

Irrecoverable debts and provision for doubtful debts

J12/12

- 2(e) Hassiq decided to create a provision of doubtful debts of 4% of his trade receivables. His trade receivables are \$28 000. Calculate the amount of the provision.

.....

[1]

J12/21

- 1 On 20 March 2012 Stewart Hanson decided to write off \$115 owed by Sue West as a irrecoverable debt.

Required

- (e) Prepare the journal entry Stewart Hanson would make to record this. A narrative is required.

Journal

	Debit (\$)	Credit (\$)

[3]

On 14 May 2012 Stewart Hanson received a cheque for \$115 from Sue West.

- (f) Name the ledger accounts in which Stewart Hanson would record this transaction.

Account debited	Account credited

[2]

- (g) Suggest **two** ways in which Stewart Hanson could reduce the risk of irrecoverable debts in the future.

(i)

 (ii)
[2]

J12/22

2 Simon Nyemba maintains a provision for doubtful debts. On 1 February 2011 there was a credit balance of \$460 on the provision for doubtful debts account.

At 31 January 2012 Simon Nyemba’s trade receivables amounted to \$14 300 and he decided to maintain the provision for doubtful debts at 3% of the trade receivables.

REQUIRED

(f) Write up the provision for doubtful debts account as it would appear in Simon Nyemba’s ledger for the year ended 31 January 2012.

Simon Nyemba
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[5]

(g) Name one accounting principle which Simon Nyemba is applying by maintaining a provision for doubtful debts.

.....[1]

N12/12

2(g) (i) Explain what is meant by a irrecoverable debt.

.....

[2]

(ii) Explain what is meant by a provision for doubtful debts.

.....

[2]

- (iii) Mary maintains a provision for doubtful debts at 3% of her trade receivables. On 1 September 2011 Mary's provision for doubtful debts was \$1 350. On 31 August 2012 Mary's trade receivables amounted to \$48 000.

How much would be charged in Mary's income statement for the year ended 31 August 2012?

.....

[2]

N12/13

- 2(h) Lindie maintains a provision for doubtful debts of 3% of her trade receivables. Her trade receivables amounted to \$28 000 on 1 November 2011 and \$32 000 on 31 October 2012.

Calculate the amount of the increase in Lindie's provision for doubtful debts on 31 October 2012.

.....

[3]

J13/11

- 4(a) The following items appear in a sales ledger control account. Place a tick (✓) in the correct box to indicate where the item would appear in the sales ledger control account.

	Debit	Credit
Opening balance trade receivables		
Credit sales		
Sales returns		
Receipts from credit customers		
Discount allowed		
Irrecoverable debts		
Dishonoured cheques		
Interest on overdue accounts		

[8]

- (b)(i) Tellwright Ltd maintains a sales ledger control account and a provision for doubtful debts account. On 1 April 2012 the balances were:

Sales ledger control account	\$46 200
Provision for doubtful debts account	\$ 924

Calculate the percentage rate used for the provision for doubtful debts.

.....

[2]

(ii) On 31 March 2013 the balance on the provision for doubtful debts had increased to \$1560. Suggest one reason for the increase.

.....
[2]

(iii) Prepare the journal entry to record the change in the provision for doubtful debts. A narrative is required.

Tellwright Ltd
Journal

	Debit \$	Credit \$

[3]

(c) Name **one** accounting principle used when a provision for doubtful debts is maintained. Explain how it is being applied.

.....

[3]

[Total: 18]

N13/13

5(a) Explain the following terms.

1 Irrecoverable debts

.....

2 Provision for doubtful debts

.....
[2]

On 1 September 2012 Leila’s total trade receivables amounted to \$16 100 and she had a provision for doubtful debts of \$322.

On 31 August 2013 her trade receivables totalled \$21 200. This included \$1 400 owed by a customer who had been declared bankrupt and was unlikely ever to pay. Leila decided to provide for doubtful debts at a rate of 3%.

- (b) Prepare the provision for doubtful debts account for the year ended 31 August 2013. Balance the account and bring down the balance on 1 September 2013.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[5]

- (c) Prepare a Statement of Financial Position extract for trade receivables at 31 August 2013.

	\$	\$

[2]

N13/22

- 2 Paul Matanga is a trader who sells on both cash and credit terms. His financial year ends on 31 July.

