

BAD DEBTS ACCOUNTING

A bad debt is an amount that is written off by the business as a loss to the business and classified as an expense because the debt owed to the business is unable to be collected, and all reasonable efforts have been exhausted to collect the amount owed. This usually occurs when the debtor has declared bankruptcy or the cost of pursuing further action in an attempt to collect the debt exceeds the debt itself.

The debt is immediately written off by crediting the debtor 's account and therefore eliminating any balance remaining in that account. A bad debt represents money lost by a business which is why it is regarded as an expense.

Doubtful debts are those debts which a business or individual is unlikely to be able to collect. The reasons for potential non payment can include disputes over supply, delivery and conditions of goods, the appearance of financial stress within customers operation.

When such a dispute occurs it is **prudent** s add this debt or portion there of to the doubtful debt reserve. This is done to avoid over-stating the assets of the business as trade debtors is reported net of Doubtful debt. When there is no longer any doubt that a debt in uncollectable the debt becomes bad.

Because of the matching principle of accounting, revenues and expenses should be recorded in the period in which they are incurred. When a sale is made on account, revenue is recorded along with account receivable. Because there is an inherent risk that clients might default on payment, accounts receivable have to be recorded at net realizable value. The portion of the account receivable that is estimated to be not collectible is set aside in a contra-asset account called **Allowance for doubtful Accounts**.

At the end of each accounting cycle, adjusting entries are made to charge uncollectible receivable as expense. The actual amount of uncollectible receivable is written off as an expense from **Allowance for doubtful accounts**.

QUESTION FFQA1

At 30 September 2000, Z Ltd had a provision for doubtful debts of \$37,000. During the year ended 30 September 2001 the company wrote off debts totalling \$18,000, and at the end of the year it is decided that the provision for doubtful debts should be \$20,000.

What should be included in the income statement for bad and doubtful debts?

- A \$35,000 debit B \$1,000 debit C \$38,000 debit D \$1,000 credit

QUESTION FFQA2

Which of the following items could appear on the *credit* side of a receivables ledger control account?

- (1) Cash received from customers
 (2) Bad debts written off
 (3) Increase in allowance for doubtful debts
 (4) Discounts allowed
 (5) Sales
 (6) Credits for goods returned by customers
 (7) Cash refunds to customers

A (1), (2), (4) and (6)

B (1), (2), (4) and (7)

C (3), (4), (5) and (6)

D (5) and (7)

QUESTION FFQA3

At 31 December 2002 a company's receivables totalled \$400,000 and an allowance for doubtful debts of \$50,000 had been brought forward from the year ended 31 December 2001.

It was decided to write off debts totalling \$38,000 and to adjust the allowance for doubtful debts to 10% of the receivables.

What charge for bad and doubtful debts should appear in the company's income statement for the year ended 31 December 2002?

- A \$74,200 B \$51,800 C \$28,000 D \$24,200

QUESTION FFQA4

At 1 July 2002 the doubtful debt allowance of Q was \$18,000.

During the year ended 30 June 2003 debts totalling \$14,600 were written off. It was decided that the doubtful debt allowance should be \$16,000 as at 30 June 2003.

What amount should appear in Q's income statement for bad and doubtful debts for the year ended 30 June 2003?

- A \$12,600 B \$16,600 C \$48,600 D \$30,600.

QUESTION FFQA5

A company's gross profit percentage on sales has decreased by 5% in 2002 compared with 2001.

Which one of the following matters could have caused the decrease?

- A The level of sales in 2002 is lower than that in 2001
 B There have been more bad debts in 2002 than in 2001
 C Inventory at the end of 2002 is lower than that at the end of 2001
 D Theft of inventory by staff and customers has increased.

Prepared by: Mohammad Faizan Farooq Qadri Attari

ACCA (Finalist)

<http://www.ffqacca.co.cc>

Contact: faizanacca@yahoo.com

QUESTION FFQA6

At 30 September 2002 a company's allowance for doubtful debts amounted to \$38,000, which was five per cent of the receivables at that date.

At 30 September 2003 receivables totalled \$868,500. It was decided to write off \$28,500 of debts as bad and to keep the allowance for doubtful debts at five per cent of receivables.

What should be the charge in the income statement for the year ended 30 September 2003 for bad and doubtful debts?

