

Lesson 7 – Accounting for Bad and Doubtful Debts

Question 7.1

Which **one** of the following accounting concepts is applied by writing off the balance on a customer account as a bad debt, and making a provision for doubtful debts?

	✓
Prudence	✓
Going concern	
Materiality	

Question 7.2

At the year-end 31 December 201X the provision for doubtful debts account in the ledger of a business carried a balance of £1,600.

The sales ledger control account in the ledger of the business at 31 December 201Y carried a balance of £92,500.

At the year-end 31 December 201Y the balance on the provision for doubtful debts account is to be adjusted to an amount equivalent to 2% of trade debtors.

Calculate the increase or decrease adjustment required at 31 December 201Y to adjust the balance of £1,600 on the provision for doubtful debts account to an amount equivalent to 2% of trade debtors at that date. Enter the figure you calculate in the appropriate box provided below:

Adjustment to increase the provision for doubtful debts account balance at 31 December 201Y £250

Adjustment to decrease the provision for doubtful debts account balance at 31 December 201Y £

Question 7.3

At the year-end 31 May 201X the provision for doubtful debts account in the ledger of a business carried a balance of £2,250.

The sales ledger control account in the ledger of the business at 31 May 201Y carried a balance of £198,400.

At the year-end 31 May 201Y the balance on the provision for doubtful debts account is to be adjusted to an amount equivalent to 1.5% of trade debtors.

Calculate the increase or decrease adjustment required at 31 May 201Y to adjust the balance of £2,250 on the provision for doubtful debts account to an amount equivalent to 1.5% of trade debtors at that date. Enter the figure you calculate in the appropriate box provided below:

Adjustment to increase the provision for doubtful debts account balance at 31 May 201Y £726
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Adjustment to decrease the provision for doubtful debts account balance at 31 May 201Y £

Question 7.4

The provision for doubtful debts account in the ledger of a business at the year-end 30 June 201X carried a balance of £1,250.

At the year-end 30 June 201Y the balance on the provision for doubtful debts account was increased to £1,600.

Given the information above which **one** of the following statements is correct?

	✓
£1,600 would be debited to the profit and loss account	
£350 would be credited to the profit and loss account	
£350 would be debited to the profit and loss account	✓

Question 7.5

The provision for doubtful debts account in the ledger of a business at the year-end 31 March 201X carried a balance of £2,080.

At the year-end 31 March 201Y the balance on the provision for doubtful debts account is to be decreased to £1,750.

Given the information above which **one** of the following statements is correct?

	✓
The provision for doubtful debts account should be credited with £330	
The provision for doubtful debts account should be debited with £330	✓
The provision for doubtful debts account should be credited with £1,750	

Question 7.6

The provision for doubtful debts account in the ledger of a business at the year-end 30 April 201X carried a balance of £960.

At the year-end 30 April 201Y the balance on the provision for doubtful debts account was increased by £220 to £1,180.

Given the information above which **one** of the following statements is correct?

	✓
The increase of £220 in the provision for doubtful debts account balance at 30 April is deducted from the balance on the sales ledger control account at 30 April to give the net debtors figure shown on the balance sheet	
The closing balance of £1,180 on the provision for doubtful debts account is added to the balance on the sales ledger control account at 30 April 201Y to give the net debtors figure shown on the balance sheet	
The closing balance of £1,180 on the provision for doubtful debts account is deducted from the balance on the sales ledger control account at 30 April 201Y to give the net debtors figure shown on the balance sheet	✓

Question 7.7

The financial year of Continental Foods ends on 31 December.

On 6 April 201Y goods to the value of £600 (inclusive of VAT at 20%), were invoiced to a credit customer, Globe Restaurant. Efforts to collect the debt have proved unsuccessful and recent demands for payment have been returned marked 'premises now unoccupied'.

Today's date is 1 December 201Y and a decision has been made by the credit controller of Continental Foods to write off the balance on the account of Globe Restaurant as a bad debt, and claim VAT bad debt relief.

The following is an extract from the ledger of Continental Foods. The extract includes the sales ledger control account, the VAT control account and a bad debts account. Each of the accounts carry balances brought down at 1 December 201Y. The balance on the bad debts account represents balances on customer accounts already written off as bad debts in the year ended 31 December 201Y.

