**Accounts Receivable**
Claims held against customers and others for money, goods or services

**Accounts Receivable - discounts**
- **Trade discount**: list or catalog price can include a trade discount in the basis of the bargain to reflect quantity discounts or special pricing
- **Sales discount**: this induces customers to pay promptly; terms such as 2/10, net/30 mean that there is a 2% discount for those who pay within 10 days, and the total is due in 30 days regardless.
  - There are two ways to account for the sales discount
    - **Gross method**: discounts are recognized when payment is received
    - **Net method**: record sale with discount embedded; debit a revenue account (discounts forfeited) if discount is not taken by customer.

**Accounts Receivable - valuation**
Accounts receivable are valued at Net Realizable Value (total less an allowance for doubtful accounts)
- **Direct write-off (not GAAP)**
  
  **JE:**
  - Bad debt expense xxxx
  - Accounts Receivable xxxx
  - If written off account is collected later, Dr. cash Cr. Uncollectible amount recovered
- **Allowance method (GAAP)**
  - **Income statement** approach takes a percentage of net sales as bad debt expense and adds this to the beginning balance in the Allowance account
  - **Balance sheet** approach finds a balance in the Allowance account first, subtracts the beginning balance in the Allowance account to arrive at the bad debt expense for the period.
- **Uncollectible accounts**: uses the “cushion” of the Allowance account to offset write-offs
  
  **JE:**
  - Allowance for Doubtful Accounts xxxx
  - Accounts Receivable xxxx
- If written-off account is later collected, reverse the above entry, and debit cash and credit A/R

**Account Receivable - factoring**
Factoring or selling receivables to a professional collector can provide cash immediately from receivables outstanding. A couple of arrangements exist:
1. **With recourse**: the seller (original holder) is liable, and a contingent liability is credited when cash is received (debited).
2. **Without recourse**: the factor (one taking on the receivables) bears the loss.

**Sales Returns**
A certain percentage of sales is normally returned; an allowance is set up for this.

<table>
<thead>
<tr>
<th>Balance Sheet:</th>
<th>Sales Returns and Allowances (Contra sales revenue)</th>
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<tbody>
<tr>
<td></td>
<td>Allowance for Sales R&amp;A (Contra-asset account)</td>
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<tr>
<td></td>
<td>Net Sales</td>
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