



# Principles of Accounts for GCE O Level



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## FULLY WORKED QUESTIONS

CHAPTER:

BAD DEBTS AND ALLOWANCE FOR DOUBTFUL DEBTS

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## Fully Worked Questions on Bad debts and allowance for doubtful debts

*Note: There are 9 fully worked questions on Bad debts and allowance for bad debts in this document. The questions are listed one after each other and all answers are in the last part of the document. This would prevent students from having a view on the answers while reading and working the question. However, they can look at the answers once they have finished working.*

1. Ronnie, a trader, decided to make allowance for doubtful debts at the rate of 5% of trade receivables at the end of its financial year, that is 31 December each year. He made the first allowance on 31 December 2008. Trade receivables has been as follows:

Year	2008	2009	2010	2011
Trade Receivables (\$)	11 400	12 200	10 800	11 200

Required:

- Calculate amount to be adjusted to profit each year.
  - Allowance for doubtful debts account for the period 31 December 2008 to 1 January 2012
2. Martin, a trader, decided to make allowance for doubtful debts at the rate of 2% of trade receivables at the end of its financial year, that is 31 March each year. He made the first allowance on 31 March 2009. Trade receivables has been as follows:

Year ending 31 March	2009	2010	2011	2012
Trade Receivables (\$)	18 600	18 700	17 450	17 650

Required:

- Calculate amount to be adjusted to profit each year.
  - Allowance for doubtful debts account for the period 31 March 2009 to 1 April 2012.
3. The following information is available for Alpha, a trader, for the year ended 30 April 2012.

Trade receivable at 30 April 2012	Allowance for doubtful debts at 1 May 2011	Bad debts written off during the year	Allowance for doubtful debts to be
\$55 680	\$1 313	\$200	2.5% of trade receivables

Required: Allowance for doubtful debts account.

4. The following information is available for Beta, a trader, for the year ended 31 March 2012.

Trade receivable at 31 March 2012	Allowance for doubtful debts at 1 April 2011	Bad debts to be written off	Allowance for doubtful debts to be
\$119 750	\$2 528	2 050	2% of trade receivables

Required: Allowance for doubtful debts account.

5. The following information is available for Zeta, a trader, for the year ended 30 April 2012.

Trade receivable at 30 April 2012	Allowance for doubtful debts at 1 May 2011	Bad debts written off during the year	Allowance for doubtful debts to be
\$127 200	\$3 416	\$200	3% of trade receivables

Required: Allowance for doubtful debts account.

6. Johnson, a trader, has total trade receivables of \$52 800 on 31 December 2011 and \$1 448 as balance on the provision for doubtful debts account before adjustments for the year ended 31 December 2011. An analysis of debtors' (credit customers) revealed the following:

<i>Age of debt</i>	<i>Amount</i>
2 to 3 months	\$10 500
3 to 6 months	\$2 400
6 to 12 months	\$1 500
12 months	\$3 200

The remaining amount was aged less than 2 months.

Johnson has the policy to for calculating provision for doubtful debts as follows:

<i>Age of debt</i>	<i>Provision for doubtful debts</i>
Up to 2 months	2%
2 to 3 months	5%
3 to 6 months	10%
6 to 12 months	20%
12 months	30%

Required:

- A calculation of the provision for doubtful debts on 31 December 2011.
  - The adjustment to profit for provision doubtful debts on 31 December 2011.
  - The provision for doubtful debts account.
- (Note: In case of decimals, round off your answer to the nearest whole number)

7. Bunny, a trader, has total trade receivables of \$42 560 on 31 December 2011 and \$1 616 as balance on the provision for doubtful debts account before adjustments for the year ended 31 December 2011. An analysis of debtors' (credit customers) revealed the following:

<i>Age of debt</i>	<i>Amount</i>
2 to 3 months	\$3 620
3 to 6 months	\$250
6 to 12 months	\$780
12 months	\$560

The remaining amount was aged less than 2 months.

Bunny has the policy to for calculating provision for doubtful debts as follows:

<i>Age of debt</i>	<i>Provision for doubtful debts</i>
Up to 2 months	2%
2 to 3 months	5%
3 to 6 months	10%
6 to 12 months	20%
12 months	30%

Required:

- A calculation of the provision for doubtful debts on 31 December 2011.
- The adjustment to profit for provision doubtful debts on 31 December 2011.
- The provision for doubtful debts account.

(Note: In case of decimals, round off your answer to the nearest whole number)

8. The following information relates to the business of Isabelle:

Year	Trade Receivables	Bad debts written off during the year	Bad debts to be written off	Provision for bad debts
2008	\$12 500	\$300	\$100	2%
2009	\$16 400	\$600	\$50	3%
2010	\$14 800	\$400	-	2.5%
2011	\$15 200	-	\$300	3%

Isabelle closes her accounts on 31 December each year. On 1 January 2008, the balance on her provision for doubtful debts account was \$210.

