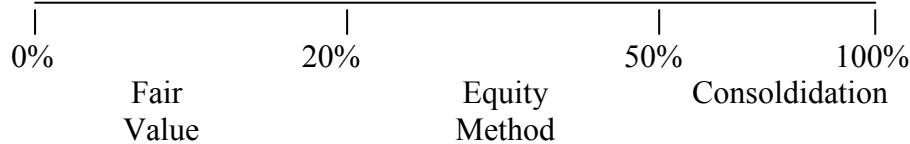


MARKET ABLE SECURITIES

Valuation Basis:-



Description Cases	Trading Securities	Securities Available for sale	Securities Held to Maturity
Types of Securities In Classifications	Debt or Equity	Debt or Equity	Debit Only
Balance Sheet Classifications	Current	Current or Non Current	Non current Until Maturity
Carrying Amount On Balance Sheet	FMV	FMV	Cost, Net of Amortization
Realized Gains Or Losses	Income statement	Equity Section [Other Comprehensive] Income	Non Applicable
Realized Gains or Losses	Income statement	Income statement	Should not Occur

Exceptions:-

- 1- If the declining in FMV other than temporary (permanent) The Unrealized loss in Available for Sale or Held to Maturity should be included in the Income statement.
- 2- If the company has more than 50% this will be a special case called Consolidated Financial statement.

MOUDLE 10 MONETARY CURRENT ASSETS AND CURRENT LIABILITIES

1. Anticipation of Sales Discounts

Cash discounts are generally recognized as expense when cash payment is received with count period. As long as cash discounts to be taken on year-end receivables remain constant to year, there is no problem. If, however, discounts on year-end Receivable fluctuate, a year-allowance can be set up or sales can be recorded net of the discounts. The entries to record sale are shown below in comparison to the sales recorded at gross.

	Sales at net		sales at gross	
a- sale	AR	(net)	AR	(gross)
	Sales	(net)	Sales	(gross)
B-Cash receipt with discount period	Cash	(net)	Sale disc.	(disc.)
	AR	(net)	Cash	(net)
C-Cash receipt after discount period	Cash	(gross)	Cash	(gross)
	AR	(net)	AR	(gross)
		Disc. Not Taken		(disc.)

The rationale for the net method is that sales are recorded at the cash equivalent amount and receivables nearer realizable value. Note that under both the net and gross methods, sales and accounts receivable are recorded net of trade discounts for the same reason. If a sales discount allowance method is used, the entry below is made with the gross method entries. The entry should be reversed.

Sales discounts		(expected disc. On year-end AR)
Allowance for sales disc.		(Expected disc. On year-end AR)

Similarly, when using the "net method" an entry should be made to pick up discount not expected they taken on year-end receivables. Generally, however, these latter adjustment are not made, because they are assumed to be about the same each period.

2-Bad Debts Expense

There are tow approaches to bad debts.

- . Direct write-off method.
- . Allowance method.

a- Under the direct write-off method, bad debts are considered expenses in the period which they are written off Note that this method is not considered acceptable under GAAP, unless the amounts are immaterial. The direct write-off method is the method required for tax purposes.

Bad debts expense (uncollectible)
 AR (uncollectible AR)

b- The allowance method seeks to estimate the amount of uncollectible receivables, and establishes contra valuation account (allowance for bad debts) for the amount estimated to be uncollectible.

Bad debts expense (estimated)
 Allowance for bad debts (estimated)

The entry to write off bad debts is:

Allowance for bad debts (uncollectible AR)
 AR (uncollectible AR)

There are tow methods to determine the annual charge to bad debts expense.

- 1- Annual sales
- 2- Year-end AR

For example, charging bad debts expense for 1% of annual sales is based on the theory that bad debts are a function of sales; this method emphasizes the income statement.

Charging bad debts on year-end AR is based on the theory that bad debts are function of AR collections during the period; this method emphasizes the balance sheet. A bad debts percentage can be applied to total AR or subsets of AR. Often an aging schedule is prepared foe this purpose. An AR aging schedule classifies AR by their age (e.g., 30, 60, 90, 120, etc., days overdue).

When bad debts expense is estimated as a function of sales, any balance in the allowance account is ignored in making the adjusting entry. Bad debts expense under this method simply the total.

Amount computed (i.e., Sales x Percentage). However, when bad debts expense is estimated using outstanding receivable, the expense is the amount needed to adjust the allowance account to the amount computed (i.e., AR x Percentage[s]). Thus, bad debts expense under this method is the amount computed less any credit balance currently in the allowance account (or plus any debit balance).

Net accounts receivable is the balance in accounts receivable less the allowance for bad debts. Also remember that net receivables do not change when a specific account is written off since both accounts receivable and the allowance account are reduced by the same amount.

Method of Recognizing Bad Debts Expense Concepts Summary