Ledger (Extract)

DR			Sales Ledger Control			CR		
201Y	Details	£	201Y	Details	£			
1 Dec	Balance b/d	96,980	1 Dec	Bad debts & VAT	600			

DR			VAT Control			CR		
201Y	Details	£	201Y	Details	£			
1 Dec	Sales ledger control	100	1 Dec	Balance b/d	1,260			

DR			Bad Debts			CR		
201Y	Details	£	201Y	Details	£			
1 Dec	Balance b/d	980	31 Dec	Profit and loss	1,480			
1 Dec	Sales ledger control	500						
		1,480			1,480			

Required – complete the journal entry at 1 December 201Y to support the write off of the balance on the account of Globe Restaurant and claim VAT bad debt relief. A journal is provided below for your use in completing this task.

Journal

201Y	Account name	DR £	CR £
1 Dec	Bad debts	500	
	VAT control	100	
	Sales ledger control		600
	Write off of the balance on the account of Globe Restaurant an claim for VAT bad debt relief		

Required – Using the ledger extract above, record the bad debt write off and the claim for VAT bad debt relief in the ledger accounts.

Required – complete the journal entry at 31 December 201Y to transfer the balance on the bad debts account to the profit and loss account. A journal is provided below for your use in completing this task.

Journal

201Y	Account name	DR £	CR £
31 Dec	Profit and loss	1,480	
	Bad debts		1,480
	Transfer of the balance on the bad debts account to the profit and loss account at the year-end		

Required – Using the ledger extract above, record the transfer of the balance on the bad debts account to the profit and loss account at 31 December 201Y in the bad debts account and close off the account.

Required – provided below is an extract from the trading and profit and loss account of Continental Catering for the year ended 31 December 201Y. Record the bad debts in the profit and loss section of the account:

**Continental Catering
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201Y**

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Less Expenses			
Bad debts		1,480	

Question 7.8

The most recent financial year of Pine Products ended on 31 December 201Y.

At 1 January 201Y a provision for doubtful debts account in the ledger of Pine Products carried a balance of £1,020, representing a balance brought down at the year ended 31 December 201X.

Required – record the balance at 1 January 201Y, in the provision for doubtful debts account as a balance brought down (balance b/d) in the account provided below:

Ledger (extract)					
DR			CR		
Provision for Doubtful Debts					
201Y	Details	£	201Y	Details	£
31 Dec	Balance c/d	1,245	1 Jan	Balance b/d	1,020
			31 Dec	Profit and loss	225
		1,245			1,245
201Z	Details		201Z	Details	£
			1 Jan	Balance b/d	1,245

At the year-end 31 December 201Y the sales ledger control account in the books of Pine Products carried a balance of £124,500. A decision has been made to adjust the balance on the provision for doubtful debts account at 31 December 201Y to an amount equivalent to 1% of trade debtors.

Required - calculate the increase or decrease adjustment required at 31 December 201Y to adjust the balance of £1,020 on the provision for doubtful debts account to 1% of trade debtor balances at that date. Enter the figure you calculate in the appropriate box provided below:

Adjustment to increase the provision for doubtful debts account balance at 31 December 201Y £225

Adjustment to decrease the provision for doubtful debts account balance at 31 December 201Y £

Required – using the journal provided below, complete the journal entry at 31 December 201Y to adjust the balance on the provision for doubtful debts account:

Journal

201Y	Account name	DR £	CR £
31 Dec	Profit and loss	225	
	Provision for doubtful debts		225
	Adjustment to increase the balance on the provision for doubtful debts account at the year-end 31 December 201Y		

Required – record the entry at 31 December 201Y to adjust the balance on the provision for doubtful debts account in the provision for doubtful debts account in the ledger extract provided above. Balance off the provision for doubtful debts account and show the closing balance carried down (Balance c/d) at 31 December 201Y, and brought down (balance b/d) at 1 January 201Y:

Required – provided below is an extract from the trading and profit and loss account of Pine Products for the year ended 31 December 201Y. Record the provision for doubtful debts adjustment in the profit and loss section of the account:

**Pine Products
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201Y**

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Less Expenses			
Provision for doubtful debts adjustment (increase)		225	

Required – provided below is an extract from the balance sheet of Pine Products at 31 December 201Y. List the net trade debtors figure on the balance sheet:

**Pine Products
Balance Sheet (extract) at 31 December 201Y**

	£	£	£
Current Assets			
Net trade debtors		123,255	

Question 7.9

The most recent financial year of Construction Services & Supplies ended on 31 December 201Y.

