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Prerequisites

This course is part of a suite of courses designed to help students understand the language of accountancy, its use in decision making. Key to this are the processes and procedures used on a daily, monthly and annual basis to record, report on and analyze all the financial transactions of a business.

Previous courses include

- Merchandising Transactions
- Measuring and Reporting Inventories
- Control of Cash

Diploma in Accounting – Core Theory and Practices

- Accounting and Its Use in Business Decisions
- Recording Business Transactions in Accounting
- Adjustments for Financial Reporting
- Completing the Accounting Cycle
- Accounting Theory

You may need to study some of the above to understand and complete this course

Useful Links

American Accounting Association	www.aaahq.org
Financial Accounting Standards Board's (FASB)	www.fasb.org
American Institutes of Chartered Public Accountants (AICPA)	www.aicpa.org
Securities and Exchange Commission (SEC)	www.sec.gov
International Financial Reporting Standards (IFRS)	www.ifrs.org
The Committee of Sponsoring Organizations of the Treadway Commission (COSO)	www.coso.org

Module 3 – Exhibits and Key Terms

Exhibit 77: Accounts receivable aging schedule

Uncollectible Accounts Expense		Allowance for Uncollectible Accounts	
Dec. 31		Bal. before	
Adjustment	5,700	Adjustment	300
		Dec. 31	
		Adjustment	5,700
		Bal. after	
		Adjustment	6,000

ALLEN COMPANY
Accounts Receivable Aging Schedule
2010 December 31

Customer	Accounts Receivable Balance	Not Yet Due	Days Past Due			
			1-30	31-60	61-90	Over 90
X	5,000					5,000
Y	14,000		12,000	2,000		
Z	400				200	200
All others	808,600	560,000	240,000	2,000	600	6,000
	828,000	560,000	252,000	4,000	800	11,200
Percentage estimated as uncollectible		1%	5%	10%	25%	50%
Estimated amount uncollectible	24,400	5,600	12,600	400	200	5,600

Exhibit 78: Promissory note

Principal	\$ <u>2,400.00</u>	<u>July 1</u> , <u>2010</u>
Payee	<u>Sixty days</u> - - - - - AFTER DATE <u>We</u> PROMISE TO PAY TO THE ORDER OF SAXON CORPORATION <u>Twenty-four hundred and no/100</u> - - - - - DOLLARS AT <u>Saxon Corporation, Lansing Michigan</u>	
Interest rate	FOR VALUE RECEIVED WITH INTEREST AT THE RATE OF <u>10%</u> PER ANNUM FROM <u>July 1, 2010</u>	
Maker	This note is one of a series of _____ notes of even date herewith, numbered <u>487</u> to <u>--</u> inclusive, and all of said notes shall be immediately payable at the option of the holder hereof on default being made in the payment of anyone at maturity. NO. <u>487</u> DUE <u>August 31, 2010</u> <u>MOTOR WHEEL COMPANY</u> (SEAL) <u>Michael D. Smith, Treasurer</u> (SEAL)	

Exhibit 79: Comparison between interest-bearing notes and noninterest-bearing notes

Interest-Bearing Notes				Non interest-Bearing Notes			
2009				2009			
Dec	1	Cash (+A)	10,000	Dec		Cash (+A)	9,775
		Notes Payable (+L)	10,000			Discount on Notes Payable (-L)	225
		To record 90-day bank loan.				Notes Payable (+L)	10,000
						To record 90-day bank loan.	
	31	Interest Expense (-SE)	75		1	Interest Expense (-SE)	75
		Interest Payable (+L)	75			Discount on Notes Payable (+L)	75
		To record accrued interest on a note payable at year-end.				To record accrued interest on a note payable at year-end.	
2010				2010			
Mar	1	Notes Payable (-L)	10,000	Mar		Notes Payable (-L)	10,000
		Interest Expense (-SE)	150			Interest Expense (-SE)	150
		Interest Payable (-L)	75			Cash (-A)	10,000
		Cash (-A)	10,225			Discount on Notes Payable (+L)	150
		To record note principal and interest payment.				To record note payment and interest expense.	