He maintains a provision for doubtful debts. On 1 August 2012 the provision for doubtful debts amounted to \$1 200.

Paul Matanga wrote off irrecoverable debts totalling \$420 during the eleven months to 30 June 2013.

On 1 July 2013 Susan Kunaka, a debtor, owed Paul Matanga \$20. Paul Matanga's transactions for July 2013 included the following.

- July 4 Sold goods on credit to Susan Kunaka, list price \$240, less 20% trade discount
- 16 Received cash, \$103, from XY Stores, whose debt had been written off in March 2011
- 24 Susan Kunaka sent a cheque for \$150 and a letter to say that she was unable to pay the balance of her account
- 30 Wrote off the balance of Susan Kunaka's account as a irrecoverable debt
- 31 Adjusted the provision for doubtful debts so it was equal to 3% of the trade receivables which totalled \$28 000

- (a) Write up the following accounts in Paul Matanga's ledger for the year ended 31 July 2013. Balance the accounts where necessary and bring down the balances on 1 August 2013.

(i) Susan Kunaka account

Date	Details	\$	Date	Details	\$

[3]

(ii) Irrecoverable debts account

Date	Details	\$	Date	Details	\$

[3]

(iii) Irrecoverable debts recovered account

Date	Details	\$	Date	Details	\$

[2]

(iv) Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

(b) Paul Matanga failed to enter the adjustment to the provision for doubtful debts in his income statement for the year ended 31 July 2013.

Complete the following table to indicate how this error would affect the profit for the year and the current assets at 31 July 2013.

	Overstated \$	Understated \$
Profit for the year ended 31 July 2013		
Current assets at 31 July 2013		

[4]

Paul Matanga allows his credit customers 30 days in which to pay their accounts. On 31 July 2013 the trade receivables amounted to \$28 000.

The total sales for the year ended 31 July 2013 were:

	\$
Cash sales	26 000
Credit sales	224 000

(c)(i) State the formula for the calculation of the collection period for trade receivables.

.....
[1]

(ii) Calculate the collection period for trade receivables. Your answer should be rounded up to the next whole day. Show your workings.

.....

[2]

(iii) Explain how the collection period for trade receivables may affect Paul Matanga's liquidity position.

.....

[2]

[Total: 21]

J14/11

3 Highfield Manufacturing Limited provided the following information.

On 1 March 2013 the balance on the provision for doubtful debts account was \$2 966.

On 28 February 2014 trade receivables totalled \$76 200.

This total includes an amount of \$1 100 due from a debtor who has gone bankrupt and which will not be recovered.

During the year \$200 was received as part settlement of a debt of \$400 which had been written off 18 months earlier.

The provision for doubtful debts is maintained at 5%.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 28 February 2014. Show the transfers to the income statement. Bring down any balances remaining on 1 March 2014.

Highfield Manufacturing Limited
Irrecoverable debts account

Date	Details	\$	Date	Details	\$

Irrecoverable debts recovered account

Date	Details	\$	Date	Details	\$

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[9]

(b) Explain how accounting for irrecoverable debts and providing for doubtful debts applies the following accounting principles.

(i) accruals (matching)

.....

 [2]

(ii) prudence

.....

 [2]

J14/22

5 Nadia Sayed is a wholesaler. On 28 February 2014 she discovered that a quantity of goods was missing from her warehouse.

She was able to provide the following information.

	\$	
At 1 March 2013		
Inventory	4 200	
For the year ended 28 February 2014		
Purchases	56 000	
Purchases returns	1 100	
Revenue	72 000	
Carriage inwards	1 800	
At 28 February 2014		
Inventory remaining	5 000	
The gross profit margin is	25%.	

REQUIRED

(a) Prepare an income statement (trading account section) to calculate the value of the missing inventory.

Nadia Sayed
Income Statement for the year ended 28 February 2014

	\$	\$

[10]

J14/22

5 The balances in the books of Nadia Sayed on 28 February 2014 included the following.

	\$
Irrecoverable debts written off	496
Trade receivables	18 650

Nadia Sayed decided to write off \$150 owed by Sabar Stores and to create a provision for doubtful debts of 3% of the remaining trade receivables.

