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Sometimes, the company may receive the cash payment from the customer's account that has previously been written off and removed from the balance sheet. In this case, the company needs to make the journal entry for bad debt recovery for the cash received by restating back the customer's receivable account and account for the cash received the same way as accounts receivable collection. The company usually writes off the receivable of a customer's account when it is deemed to be bad debt and is clear that such an account will not be able to be collected. However, it may later receive the cash from that written-off account. In this case, it is important to properly account for the cash received as a recovery of bad debt instead of other events, such as revenue. For example, recognizing the cash received in this case as other revenues or similar items will go against the rule of accounting. Receiving the cash from the previously written off receivable shows that the company makes an error in judgment to write off the account receivable in the first place. Hence, it needs to correct its mistake by reinstating the customer's account back to the balance sheet before removing it in form of the receivable collection from the customer which is different from removing it in form of written off that the company has previously done. Bad debt recovery journal entry When the company receives the cash payment from the customer's account that had been written off, it needs to make two journal entries for the bad debt recovery. First, the company can make the journal entry for bad debt recovery by debiting the accounts receivable and crediting the allowance for doubtful accounts to reverse the entry that the company has previously made when writing off the customer's account. Debit: Accounts Receivable \$800; Credit: Allowance for Doubtful Accounts \$800. After that, the company can make the second journal entry for the cash received from the customer for recovery of bad debt by debiting the cash account and crediting the accounts receivable. Account: Debit: Cash \$800; Credit: Accounts Receivable \$800. The first journal entry that is made to reverse the entry that the company made when writing off the receivable of the customer's account shows that the company made an error judgment when it wrote off accounts receivable. So, it needs to reinstate back the customer's account. The second journal entry of recording the cash that the company receives from the customer is the same journal entry of accounts receivable collection. Likewise, the credit of accounts receivable is to remove it back from the balance sheet after being restated as the company has received cash from the customer. Bad debt recovery example For example, on November 29, 2020, the company ABC Ltd. wrote off Mr. D's account that had a balance of \$800. However, on June 12, 2021, Mr. D paid the \$800 amount that the company had previously written off. In this case, the company ABC needs to make two journal entries for this bad debt recovery of Mr. D, by debiting the \$800 into accounts receivable and crediting the same amount into the allowance for doubtful accounts in the first journal entry. Account: Debit: Credit: Accounts receivable \$800 Allowance for doubtful accounts \$800 This journal entry is made to reverse the entry that the company ABC made on November 29, 2020, for writing off the customer's account. Likewise, this journal entry will restate the accounts receivable of \$800 back to the balance sheet of the company ABC. In the second journal entry, the company needs to debit the \$800 into the cash account and credit the same amount to the accounts receivable to remove the \$800 receivable from the balance sheet in form of receivable collection. Account: Debit: Credit: Cash \$800 Accounts receivable \$800 Similar to writing off accounts receivable, the recovery of bad debts is also a two-step process. The first step is to reverse the original recording of a bad debt. This means creating a debit to the accounts receivable asset account in the amount of the recovery, with the offsetting credit to the allowance for doubtful accounts contra asset account. If the original entry was instead a credit to accounts receivable and a debit to bad debt expense (the direct write-off method), then reverse this original entry. Record the cash receipt. The second step is to record the cash receipt from the bad debt recovery, which is a debit to the cash account and a credit to the accounts receivable asset account. If the original entry was instead a credit to the assumed bad debt, replacing it with income in a later reporting period. This increases the amount of taxable income in the period in which the bad debt recovery is recorded. The tax treatment of a bad debt recovery depends whether the taxpayer previously claimed a deduction for the bad debt. The options are as follows: Previously deducted bad debt. If a business previously wrote off a bad debt and claimed a tax deduction (usually under the accrual method of accounting), then any recovery of that debt in a later year is taxable income in the year it is received. This follows the tax benefit rule, which requires that recovered amounts be included in income to the extent they previously reduced taxable income. No prior deduction taken. If the taxpayer did not claim a deduction for the bad debt in a prior year, then the recovery is not taxable, as it did not provide a previous tax benefit. For example, a company writes off a \$5,000 customer account in 2023 and deducts it as a bad debt. In 2025, the customer unexpectedly pays \$3,000. The company must report the \$3,000 as taxable income in 2025, since it previously benefited from a deduction. This ensures tax neutrality by preventing a double tax benefit. Related Articles: Accounts Receivable Analysis Invoice Discounting Provision for Doubtful Debts The Difference Between Bad Debt and Doubtful Debt May 25, 2025 / Steven Bragg / Bad debt recovery is a significant event in the financial management of any business, often bringing both relief and complexity. It occurs when a company successfully collects previously written-off debts, prompting adjustments in its financial reporting. This process not only recovers lost revenue but also necessitates meticulous accounting to ensure transparency and compliance with financial standards. The implications extend beyond mere bookkeeping, influencing a company's financial health and tax obligations. Understanding how these recoveries are accounted for helps stakeholders gauge the robustness of a company's financial practices and its ability to manage credit risk. This article explores the accounting treatment of bad debt recoveries, from initial recognition to final reporting, ensuring that the financial statements accurately reflect the company's performance. It covers the impact on the balance sheet, income statement, and cash flow, as well as the tax implications. The goal is to provide a clear understanding of the process, from the initial recognition of a bad debt to the final reporting of the recovery, ensuring that the financial statements accurately reflect the company's performance. The accounting treatment of bad debt recoveries is a two-step process. The first step is to reverse the original recording of a bad debt. This means creating a debit to the accounts receivable asset account in the amount of the recovery, with the offsetting credit to the allowance for doubtful accounts contra asset account. If the original entry was instead a credit to accounts receivable and a debit to bad debt expense (the direct write-off method), then reverse this original entry. Record the cash receipt. The second step is to record the cash receipt from the bad debt recovery, which is a debit to the cash account and a credit to the accounts receivable asset account. Definition: Bad Debt Recovery is a debt from a loan, credit line or accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt. Because it generally generates a loss when it is written off, a bad debt recovery usually produces income. In accounting, the bad debt recovery would credit the "allowance for bad debts" or "bad debt reserve" categories, and reduce the "accounts receivable" category in the books. Example: ABC LTD sells goods to DEF LTD for \$500 on credit. ABC LTD subsequently finds out that DEF LTD is being liquidated and therefore the prospects of recovering its dues are very low. ABC LTD therefore writes off the receivable from its books. However, the administrator appointed to oversee the liquidation of DEF LTD instructs the company to pay \$300 to ABC LTD in full settlement of its dues. As \$300 of the bad debt has been recovered, it is necessary to cancel the effect of previously recognized bad debt expense up to this amount. The accounting entry will therefore be as follows:

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