



VARZA SCHOOL · THE FOUNDATIONAL 100

Accounts Receivable: Credit Limits, Due Dates, Aging, Collection, and Bad Debt

Chapter 46 · Track 5 — Sales, Customers, Revenue, and Collection

THE QUESTION IT ANSWERS

How can a company extend useful customer credit without allowing sales growth to become uncontrolled lending?

CONCEPTS DEFINED

Accounts receivable · Credit limit · Due date · Aging analysis · Collection · Expected credit loss · Write-off · Credit risk

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track follows value from a customer need to a commercial promise, delivery, invoice, collection, return, and long-term relationship. Sales are treated as both operational events and accounting claims, with evidence and timing controlling when numbers become reliable.

Central question: How can a company extend useful customer credit without allowing sales growth to become uncontrolled lending?

Accounts receivable is both an asset and a credit portfolio. Reliable management begins before sale with limits and terms, continues through accurate billing and dispute prevention, and ends with collection, expected-loss assessment, write-off, or recovery.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish accounts receivable in plain and professional language.
- Define and distinguish credit limit in plain and professional language.
- Define and distinguish due date in plain and professional language.
- Define and distinguish aging analysis in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Accounts receivable

Working definition. Accounts receivable is amounts due from customers for goods or services supplied in the ordinary course of business.

Receivables require customer-level settlement, aging, dispute status, credit monitoring, expected-loss analysis, and reconciliation to the ledger. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. An issued and earned invoice remains open until paid, credited, written off, or otherwise settled.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Credit limit

Working definition. Credit limit is the approved maximum exposure an organization is willing to carry for a customer or related group under defined conditions.

The limit should consider financial capacity, payment history, concentration, collateral, market conditions, and pending orders—not only unpaid invoices. This is where operational activity and financial reporting meet.

Simple example. A customer has a CU 50,000 limit and cannot receive a new CU 20,000 shipment when total exposure is CU 45,000 without approval.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Due date

Working definition. Due date is the contractual or statutory date on which payment or another obligation must be performed.

Due-date calculation must follow the agreed reference event, calendar rules, holidays, installments, and amendments. In Varza language, the concept becomes useful when it changes a decision.

Simple example. An invoice dated 1 June with net-30 terms may be due 1 July, subject to the contract's counting rule.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Aging analysis

Working definition. Aging analysis is the grouping of open balances according to time outstanding or time past due.

Aging is an attention tool, not a valuation by itself. Disputes, subsequent receipts, customer condition, security, and forward-looking information also matter. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Receivables are grouped as current, 1–30, 31–60, 61–90, and over 90 days past due.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Collection

Working definition. Collection is the controlled process of obtaining settlement of amounts due while preserving evidence, rights, and appropriate customer relationships.

Collection begins before an invoice becomes overdue through correct terms, documentation, delivery, billing, and dispute prevention. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. The collector records promises to pay, disputes, contacts, escalation, and settlement results.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Expected credit loss

Working definition. Expected credit loss is a probability-weighted estimate of credit losses that reflects reasonable and supportable information under the applicable financial-instrument framework.

Do not wait only for default. Segment exposures, use forward-looking evidence, document assumptions, and compare estimates with outcomes. The concept should be measured at the smallest level that still supports a real action.

Simple example. Historical loss rates are adjusted for current customer and economic conditions.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Write-off

Working definition. Write-off is the removal of a recognized receivable or other asset when there is no reasonable expectation of recovery, subject to policy and applicable rules.

A write-off is an accounting action, not automatically forgiveness of the legal claim. Preserve authorization and recovery history. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A dissolved customer balance is written off after approved collection and legal review.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Credit risk

Working definition. Credit risk is the possibility that a borrower or customer will not pay in full and on time.

Control it through limits, evidence, pricing, collateral, diversification, monitoring, and collection discipline. This is where operational activity and financial reporting meet.

