

50.3 An exercise on the valuation of debts

List the factors or evidence you would consider in deciding whether to create or change a firm's provision for doubtful debts.

Response

In addition to the *general* factors listed in response to exercise 49.2, a firm should also consider the evidence and circumstances relating to each individual debtor's ability to pay. Relevant evidence might include:

- lengthening time taken to pay
- a pattern of smaller payments on account, instead of payment in full for each shipment or service
- cheques received from the debtor are or have been dishonoured
- changes in the pattern of ordering goods or services
- downgrading of the debtor's credit rating by a rating agency
- concentration of the debtor's customer base (especially if coupled with doubts about the solvency of any of the debtor's major customers)