- A \$42,000 B \$33,925 C \$70,500 D \$32,500

QUESTION FFQA7

A is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 November 2003:

Trade receivables, 1 December 2002 130,000

Trade payables, 1 December 2002 60,000

Cash received from customers 686,400

Cash paid to suppliers 302,800

Discounts allowed 1,400

Discounts received 2,960

Bad debts 4,160

Amount due from a customer who is also a supplier offset against an amount due for goods supplied by him 2,000

Trade receivables, 30 November 2003 181,000

Trade payables, 30 November 2003 84,000

Based on the above information, what figure should appear in A's income statement for the year ended 30 November 2003 for sales revenue?

- A \$748,960 B \$748,800 C \$744,960 D \$743,560

Based on the above information, what figure should appear in A's income statement for the year ended 30 November 2003 for purchases?

- A \$283,760 B \$325,840 C \$329,760 D \$331,760

QUESTION FFQA8

At 1 July 2003 a limited liability company had an allowance for doubtful debts of \$83,000.

During the year ended 30 June 2004 debts totalling \$146,000 were written off. At 30 June 2004 it was decided that a doubtful debt allowance of \$218,000 was required.

What figure should appear in the company's income statement for the year ended 30 June 2004 for bad and doubtful debts?

- A \$155,000 B \$364,000 C \$281,000 D \$11,000

QUESTION FFQA9

At 31 December 2004 a company's trade receivables totalled \$864,000 and the allowance for doubtful debts was \$48,000.

It was decided that debts totalling \$13,000 were to be written off, and the allowance for doubtful debts adjusted to five per cent of the receivables.

What figures should appear in the balance sheet for trade receivables (after deducting the allowance) and in the income statement for the total of bad and doubtful debts?

SOCI	SFP
Bad and doubtful debts	Net trade receivables
A 8,200	807,800
B 7,550	808,450
C 18,450	808,450
D 55,550	808,450

QUESTION FFQA10

At 30 June 2004 a company's allowance for receivables was \$39,000. At 30 June 2005 trade receivables totalled \$517,000. It was decided to write off debts totalling \$37,000 and to adjust the allowance for receivables to the equivalent of 5 per cent of the trade receivables based on past events.

What figure should appear in the income statement for these items?

- A** \$61,000 **B** \$22,000 **C** \$24,000 **D** \$23,850

Prepared by: Mohammad Faizan Farooq Qadri Attari

ACCA (Finalist)

<http://www.ffqacca.co.cc>

Contact: faizanacca@yahoo.com

QUESTION FFQA11

At 1 January 2005 a company had an allowance for receivables of \$18,000

At 31 December 2005 the company's trade receivables were \$458,000.

It was decided:

(a) To write off debts totalling \$28,000 as irrecoverable;

(b) To adjust the allowance for receivables to the equivalent of 5% of the remaining receivables based on past experience.

What figure should appear in the company's income statement for the total of debts written off as irrecoverable and the movement in the allowance for receivables for the year ended 31 December 2005?

- A \$49,500 B \$31,500 C \$32,900 D \$50,900

QUESTION FFQA12

At 1 July 2005 a company's allowance for receivables was \$48,000.

At 30 June 2006, trade receivables amounted to \$838,000. It was decided to write off \$72,000 of these debts and adjust the allowance for receivables to \$60,000.

What are the final amounts for inclusion in the company's balance sheet at 30 June 2006?

Trade receivables	Allowance for receivables	Net balance
A 838,000	60,000	778,000
B 766,000	60,000	706,000
C 766,000	108,000	658,000
D 838,000	108,000	730,000

QUESTION FFQA13

At 1 January 2006 a company had an allowance for receivables of \$49,000.

At 31 December 2006 the company's trade receivables were \$863,000 and it was decided to write off balances totalling \$23,000 and to adjust the allowance for receivables to the equivalent of 5% of the remaining receivables based on past experience.

What total figure should appear in the company's income statement for bad debts and allowance for receivables?

- A \$16,000 B \$65,000 C \$30,000 D \$16,150

QUESTION FFQA14

At 30 June 2005 a company's allowance for receivables was \$39,000. At 30 June 2006 trade receivables totaled \$517,000. It was decided to write off debts totalling \$37,000 and to adjust the allowance for receivables to the equivalent of 5 per cent of the trade receivables based on past events.

What figure should appear in the income statement for the year ended 30 June 2006 for these items?

- A \$61,000 B \$22,000 C \$24,000 D \$23,850

Prepared by: Mohammad Faizan Farooq Qadri Attari
ACCA (Finalist)

<http://www.ffqacca.co.cc>

Contact: faizanacca@yahoo.com

www.ffqacca.co.cc