REQUIRED

(b) Calculate the amount of the provision for doubtful debts.

.....
.....
..... [1]

(c) Prepare the entries in the journal to record the following.

1. Writing off the irrecoverable debt
2. Creating the provision for doubtful debts

Narratives **are** required.

Nadia Sayed
Journal

	Debit \$	Credit \$

[6]

(d) Explain how Nadia Sayed is applying the principle of prudence by creating a provision for doubtful debts.

.....
.....
.....
..... [2]

(e) Explain how Nadia Sayed is applying the principle of accruals (matching) by creating a provision for doubtful debts.

.....

[2]

[Total: 21]

N14/12

5 Ashvar provides for doubtful debts at the rate of 5%.

REQUIRED

(c) Prepare his provision for doubtful debts account for the year ended 30 June 2014. Balance the account and bring down the balance on 1 July 2014.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

(d) Comment on the adequacy or otherwise of the rate of Ashvar’s provision for doubtful debts.

.....

[2]

N14/23

2 Alina Tan is a trader. She maintains a full set of accounting records. Her financial year ends on 31 October. She has written off a number of irrecoverable debts during the year.

REQUIRED

(a) Suggest **two** ways in which Alina Tan could reduce the possibility of irrecoverable debts.

1

.....

2

.....[2]

On 30 October 2014 Alina Tan wrote off \$66 which had been outstanding from Yeung for 2 years.

REQUIRED

(b) Prepare a journal entry to record this transaction. A narrative is required.

Alina Tan
Journal

	Debit \$	Credit \$

[3]

Additional Information

Alina Tan maintains a provision for doubtful debts at 3% of her trade receivables at the end of each year.

On 1 November 2013 the provision for doubtful debts was \$450. On 31 October 2014 the trade receivables amounted to \$13 500.

REQUIRED

(c) Explain the term 'provision for doubtful debts'.

.....

 [2]

(d) Name **two** accounting principles which are applied when a provision for doubtful debts is maintained.

1
 2 [2]

(a) Prepare a journal entry on 31 October to record the adjustment to the provision for doubtful debts. A narrative **is** required

Alina Tan
Journal

	Debit \$	Credit \$

[3]

(f) Explain the term 'irrecoverable debt recovered'.

.....

[2]

N15/12

4 (a) Explain what is meant by the term provision for doubtful debts.

.....
[2]

On 1 May 2014 Samuel's provision for doubtful debts account showed a balance of \$450. On 30 April 2015 his trade receivables amounted to \$9750. This included a debt of \$250 which had gone irrecoverable and should be written off. Samuel provides for doubtful debts at a rate of 4%.

REQUIRED

(b) Prepare Samuel's provision for doubtful debts account. Bring down the balance on 1 May 2015.

Samuel
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[5]

(c) State where the entry for doubtful debts will appear in the income statement.

.....[1]

(d) Name the two accounting principles Samuel is applying by maintaining a provision for doubtful debts account.

1
 2[2]

- (e) Name the two items in the statement of financial position which might be overstated if Samuel did not maintain a provision for doubtful debts account.

1
 2 [2]

[Total: 12]

J16/21

- 5 Samar is a trader. His financial year ends on 30 April. He maintains a provision for doubtful debts of 2½% of the trade receivables at the end of each year.

On 1 May 2015 Samar’s provision for doubtful debts amounted to \$474. On 30 April 2016 his credit customers owed \$17 440.

REQUIRED

- (a) Prepare the provision for doubtful debts account for the year ended 30 April 2016. Balance the account and bring down the balance on 1 May 2016.

Samar
 Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

- (b) Prepare an extract from the statement of financial position on 30 April 2016 to show the trade receivables.

Samar
 Extract from Statement of Financial Position at 30 April 2016

Current assets

.....

 [2]

- (c) State the difference between an irrecoverable debt and a provision for doubtful debts.

.....

 [2]

(d) Explain how Samar is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

.....

[2]

(e) State **one** other accounting principle which Samar is applying by maintaining a provision for doubtful debts.

.....[1]

(f) Suggest **two** ways in which Samar could reduce the risk of irrecoverable debts.

1

 2
[2]

On 10 May 2016 Samar received a cheque, \$49, from M Khan, whose account had been written off in 2014.

