.
- No longer negotiable.

HONOR OF NOTES RECEIVABLE

Illustration: Wolder Co. lends Higley Co. \$10,000 on June 1, accepting a five-month, 9% interest note. If Wolder presents the note to Higley Co. on November 1, the maturity date, Wolder's entry to record the collection is:

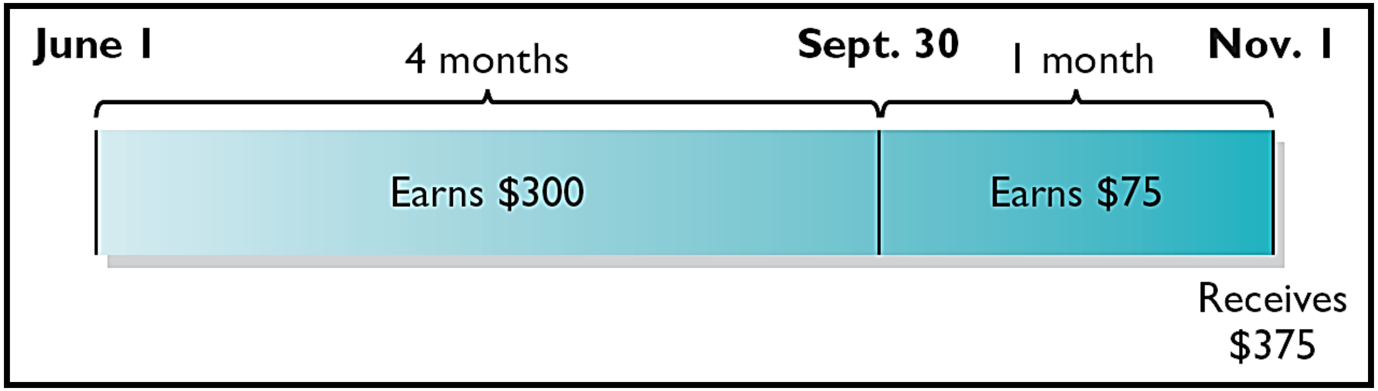
Nov. 1	Cash	10,375	
	Notes Receivable		10,000
	Interest Revenue		375

(\$10,000 x 9% x 5/12 = \$375)

ACCRUAL OF INTEREST RECEIVABLE

Illustration: Suppose instead that Wolder Co. prepares financial statements as of September 30. The adjusting entry by Wolder is for four months ending Sept. 30.

Illustration 9-16
Timeline of interest earned



Sept. 30	Interest Receivable	300	
	Interest Revenue		300

($10,000 x 9% x 4/12 = $300)

ACCRUAL OF INTEREST RECEIVABLE

Illustration: Prepare the entry Wolder's would make to record the honoring of the Higley note on November 1.

Nov. 1	Cash	10,375	
	Notes Receivable		10,000
	Interest Receivable		300
	Interest Revenue		75

DISHONOR OF NOTES RECEIVABLE

Illustration: Assume that Higley Co. on November 1 indicates that it cannot pay at the present time. If Wolder Co. does expect eventual collection, it would make the following entry at the time the note is dishonored (assuming no previous accrual of interest).

Nov. 1	Accounts Receivable	10,375	
	Notes Receivable		10,000
	Interest Revenue		375

Accounting Across the Organization — Countrywide Financial Corporation

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Bad Information Can Lead to Bad Loans

Many factors have contributed to the recent credit crisis. One significant factor that resulted in many bad loans was a failure by lenders to investigate loan customers sufficiently. For example, Countrywide Financial Corporation wrote many loans under its "Fast and Easy" loan program. That program allowed borrowers to provide little or no documentation for their income or their assets. Other lenders had similar programs, which earned the nickname "liars' loans." One study found that in these situations, 60% of applicants overstated their incomes by more than 50% in order to qualify for a loan. Critics of the banking industry say that because loan officers were compensated for loan volume and because banks were selling the loans to investors rather than holding them, the lenders had little incentive to investigate the borrowers' creditworthiness.

Sources: Glenn R. Simpson and James R. Hagerty, "Countrywide Loss Focuses Attention on Underwriting," *Wall Street Journal* (April 30, 2008), p. B1; and Michael Corkery, "Fraud Seen as Driver in Wave of Foreclosures," *Wall Street Journal* (December 21, 2007), p. A1.