Key terms

- Accounts receivable turnover** • Net credit sales (or net sales) divided by average net accounts receivable.
- Aging schedule** • A means of classifying accounts receivable according to their age; used to determine the necessary balance in an Allowance for Uncollectible Accounts. A different uncollectibility percentage rate is used for each age category.
- Allowance for Uncollectible Accounts** • A contra-asset account to the Accounts Receivable account; it reduces accounts receivable to their net realizable value. Also called Allowance for Doubtful Accounts or Allowance for Bad Debts.
- Bad debts expense** • See Uncollectible accounts expense.
- Bank discount** • The difference between the maturity value of a note and the actual amount—the note's proceeds—given to the borrower.
- Cash proceeds** • The maturity amount of a note less the bank discount.
- Clearly determinable liabilities** • Liabilities whose existence and amount are certain. Examples include accounts payable, notes payable, interest payable, unearned delivery fees, wages payable, sales tax payable, federal excise tax payable, current portions of long-term debt, and various payroll liabilities.
- Contingent liabilities** • Liabilities whose existence is uncertain. Their amount is also usually uncertain. Both their existence and amount depend on some future event that may or may not occur. Examples include liabilities arising from lawsuits, discounted notes receivable, income tax disputes, penalties that may be assessed because of some past action, and failure of another party to pay a debt that a company has guaranteed.
- Credit Card Expense account** • Used to record credit card agency's service charges for services rendered in processing credit card sales.
- Credit cards** • Nonbank charge cards (e.g. American Express) and bank charge cards (e.g. VISA and MasterCard) that customers use to charge their purchases of goods and services.
- Current liabilities** • Obligations that (1) are payable within one year or one operating cycle, whichever is longer, or (2) will be paid out of current assets or result in the creation of other current liabilities.
- Discount on Notes Payable** • A contra account used to reduce Notes Payable from face value to the net amount of the debt.
- Discounting a note payable** • The act of borrowing on a non interest-bearing note drawn for a maturity amount, from which a bank discount is deducted, and the proceeds are given to the borrower.
- Dishonored note** • A note that the maker failed to pay at maturity.
- Estimated liabilities** • Liabilities whose existence is certain, but whose amount can only be estimated. An example is estimated product warranty payable.
- Interest** • The fee charged for use of money over a period of time ($I = P \times R \times T$).
- Interest Payable account** • An account showing the interest expense incurred but not yet paid; reported as a current liability in the balance sheet.
- Interest Receivable account** • An account showing the interest earned but not yet collected; reported as a current asset in the balance sheet.
- Liabilities** • Obligations that result from some past transaction and are obligations to pay cash, perform services, or deliver goods at some time in the future.
- Long-term liabilities** • Obligations that do not qualify as current liabilities.
- Maker (of a note)** • The party who prepares a note and is responsible for paying the note at maturity.
- Maturity date** • The date on which a note becomes due and must be paid.
- Maturity value** • The amount that the maker must pay on the note on its maturity date.
- Net realizable value** • The amount the company expects to collect from accounts receivable.
- Number of days' sales in accounts receivable** • The number of days in a year (365) divided by the accounts receivable turnover.
- Operating cycle** • The time it takes to start with cash, buy necessary items to produce revenues (such as materials, supplies, labor, and/or finished goods), sell goods or services, and receive cash by collecting the resulting receivables.

Payable • Any sum of money due to be paid by a company to any party for any reason.

Payee (of a note) • The party who receives a note and will be paid cash at maturity.

Percentage-of-receivables method • A method for determining the desired size of the Allowance for Uncollectible Accounts by basing the calculation on the Accounts Receivable balance at the end of the period.

Percentage-of-sales method • A method of estimating the uncollectible accounts from the sales of a given period's total net credit sales or net sales.

Principal (of a note) • The face value of a note.

Promissory note • An unconditional written promise by a borrower (maker) to pay a definite sum of money to the lender (payee) on demand or at a specific date.

Rate (of a note) • The stated interest rate on the note.

Receivable • Any sum of money due to be paid to a company from any party for any reason.

Time (of a note) • The amount of time the note is to run; can be expressed in days, months, or years.

Trade receivables • Amounts customers owe a company for goods sold or services rendered on account. Also called accounts receivable or trade accounts receivable.

Uncollectible accounts expense • An operating expense that a business incurs when it sells on credit; also called doubtful accounts expense or bad debts expense..