REQUIRED

(g) Prepare a journal entry to record the recovery of the irrecoverable debt. A narrative **is** required.

Samar
Journal

	Debit \$	Credit \$

[3]

[Total: 16]

N16/22

4 The financial year of Nawaz ends on 31 August. He sells on credit terms and maintains a provision for doubtful debts.

REQUIRED

(a) State the meaning of the following terms.

Irrecoverable debts

.....
.....

Irrecoverable debts recovered

.....
.....

Provision for doubtful debts

.....
..... [3]

(b) Name **two** accounting principles which Nawaz is applying by maintaining a provision for doubtful debts.

1
2 [2]

(c) Suggest **two** ways in which Nawaz could reduce the possibility of irrecoverable debts.

1
2 [2]

Ahsan Zarif, TCS, PAF Chapter

Nawaz provided the following information.

	\$
On 1 September 2015	
Provision for doubtful debts	1 450
During the year ended 31 August 2016	
Debts written off	2 064
On 31 August 2016	
Trade receivables	79 650

On 31 August 2016 it was decided to write off \$250 owed by Uzma. The provision for doubtful debts was adjusted to 2% of the remaining trade receivables.

REQUIRED

(d) Prepare journal entries on 31 August 2016 to record the following.

- 1 Writing off the irrecoverable debt
- 2 Closing the irrecoverable debts account
- 3 Adjusting the provision for doubtful debts.

Narratives are **not** required.

Nawaz Journal			
		Debit \$	Credit \$
1			
2			
3			

[6]

(e) Prepare an extract from the statement of financial position on 31 August 2016 to show the trade receivables.

Nawaz
Extract from Statement of Financial Position at 31 August 2016

Current assets

.....

 [2]

[Total: 15]

N16/23

- 3** The financial year of Kristy ends on 31 October. She maintains a provision for doubtful debts. The following account appeared in her ledger.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
2016			2015		
Oct.31	Income statement	75	Nov.1	Balance b/d	525
	Balance c/d	450			
		525			525

REQUIRED

- (a)** Explain the following entries in the above account. Name the account in which the double entry would be made for **each** item. State whether the account would be debited or credited.

1 November 2015 Balance b/d

Explanation

.....

.....

Double entry

31 October 2016 Income statement

Explanation

.....

.....

Double entry

31 October 2016 Balance c/d

Explanation

.....

.....

Double entry [6]

- (b)** State the entry for provision for doubtful debts that would appear in the statement of financial position on 31 October 2016.

.....

..... [2]

J17/11

- 2 (f) Complete the following table, indicating with a tick (✓) if **each** statement about an increase in a provision for doubtful debts is true or false. The first one has been completed as an example.

	True	False
it will increase the total of the non-current assets		✓
it will increase the total of current assets		
it will decrease cash and bank		
it will require a credit entry in the provision for doubtful debts account		
it will have no effect on profit for the year		

[4]

J17/12

- 3 Pich provided the following information.

- At 1 March 2016

	\$
trade receivables	56 000
provision for doubtful debts	2 240
- On 1 December 2016 a debt of \$860, owed by Amit, was written off.
- On 28 February 2017 sales ledger balances totalled \$64 800. Included in these was a balance of \$1 100 owed by Ruth who had been declared bankrupt.
- The rate of provision for doubtful debts was to remain unchanged.

REQUIRED

- (f) Prepare the following ledger accounts in the books of Pich. Close the accounts by balancing or by making a transfer to an appropriate account

Pich

Irrecoverable debts account

Date	Details	\$	Date	Details	\$

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

Ruth account

Date	Details	\$	Date	Details	\$

[12]

- (g) Prepare an extract from the statement of financial position of Pich at 28 February 2017 showing the entries for trade receivables.

Pich
Statement of Financial Position (extract) at 28 February 2017

.....

.....

.....

.....

.....

.....

[3]

J17/21

- 2 (d) Suggest **two** ways in which Harum could reduce the possibility of irrecoverable debts.

1

2 [2]

N17/12

- 4 FTA Industries provided the following information.

At 31 December	Trade receivables \$	Rate of provision for doubtful debts
2014	72 100	3%
2015	68 800	2%
2016	83 300	2%

Additional information

- 1 There were no irrecoverable debts during the year ended 31 December 2015.
- 2 A debt of \$1 400 owed by Eddie at 31 December 2016 and included in the total at that date was considered irrecoverable.

