

Valuation of Accounts Receivable



By Jaweed Hassan Batooq, ACMA, MBA



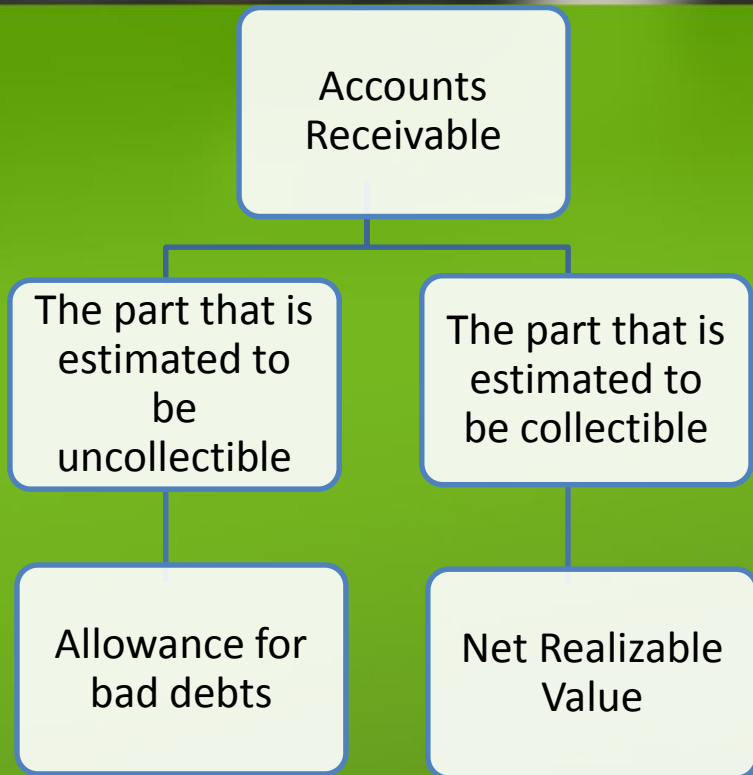
Valuation of Accounts Receivable-Defined

Valuation of Accounts
Receivable means to determine
'The Net Realizable Value of Accounts Receivable' to
be reported into financial
statements.

Net Realizable Value

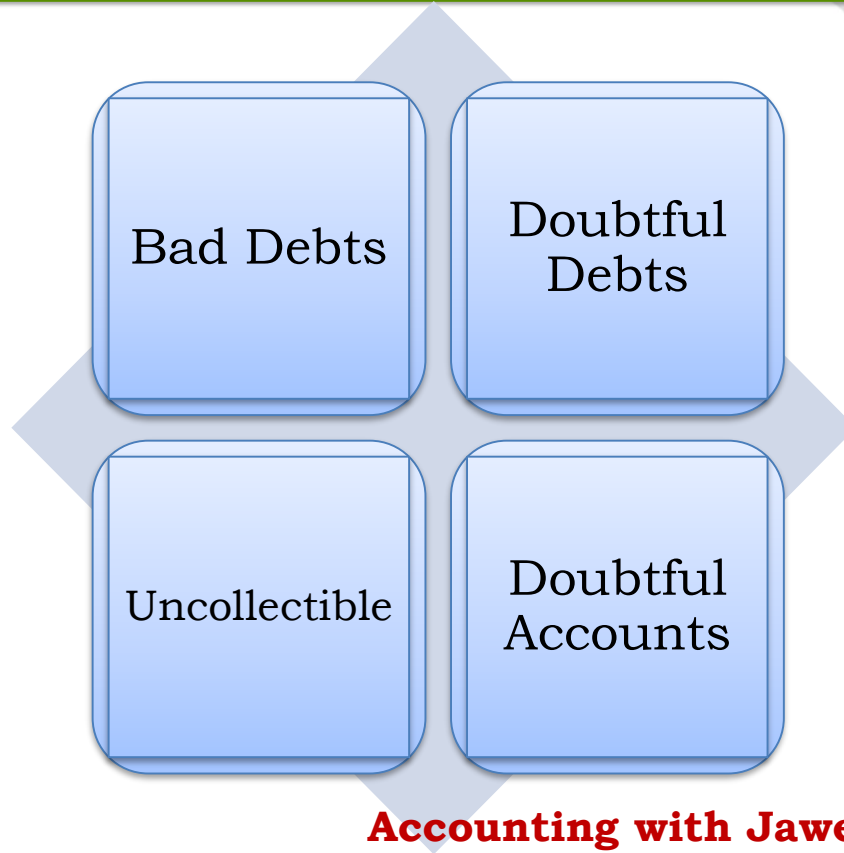
The part of the total amount of accounts receivable that is estimated to be collectible is 'Net Realizable Value'