What steps should the banks have taken to ensure the accuracy of financial information provided on loan applications? (Go to **WileyPLUS** for this answer and additional questions.)

Statement Presentation and Analysis

PRESENTATION

B/S

- Identify in the balance sheet or in the notes each major type of receivable.
- Report short-term receivables as current assets.
- Report both gross amount of receivables and allowance for doubtful account.

I/S

- Report bad debt expense and service charge expense as selling expenses.
- Report interest revenue under "Other revenues and gains."

Statement Presentation and Analysis

ANALYSIS

Illustration: In 2013 Cisco Systems had net sales of $38,029 million for the year. It had a beginning accounts receivable (net) balance of $4,369 million and an ending accounts receivable (net) balance of $5,470 million. Assuming that Cisco's sales were all on credit, its accounts receivable turnover is computed as follows.

Net Credit Sales	÷	Average Net Accounts Receivable	=	Accounts Receivable Turnover
$38,029	÷	$\frac{\$4,369 + \$5,470}{2}$	=	**7.7 times**

Illustration 9-17
Accounts receivable turnover and computation

Statement Presentation and Analysis

ANALYSIS

Illustration: Variant of the accounts receivable turnover ratio is average collection period in terms of days.

Illustration 9-17

Net Credit Sales	÷	Average Net Accounts Receivable	=	Accounts Receivable Turnover
$38,029	÷	$\frac{\$4,369 + \$5,470}{2}$	=	**7.7 times**

Illustration 9-18

Days in Year	÷	Accounts Receivable Turnover	=	Average Collection Period in Days
365 days	÷	7.7 times	=	**47 days**

DO IT! 4 Analysis of Receivables

In 2017, Phil Mickelson Company has net credit sales of $923,795 for the year. It had a beginning accounts receivable (net) balance of $38,275 and an ending accounts receivable (net) balance of $35,988. Compute Phil Mickelson Company's (a) accounts receivable turnover and (b) average collection period in days.

(a)	Net credit sales	÷	Average net accounts receivable	=	Accounts receivable turnover
	$923,795	÷	______________	=	
(b)	Days in year	÷	Accounts receivable turnover	=	Average collection period in days
	365	÷		=	

A Look at IFRS

LEARNING OBJECTIVE 5

Compare the accounting for receivables under GAAP and IFRS.

Key Points

Similarities

- The recording of receivables, recognition of sales returns and allowances and sales discounts, and the allowance method to record bad debts are the same between GAAP and IFRS.
- Both IFRS and GAAP often use the term impairment to indicate that a receivable or a percentage of receivables may not be collected.

A Look at IFRS

Key Points

Similarities

- The FASB and IASB have worked to implement fair value measurement (the amount they currently could be sold for) for financial instruments, such as receivables. Both Boards have faced bitter opposition from various factions.

Differences

- Although IFRS implies that receivables with different characteristics should be reported separately, there is no standard that mandates this segregation.

A Look at IFRS

Key Points

Differences

- IFRS and GAAP differ in the criteria used to determine how to record a factoring transaction. IFRS uses a combination approach focused on risks and rewards and loss of control. GAAP uses loss of control as the primary criterion. In addition, IFRS permits partial derecognition of receivables; GAAP does not.

A Look at IFRS

Looking to the Future

The question of recording fair values for financial instruments will continue to be an important issue to resolve as the Boards work toward convergence. Both the IASB and the FASB have indicated that they believe that financial statements would be more transparent and understandable if companies recorded and reported all financial instruments at fair value.

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A Look at IFRS

IFRS Self-Test Questions

Which of the following statements is **false**?

a. Receivables include equity securities purchased by the company.

b. Receivables include credit card receivables.

c. Receivables include amounts owed by employees as a result of company loans to employees.

d. Receivables include amounts resulting from transactions with customers.

A Look at IFRS

IFRS Self-Test Questions

Under IFRS:

a. the entry to record estimated uncollected accounts is the same as GAAP.

b. it is always acceptable to use the direct write-off method.

c. all financial instruments are recorded at fair value.

d. None of the above.

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