

49.1 A drill to practise making provision for doubtful debts

REQUIRED: for each set of data below, prepare a Debtors Account and a Provision for Doubtful Debts Account, with relevant extract from the P&L Account for each year, and extracts from the balance sheet at the end of each year concerning debtors and the provision for doubtful debts.

A

	YEAR 1	YEAR 2
	£	£
sales on credit	60 000	72 500
discount allowed	1 200	950
bad debts written off	4 500	3 500
cash received from existing debtors	52 000	63 000
cash received from debtors previously written off		1 500
general provision for bad debts required	8.0%	7.5%

<i>Debtors</i>			
<i>sales</i>	60 000	<i>discounts allowed</i>	1 200
		<i>bad debts written off</i>	4 500
		<i>cash received</i>	52 000
		<i>c/f</i>	2 300
	<u>60 000</u>		<u>60 000</u>
<i>b/f</i>	2 300	<i>discounts allowed</i>	950
<i>sales</i>	72 500	<i>bad debts written off</i>	3 500
		<i>received from existing debtors</i>	63 000
<i>bad debt reinstated</i>	1 500	<i>received from debtors previously written off</i>	1 500
		<i>c/f</i>	7 350
	<u>76 300</u>		<u>76 300</u>
<i>b/f</i>	7 350		

<i>Provision for Doubtful Debts</i>			
		<i>P&L 1 new provision = balance at end of YR1</i>	184
<i>c/f</i>	551	<i>P&L 2 increase in provision</i>	367
	<u>551</u>	<i>balance at end of YR 2</i>	<u>551</u>

<i>P&L 1</i>	
<i>discounts allowed</i>	1 200
<i>bad debts written off</i>	4 500
<i>provision for doubtful debts</i>	184

<i>P&L 2</i>	
<i>discounts allowed</i>	950
<i>bad debts written off</i>	3 500
<i>provision for doubtful debts – increase</i>	367
<i>bad debt reinstated</i>	1 500

Balance Sheet extracts	end of Year 1	end of Year 2
	£	£
Debtors	2 300	7 350
less provision for doubtful debts	(184)	(551)
	<u>£2 116</u>	<u>£6 799</u>

B

	YEAR 1	YEAR 2
	£	£
sales on credit	45 600	53 000
discount allowed		870
bad debts written off	2 350	3 000
cash received from existing debtors	39 000	45 000
cash received from debtors previously written off		1 350
general provision for bad debts required	5.0%	6.0%

<i>Debtors</i>			
sales	45 600	bad debts written off	2 350
		cash received	39 000
		c/f	4 250
	<u>45 600</u>		<u>45 600</u>
b/f	4 250	discounts allowed	870
sales	53 000	bad debts written off	3 000
		received from existing debtors	45 000
bad debt reinstated	1 350	received from debtors previously written off	1 350
		c/f	8 380
	<u>58 600</u>		<u>58 600</u>
b/f	8 380		

<i>Provision for Doubtful Debts</i>			
		P&L 1 new provision	212
		= balance at end of YR1	
c/f	503	P&L 2 increase in provision	291
	<u>503</u>		<u>503</u>
		balance at end of YR 2	503

<i>P&L 1</i>	
bad debts written off	2 350
provision for doubtful debts	212

<i>P&L 2</i>	
discounts allowed	870
bad debts written off	3 000
provision for doubtful debts – increase	291
bad debt reinstated	1 350

Balance Sheet extracts	end of Year 1	end of Year 2
	£	£
Debtors	4 250	8 380
less provision for doubtful debts	(212)	(503)
	<u>£4 038</u>	<u>£7 877</u>

C

	£
opening debtors	45 000
opening provision for doubtful debts	2 250
sales on credit	382 500
discount allowed	5 750
cash received from debtors	385 000
bad debts written off	4 000
general provision for bad debts required	6.0%

Debtors				Provision for Doubtful Debts			
balance b/f	45 000	discounts allowed	5 750	decrease in provision	285	balance b/f	2 250
sales	382 500	cash received	385 000	c/f	1 965		
		bad debts written off	4 000		<u>2 250</u>		<u>2 250</u>
		c/f	<u>32 750</u>			balance at end of year	<u>1 965</u>
	<u>427 500</u>		<u>427 500</u>				
b/f	32 750						

P&L			
discounts allowed	5 750	decrease in provision for doubtful debts	285
bad debts written off	4 000		

Balance Sheet extract		end of Year
		£
Debtors		32 750
less provision for doubtful debts		<u>(1 965)</u>
		<u>£30 785</u>

D

	£
opening debtors	62 000
opening provision for doubtful debts	3 100
sales on credit	527 000
discount allowed	9 500
cash received from existing debtors	385 000
cash received from debtors previously written off	2 500
bad debts written off	7 000
general provision for bad debts required	8.0%

Debtors				Provision for Doubtful Debts			
balance b/f	62 000	discounts allowed	9 500			balance b/f	3 100
sales	527 000	received from existing debtors	385 000			increase in provision	11 900
		received from debtors previously written off	2 500	c/f	15 000		<u>15 000</u>
bad debt reinstated	2 500	bad debts written off	7 000		<u>15 000</u>	balance at end of year	15 000
		c/f	187 500				
	<u>591 500</u>		<u>591 500</u>				
b/f	187 500						

P&L			
discounts allowed	9 500		
bad debts written off	7 000	bad debt reinstated	2 500
increase in provision for doubtful debts	11 900		

Balance Sheet extract		end of Year
		£
Debtors		187 500
less provision for doubtful debts		<u>(15 000)</u>
		<u>£172 500</u>