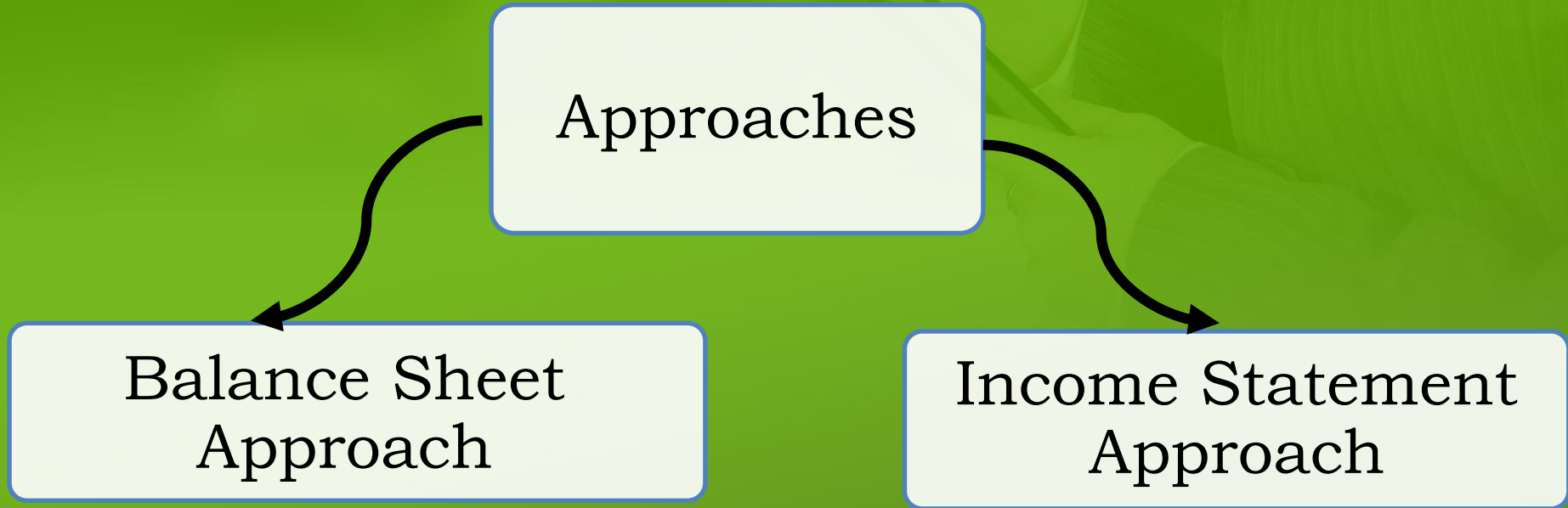


Accounts Receivable	Rs.200,000
Less: Allowance for Bad Debts	<u>(20,000)</u>
Net Realizable Value	Rs.180,000

Alternate Terms for Bad Debts



Approaches to Estimate Bad Debts



Balance Sheet Approach

Under this approach, % of estimated bad debts is applied at *year-end accounts receivable* and current balance of allowance for bad debts is

‘CONSIDERED’.

Accounting with Jaweed Hassan-ACMA,MBA



Income Statement Approach

Under this approach, % of estimated bad debts is applied at *'Credit Sales'* and current balance of allowance for bad debts is *'IGNORED'*.

Accounting with Jaweed Hassan-ACMA,MBA



Why why why...?

Why is balance sheet approach called 'Balance Sheet Approach' and why is % of estimated bad debts applied on accounts receivable under this approach?

Why is income statement approach called 'Income Statement Approach' and why is % of estimated bad debts applied on credit sales in this approach?



Why why why...?

Why, under balance sheet approach, current balance of allowance for bad debts is considered?

Why, under income statement approach, current balance of allowance for bad debts is not considered?