REQUIRED

- (a) Prepare the provision for doubtful debts account for **each** of the years ended 31 December 2015 and 2016. Balance the account at the end of each year and bring down the balance.

FTA Industries
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[8]

(b) State the effect of the doubtful debts on the profit for the year ended 31 December 2015.

.....

.....[2]

(c) State the double entry made on 31 December 2016 to write off Eddie’s debt.

Account debited	Account credited

[2]

(d) Name the book of prime (original) entry used to write off irrecoverable debts.

.....[1]

(e) Prepare an extract from the income statement for the year ended 31 December 2016 showing the effect of irrecoverable debts and doubtful debts.

FTA Industries
Income Statement (extract) for the year ended 31 December 2016

.....

.....

.....

.....[3]

(f) Name the **two** accounting principles applied when providing for doubtful debts.

- 1
- 2 [2]

[Total: 18]

N17/21

1 On 31 July 2017 Zodwa decided to create a provision for doubtful debts.

REQUIRED

(b) Explain the meaning of the term provision for doubtful debts.

-
-
- [2]

(c) Suggest **one** way in which the amount of a provision for doubtful debts may be determined.

-
- [1]

(d) State the double entry required to create a provision for doubtful debts.

Debit	Credit

[2]

(e) State how Zodwa would be applying the principle of prudence if she maintained a provision for doubtful debts.

-
-
-
- [2]

(f) State how Zodwa would be applying the principle of accruals (matching) if she maintained a provision for doubtful debts.

-
-
-
- [2]

(g) Suggest **two** ways in which Zodwa could reduce the amount of irrecoverable debts.

- 1
 - 2
- [2]

[Total: 26]

J18/21

1 Lydia is proposing to create and maintain a provision for doubtful debts at 2½% of trade receivables at the end of each financial year.

REQUIRED

(d) (i) Explain how maintaining a provision for doubtful debts is an example of the application of the principle of prudence.

-
 -
 -
 -
- [2]

J18/21

3 Masuma owns a furniture store. She maintains a full set of accounting records. Her financial year ends on 31 March.

Masuma provided the following information at 31 March 2018.

- 1 On 1 April 2017 Amina, a credit customer, owed \$160. On 1 March 2018 she paid 75% of this and the balance was written off as a irrecoverable debt.
- 2 On 4 January 2018 additional fixtures and fittings, \$2 000, were purchased on credit from Office Traders, but this transaction was not recorded.
- 3 The fixtures and fittings are depreciated at the rate of 20% per annum on the cost of equipment held at the end of each financial year.
- 4 On 31 March 2018 the discount columns in the cash book showed the following totals for the month:

discount column on debit side \$55
discount column on credit side \$68

These totals had not been transferred to the discount accounts in the ledger.

REQUIRED

(a) Record this information in the following accounts in Masuma’s ledger at 31 March 2018. Some entries have already been made in the accounts during the year. Close all the accounts by balancing or by making a transfer to an appropriate account.

Masuma
Amina account

Date	Details	\$	Date	Details	\$
2017					
April 1	Balance b/d	160			

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2018					
Feb.28	Total written off	135			

Fixtures and fittings account

Date	Details	\$	Date	Details	\$
2017					
April 1	Balance b/d	4 000			

Provision for depreciation of fixtures and fittings account

Date	Details	\$	Date	Details	\$
			2017		
			April 1	Balance b/d	1 600

Discount allowed account

Date	Details	\$	Date	Details	\$
2018					
Feb.28	Total to date	3 590			

Discount received account

Date	Details	\$	Date	Details	\$
			2018		
			Feb.28	Total to date	4 130

[12]

J18/22

1 The financial year of J Smith ends on 30 April. During the year ended 30 April 2018 he recorded a irrecoverable debt and a irrecoverable debt recovered.

REQUIRED

(e) State the meaning of **each** of the following terms.

(i) Irrecoverable debt

.....

[1]

(ii) Irrecoverable debt recovered

.....

[1]

(f) Suggest **two** ways in which J Smith could reduce the risk of irrecoverable debts.

