

# ALLOWANCE FOR DOUBTFUL ACCOUNTS

The "Allowance For Doubtful Accounts" is a method used to record, at year-end, an estimate of "Accounts Receivable" that will not be collected. The presentation, of the ending balances, on the Balance Sheet, is as follows:

Accounts Receivable	200,000	
less Allowance for Doubtful Accounts	<u>10,000</u>	
Net Receivable		190,000

The ending balance of the Allowance For Doubtful Accounts can be determined in one of two ways:

## Method 1

Estimate the ending balance of the Allowance For Doubtful Accounts based on Accounts Receivable. (NOTE: Allowance For Doubtful Accounts can begin with a Debit or a Credit balance.)

Allowance		Bad Debts
CR	Adjusting Entry	DR
Based on A/R		

## Using Method 2

Estimate the ending balance of the Bad Debt Expense based on Sales. (NOTE: Bad Debt expense account always begins with a zero balance.)

Allowance		Bad Debts
CR	Adjusting Entry	DR
		Based on Sales