At 1 January 201Y a provision for doubtful debts account in the ledger of Construction Services & Supplies carried a balance of £1,360, representing a balance brought down at the year ended 31 December 201X.

Required – record the balance at 1 January 201Y, in the provision for doubtful debts account as a balance brought down (balance b/d) in the account provided below:

Ledger (extract)					
DR			CR		
Provision for Doubtful Debts					
201Y	Details	£	201Y	Details	£
31 Dec	Profit and loss	214	1 Jan	Balance b/d	1,360
31 Dec	Balance c/d	1,146	31 Dec		
		1,360			1,360
201Z	Details		201Z	Details	£
			1 Jan	Balance b/d	1,146

At the year-end 31 December 201Y the sales ledger control account in the books of Construction Supplies & Services carried a balance of £76,400. A decision has been made to adjust the balance on the provision for doubtful debts account at 31 December 201Y to an amount equivalent to 1.5% of trade debtors.

Required - calculate the increase or decrease adjustment required at 31 December 201Y to adjust the balance of £1,360 on the provision for doubtful debts account to 1.5% of trade debtor balances at that date. Enter the figure you calculate in the appropriate box provided below:

Adjustment to increase the provision for doubtful debts account balance at 31 December 201Y £

Adjustment to decrease the provision for doubtful debts account balance at 31 December 201Y £214

Required – using the journal provided below, complete the journal entry at 31 December 201Y to adjust the balance on the provision for doubtful debts account:

Journal

201Y	Account name	DR £	CR £
31 Dec	Provision for doubtful debts	214	
	Profit or loss		214
	Adjustment to decrease the balance on the provision for doubtful debts account at the year-end 31 December 201Y		

Required – record the entry at 31 December 201Y to adjust the balance on the provision for doubtful debts account in the provision for doubtful debts account in the ledger extract provided above. Balance off the provision for doubtful debts account and show the closing balance carried down (Balance c/d) at 31 December 201Y, and brought down (Balance b/d) at 1 January 201Z:

Required – provided below is an extract from the trading and profit and loss account of Construction Services & Supplies for the year ended 31 December 201Y. Record the provision for doubtful debts adjustment in the profit and loss section of the account:

**Construction Services & Supplies
Trading and Profit and Loss Account (extract)
for the Year Ended 31 December 201Y**

	£	£	£
Sales			XXXX
Less Cost of Goods Sold			
Opening Stock	XXXX		
Add Purchases	XXXX		
		XXXX	
Less Closing Stock		XXXX	
Cost of Sales			XXXX
Gross Profit			XXXX
Less Expenses			
Provision for doubtful debts adjustment (decrease)		(214)	

Required – provided below is an extract from the balance sheet of Construction Services & Supplies at 31 December 201Y. List the net trade debtors figure on the balance sheet:

**Pine Products
Balance Sheet (extract) at 31 December 201Y**

	£	£	£
Current Assets			
Net trade debtors		75,254	

Question 7.10

The most financial year of a business ends on 31 December.

At 1 January 201Y a provision for doubtful debts account in the ledger of the business carried a balance of £1,450, representing a balance brought down at the year ended 31 December 201X.

At the year-end 31 December 201Y the closing balances on trade debtor balances in the sales ledger were analysed and entered on an aged debt schedule used as the basis of calculating what the provision for doubtful debts account balance needs to be at the year-end. See the schedule below:

Aged debt schedule at 31 December 201Y

Period Outstanding	Debtor Amount £	Provision %	Provision £
Up to 30 days	108,500	1	1,085
31 to 60 days	7,800	2.5	195
61 to 100 days	2,900	10	290
Over 100 days	<u>1,300</u>	20	<u>260</u>
	<u>120,500</u>		<u>1,830</u>

Percentages to be used for the purpose of calculating the provision amount (£), for each category of trade debtors within the aged debt schedule have been entered on the schedule.

Required – complete the schedule above by calculating the provision for doubtful debts amount (£) for each of the categories of trade debtor appearing on the schedule and show the total provision for doubtful debts amount at the year-end 31 December 201Y.

Required – Calculate the adjustment required at the year-end 31 December 201Y to adjust the balance brought down on the provision for doubtful debts account at 1 January 201Y, to what the provision needs to be at 31 December 201Y. Enter the figure you calculate in the appropriate box below:

Adjustment to increase the provision for doubtful debts account balance at 31 December 201Y £380

Adjustment to decrease the provision for doubtful debts account balance at 31 December 201Y £