1

 2
[2]

J Smith maintains a provision for doubtful debts at the same percentage of the trade receivables at the end of each year.

REQUIRED

(g) Explain how maintaining a provision for doubtful debts is an application of the principle of prudence.

.....

[2]

- (h) Explain how maintaining a provision for doubtful debts is an application of the principle of accruals (matching).

.....

[2]

J Smith provided the following information.

		\$
30 April 2017	Trade receivables	18 400
	Provision for doubtful debts	460
30 April 2018	Trade receivables	17 600

REQUIRED

- (i) Calculate the rate of the provision for doubtful debts as a percentage.

.....
[1]

- (j) Prepare the provision for doubtful debts account for the year ended 30 April 2018. Balance the account and bring down the balance on 1 May 2018.

J Smith
 Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[5]

N18/11

- 4 Ava operates a secretarial agency. Her financial year ends on 31 July.

She provided the following information on 31 July 2018.

- 1 A cheque for \$194 was received from Wilma, a credit customer, whose account had been written off in 2016.
- 2 Gary, a credit customer, paid one third of the amount he owed in cash. The balance is regarded as irrecoverable and should be written off.
- 3 The provision for doubtful debts should be increased by \$150.
- 4 The discount allowed for July 2018 of \$144 should be transferred to the discount allowed account.
- 5 The office equipment cost \$16 000 and is being depreciated using the straight line (equal instalment) method at 20% per annum. No office equipment had been bought or sold during the year.

REQUIRED

- (a) Record this information in the following accounts in Ava's ledger at 31 July 2018. Close the accounts by balancing or by making a transfer to an appropriate account. Some entries have already been made in the accounts during the year.

Ava

Irrecoverable debts recovered account

Date	Details	\$	Date	Details	\$

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2018					
July 1	Total to date	218			

Gary account

Date	Details	\$	Date	Details	\$
2018					
July 1	Balance b/d	270			

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
			2017		
			Aug. 1	Balance b/d	320

Discount allowed account

Date	Details	\$	Date	Details	\$
2018					
July 1	Total to date	1 495			

Provision for depreciation of office equipment account

Date	Details	\$	Date	Details	\$
			2017		
			Aug. 1	Balance b/d	9 600

[14]

(b) Name **two** accounting principles Ava is applying by maintaining a provision for doubtful debts.

- 1
- 2 [2]

N18/11

4 Ava allows her trade receivables a credit period of 30 days. She provided the following information.

	At 31 July 2017	At 31 July 2018
Trade receivables collection period	32 days	28 days

REQUIRED

(c) Comment on Ava's collection period for trade receivables.

-
-
-
-
- [2]

Ava is proposing to ask clients to pay cash instead of offering credit terms.

(d) Suggest **two** effects of this proposal.

- 1
-
- 2
- [2]

[Total: 20]

N18/22

2 Adil is a wholesaler. All his sales are made on credit terms. His financial year ends on 31 August.

REQUIRED

(a) State the meaning of **each** of the following terms.

Irrecoverable debts

.....

.....

Irrecoverable debts recovered

.....

.....

Provision for doubtful debts

.....

..... [3]

On 31 August 2018 Adil received a cheque for \$0.20 in a dollar from Mahinda, a credit customer. The balance of the account was irrecoverable.

REQUIRED

(b) Record this information in the following accounts in Adil's ledger. Close the accounts on 31 August 2018 by balancing or by making a transfer to an appropriate account. Some entries have already been made in the accounts during the year.

Adil
Mahinda account

Date	Details	\$	Date	Details	\$
2018			2018		
Feb.1	Sales	600	Feb.10	Sales returns	30

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2018					
Aug.30	Total to date	710			

[4]

Adil is proposing to stop selling on credit and to sell on cash terms only.

REQUIRED

(c)(i) State **one** possible advantage to Adil of going ahead with this proposal.

 [1]

(ii) State **one** possible disadvantage to Adil of going ahead with this proposal.

 [1]

(d) Suggest **two** ways (apart from stopping selling on credit) in which Adil could reduce the risk of irrecoverable debts.
 1

 2
 [2]

Adil has maintained a provision for doubtful debts for many years. He provided the following information.