Simple example. A customer with overdue invoices may require a reduced credit limit.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Accounts receivable, Credit limit, Due date, Aging analysis, Collection, Expected credit loss, Write-off, and Credit risk describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Days sales outstanding

$$\text{DSO} = \text{Average trade receivables} \div \text{Credit sales} \times \text{Days in period}$$

The metric estimates collection time under consistent definitions.

Boundary: Seasonality, sales mix, tax, advances, and end-period balances can distort it.

Expected loss

$$\text{Expected credit loss} = \sum (\text{Exposure in scenario} \times \text{Probability of scenario} \times \text{Loss rate in scenario})$$

A probability-weighted model reflects possible credit outcomes.

Boundary: The applicable framework determines method, horizon, discounting, and required forward-looking information.

Worked case — Aging reveals concentrated risk

A company has CU 500,000 receivables and uses a simplified illustrative loss matrix adjusted by customer facts.

Item	Amount or observation
Current CU 300,000	1% expected loss
1–30 days overdue CU 100,000	3%
31–90 days CU 60,000	12%
Over 90 days CU 40,000	50%
Large customer concentration	CU 120,000 inside current bucket; financial stress reported

Calculation and reasoning

1. Matrix loss before specific adjustment is $3,000 + 3,000 + 7,200 + 20,000 = \text{CU } 33,200$.
2. The stressed large customer requires separate forward-looking assessment even though its invoice is current.
3. Compare subsequent receipts, disputes, security, and available current information.
4. Document any overlay and avoid double counting the same risk in both matrix and specific adjustment.

What the result means

Aging is a useful structure but time past due is not the only risk signal. Current balances can be impaired and old balances can be secured or disputed for non-credit reasons.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

- 1. Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 2. Assess customer identity, capacity, history, concentration, terms, and security before exposure.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 3. Calculate total exposure including open invoices, unbilled delivery, pending orders, guarantees, and related parties.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 4. Invoice correctly and resolve disputes before due date.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 5. Age, collect, estimate loss, approve write-off, and learn from outcomes.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 6. Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 7. Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
- 8. Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes customer, credit_profile, credit_limit, invoice, due_date, receivable, collection_case, promise_to_pay, expected_loss, write_off. These names are not merely interface labels. Each entity should have a stable identifier, status

history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Use automation to strengthen evidence and consistency, never to remove accountability.
- Turn information into a decision, a control, or a question; otherwise it is only decoration.
- Begin with the real event, not the accounting label.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Credit-limit override report.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Aging and subsequent-receipt review.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Separation of collection, credit-note, and write-off authority.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Expected-loss model back-testing.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Measuring exposure only by overdue invoices

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Calling a disputed invoice bad debt before correcting performance or billing

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Delaying write-off to preserve assets

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Using one loss rate for every customer regardless of risk and forward-looking information

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain accounts receivable in plain language and in professional terms?
- ☐ Can I explain credit limit in plain language and in professional terms?
- ☐ Can I explain due date in plain language and in professional terms?
- ☐ Can I explain aging analysis in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Accounts receivable to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Credit limit. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Due date could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Due date: the contractual or statutory date on which payment or another obligation must be performed.",
    "Aging analysis: the grouping of open balances according to time outstanding or time past due.",
    "Collection: the controlled process of obtaining settlement of amounts due while preserving evidence, rights, and appropriate customer relationships.",
    "Expected credit loss: a probability-weighted estimate of credit losses that reflects reasonable and supportable information under the applicable financial-instrument framework.",
    "Write-off: the removal of a recognized receivable or other asset when there is no reasonable expectation of recovery, subject to policy and applicable rules.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S113 — IFRS Foundation, *IFRS 9 Financial Instruments*.** 2026 standards set. Classification, measurement and impairment of financial instruments. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control — Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>
- **S204 — International Auditing and Assurance Standards Board, *ISA 315 (Revised 2019)*.** 2019; accessed 2026-08-31. Understanding systems and identifying risks of material misstatement. Source: <https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material-misstatement>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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