

# Bad Debts, Bad Debts

## Recovered &

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**Provision for**

## Bad Debts



- 2 A During the year ended 31 March 2007 Jeremiah lost money through customers not paying the amounts due to him. On 1 April 2007 he set up a provision for doubtful debts account.

**REQUIRED**

- (a) (i) Give **one** reason why Jeremiah decided to set up this account.

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- (ii) Describe **two** factors Jeremiah might consider when deciding the amount to be provided for in the provision for doubtful debts account.

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- (iii) Explain the difference between the accounting treatment of a bad debt and a doubtful debt.

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On 1 April 2008, Jeremiah's provision for doubtful debts account had a balance of \$8000. This consisted of an anticipated loss of \$2500 which was the total owed by a debtor, Uriah, who had been declared bankrupt, and a general provision of \$5500, which was 2½% of **all** of his debtors.

On 31 May 2008 Liew, who owed Jeremiah \$1200, paid Jeremiah only \$0.40 for every dollar owed. The remainder was written off as a bad debt.

On 30 June 2008, Uriah paid Jeremiah \$0.35 for every dollar owed, in **final** settlement of his account.

On 28 February 2009 Jeremiah wrote off \$300 of overdue debts from various debtors.

On 31 March 2009 Jeremiah's total debtors amounted to \$205 000 and he adjusted his provision for doubtful debts account to 3% of that amount.

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**REQUIRED**

*For  
Examiner's  
Use*

**(b)** Prepare in Jeremiah's ledgers the following accounts for the year ended 31 March 2009.

**(i)** Provision for doubtful debts account;

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**(ii)** Bad debts account.

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On 31 March 2009 Khalil, whose debt of \$3000 had been written off in 2007, after he unexpectedly left the country, returned and paid the amount due.

**REQUIRED**

**(iii)** Prepare in Jeremiah's ledgers the bad debts recovered account for the year ended 31 March 2009.

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- 2 Klix Limited's book-keeper prepared the following details about the firm's outstanding trade receivables at 31 December 2010.

Age of debt	Trade Receivables
	\$
Up to 30 days	16 800
31 to 60 days	12 600
61 to 90 days	7 100
Over 90 days	1 300

The following rates are applied for the estimation of doubtful debts.

Age of debt	%
Up to 30 days	1
31 to 60 days	2
61 to 90 days	3
Over 90 days	10

A provision for doubtful debts account is maintained. This had a balance of \$800 on 1 January 2010.

The bad debts written off for the year ended 31 December 2009 amounted to \$1420.

Debbie, a customer who owed the company \$700, has recently been declared bankrupt. This amount had been included in the details above as 'outstanding for 61 to 90 days'. It has been decided to write off the debt immediately.

On 2 October 2010, Harvey, a credit customer, ceased trading and Klix Limited received payment of \$0.25 in the dollar in final settlement of the debt of \$600. The remainder had been written off as a bad debt.

Other bad debts written off during the year ended 31 December 2010 totalled \$350. These had been taken into account when drawing up the list of trade receivables above.

**REQUIRED**

- (a) Calculate the amount which should be provided as a provision for doubtful debts at 31 December 2010. Show your workings.

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[6]

(b) Prepare the following ledger accounts for the year ended 31 December 2010, showing the closing entry to the final accounts at the end of the year.

For  
Examiner's  
Use

(i) Provision for doubtful debts account

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(ii) Bad debts account

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(iii) Harvey account

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- (c) Prepare an extract from the statement of financial position (balance sheet) at 31 December 2010 showing the net amount of trade receivables.

For  
Examiner's  
Use

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Klix Limited's directors are reviewing the existing policy for calculating the provision for doubtful debts.  
They are considering applying a 4% rate to all debts as the basis for calculation.

**REQUIRED**

- (d) (i) Calculate the effect of this change on the provision for doubtful debts.

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- (ii) Explain how this change would affect the company's income statement and statement of financial position.

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(iii) Explain why this change might be necessary.

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For  
Examiner's  
Use

(e) State **three** factors that the directors should consider when creating a provision for doubtful debts.

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(ii) .....  
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(iii) .....  
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[3]

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[Total 30]