	\$
Trade receivables on 31 August 2017	44 200
Trade receivables on 31 August 2018 (after writing off Mahinda's account)	42 000

On 31 August 2018 Adil decided to reduce the rate of the provision for doubtful debts from 3% to 2½%.

REQUIRED

(e) Prepare the provision for doubtful debts account for the year ended 31 August 2018. Balance the account and bring down the balance on 1 September 2018.

Adil
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

- (f) Explain how Adil is applying the accruals (matching) principle by maintaining a provision for doubtful debts.

.....

.....

.....

..... [2]

- (g) Name **two** other accounting principles which Adil is applying maintaining a provision for doubtful debts.

1

2 [2]

On 20 September 2018 Adil received a cheque for \$250 from Amaya whose account had been written off in 2017.

REQUIRED

- (h) State how this was recorded in Adil's books of account.

Debit	Credit

[2]

- (i) State how this transaction would affect the profit for the year ending 31 August 2019.

.....[1]

[Total: 22]

J19/11

2 (c) State the meaning of the following terms.

(i) Irrecoverable debt

.....

[1]

(ii) Irrecoverable debt recovered

.....

[1]

(iii) Provision for doubtful debts

.....

[1]

Olivia’s financial year ends on 30 April.

On 30 April 2019 Olivia received \$200 in cash from Ben, a credit customer, in final settlement of the amount he owed. The balance of Ben’s account was written off as irrecoverable.

REQUIRED

(d) Complete the following accounts in Olivia’s ledger for the year ended 30 April 2019. Show any necessary year-end transfer.

Olivia
Ben account

Date	Details	\$	Date	Details	\$
2019			2019		
Jan 2	Sales	360			

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2019			2019		
Apr. 30	Total to date	384			

[4]

Olivia maintains a provision for doubtful debts of 3% of the trade receivables at the end of each financial year.

On 30 April 2018 the trade receivables amounted to \$13 500.

On 30 April 2019 the trade receivables amounted to \$12 800 after writing off Ben's account.

REQUIRED

- (e) Prepare the provision for doubtful debts account for the year ended 30 April 2019. Balance the account and bring down the balance on 1 May 2019.

Olivia
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

J19/12

- 3 Hamila is a trader. Her financial year ends on 28 February. All goods are bought and sold on credit terms. Hamila provided the following information for February 2019.

2019

- February 1 Safiya, a credit customer, owed \$320
 12 Safiya paid the balance due on 1 February by cheque
 16 Safiya purchased goods on credit, list price \$250, less 20% trade discount
 18 The bank returned Safiya's cheque because of insufficient funds in the account
 24 Safiya paid \$400 in cash
 27 The balance of Safiya's account was written off as irrecoverable

REQUIRED

- (a) Prepare the account of Safiya as it would appear in Hamila's ledger for the month of February 2019.

Hamila
Safiya account

Date	Details	\$	Date	Details	\$
2019			2019		

[6]

- (b) Complete the irrecoverable debts account in Hamila's ledger for the month of February 2019. Close the account by making an appropriate year-end transfer.

Hamila
Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2019			2019		
Feb.27	Total to date	674			

[2]

Hamila maintains a provision for doubtful debts. The following account appeared in Hamila's ledger.

Hamila
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
2019			2018		
Feb.28	Income statement	130	Mar.1	Balance b/d	1 500
	Balance c/d	1 370			
		1 500			1 500

REQUIRED

- (c) (i) Explain the following entries in the provision for doubtful debts account.

Name the account in which the double entry would be made for each item.

State whether the account would be debited or credited.

1 March 2018 Balance b/d

Explanation

.....

.....

Name of account

Debit or credit

28 February 2019 Balance c/d

Explanation

.....

.....

Name of account

Debit or credit

[4]

(ii) Explain the following entry in the provision for doubtful debts account.

28 February 2019 Income statement

.....
.....
..... [2]

(d) Explain how Hamila is applying the principle of prudence by maintaining a provision for doubtful debts.

.....
.....
..... [2]

(e) Explain how Hamila is applying the principle of accruals (matching) by maintaining a provision for doubtful debts.

.....
.....
..... [2]

(f) Suggest **two** ways in which Hamila could reduce the possibility of irrecoverable debts.

1 [2]
2

[Total: 20]

Ahsan Zarif, TCS, PAF Chapter