

# Financial Accounting Recitation 1 (B Term)

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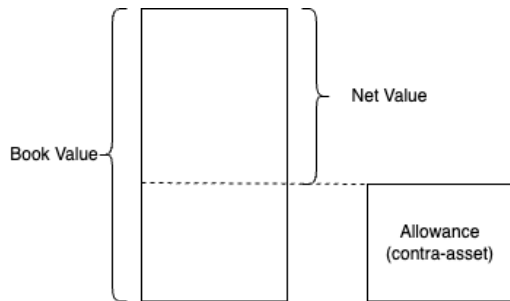
Columbia Business School

Nov 3, 2023

# Road Map

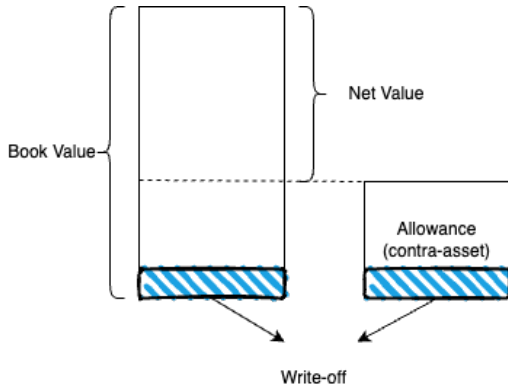
- Assignment 6: Recap of Receivables
- Midterm Question 2: Cash Flow Statement

# Recognition



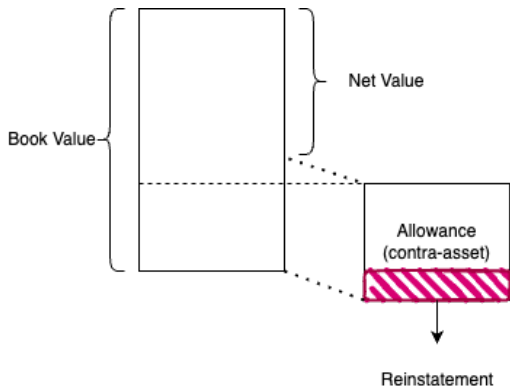
- Recognize the potential default on the receivables at sale (matching principle)
  - Dr. bad debt expense
  - Cr. allowance for doubtful accounts
- B/S and I/S approaches

# Write-offs



- Write off both BDE and A/R in case of actual defaults
  - Dr. allowance for doubtful accounts
  - Cr. accounts receivable
- The net realizable value is unchanged

# Reinstatement



- A Written-off account is reinstated when a customer pays back the A/R
  - Dr. accounts receivable
  - Cr. allowance for doubtful accounts
- Record the collection of A/R
  - Dr. cash
  - Cr. accounts receivable
- BV & total assets unchanged, cash ↑, allowance ↑, NV ↓
- Conservatism: more allowance reserved for future...

# Cash Flow Statement: Indirect Approach

- Structure/components: operating, investing, financing
- Operating activities
  - (+) depreciation and amortization
  - Adjust for non-cash income and non-operating income items
  - (-) change in operating assets and (+) change in operating liabilities
- Investing activities
  - Adjust for cash changes from purchases/sales of long-term assets (e.g., PP&E, intangibles), purchases/sales of other firms' securities/debts, etc.
- Financing activities
  - Adjust for issuance of common stock/bonds, payment of dividends, stock repurchases, etc.
- General steps: 1) Build the SCF from the structured adjustment; 2) Add unstructured items by identifying the relevant information