Required:

- Complete the table below:

Year	New provision for doubtful debts	Adjustment to Profit (Income Statement) for provision for doubtful debts		Entry in provision for doubtful debts account	
		Dr	Cr	Dr	Dr
2008					
2009					
2010					
2011					

- ii. Prepare balance sheet extract for each of the year 2008, 2009, 2010 and 2011 showing trade receivables and allowance for doubtful debts.

9. The following information relates to the business of France:

Year	Trade Receivables	Bad debts written off during the year	Bad debts to be written off	Provision for bad debts
2008	\$182 500	\$1 500	-	2%
2009	\$166 400	-	\$1 900	3%
2010	\$174 800	\$3 600	\$2 200	2.5%
2011	\$174 200	\$2 500	\$300	3%

France closes her accounts on 31 December each year. On 1 January 2008, the balance on her provision for doubtful debts account was \$3 430.

Required:

- i. Complete the table below:

Year	New provision for doubtful debts	Adjustment to Profit (Income Statement) for provision for doubtful debts		Entry in provision for doubtful debts account	
		Dr	Cr	Dr	Dr
2008					
2009					
2010					
2011					

- ii. Prepare balance sheet extract for each of the year 2008, 2009, 2010 and 2011 showing trade receivables and allowance for doubtful debts.

### ANSWERS TO QUESTIONS

#### Question 1

Workings and answer to part i.

Year	Trade Receivables	Allowance for doubtful debts at 5%	Change	Entry in Allowance for doubtful debts account	Entry in income statement	Remarks
	\$	\$	\$			
2008	11 400	570	+ 570	Cr 570	Dr 570	1 <sup>st</sup> time allowance Decrease profit by \$570
2009	12 200	610	+ 40	Cr 40	Dr 40	Decrease profit by \$40
2010	10 800	540	-70	Dr 70	Cr 70	Increase profit by \$70
2011	11 200	560	+20	Cr 20	Dr 20	Decrease Profit \$20

ii.

Dr			Allowance for doubtful debts account			Cr		
Date	Details	Amount	Date	Details	Amount			
		\$			\$			
31 Dec 08	Balance c/d	570	31 Dec 08	Income Statement	570			
31 Dec 09	Balance c/d	610	1 Jan 09	Balance b/d	570			
		610	31 Jan 09	Income Statement	40			
					610			
31 Dec 10	Income Statement	70	1 Jan 10	Balance b/d	610			
31 Dec 10	Balance c/d	540			610			
		610						
31 Dec 11	Balance c/d	560	1 Jan 11	Balance b/d	540			
		560	31 Jan 11	Income Statement	20			
					560			
			1 Jan 12	Balance b/d	560			

### Question 2

Workings and answer to part i.

Year	Trade Receivables	Allowance for doubtful debts at 2%	Change	Entry in Allowance for doubtful debts account	Entry in income statement	Remarks
	\$	\$	\$			
2009	18 600	372	+372	Cr 372	Dr 372	1 <sup>st</sup> time allowance Decrease profit by \$372
2010	18 700	374	+2	Cr 2	Dr 2	Decrease profit by \$2
2011	17 450	349	-25	Dr 25	Cr 25	Increase profit by \$25
2012	17 650	353	+4	Cr 4	Dr 4	Decrease Profit \$4

ii.

Dr			Allowance for doubtful debts account			Cr		
Date	Details	Amount	Date	Details	Amount			
		\$			\$			
31 Mar 09	Balance c/d	372	31 Mar 09	Income Statement	372			
31 Mar 10	Balance c/d	374	1 Apr 09	Balance b/d	372			
		374	31 Mar 10	Income Statement	2			
					374			
31 Mar 11	Income Statement	25	1 Apr 10	Balance b/d	374			
31 Mar 11	Balance c/d	349			374			
		374						
31 Mar 12	Balance c/d	353	1 Apr 11	Balance b/d	349			
		353	31 Mar 12	Income Statement	4			
					353			
			1 Apr 12	Balance b/d	353			

### Question 3

#### Workings

New allowance for doubtful debts (2.5% x \$55 680)	\$1 392
Less Previous year's allowance	<u>\$1 313</u>
<b>Increase</b> in allowance for doubtful debts	<u><u>\$79</u></u>

Note: Bad debts in this question has already been written off. Therefore, trade receivables amounting to \$55 680 is final amount on which allowance for doubtful debts is to be calculated.

Dr		Allowance for doubtful debts account				Cr	
Date	Details	Amount	Date	Details	Amount		
30 Apr 12	Balance c/d	\$ 1 392	1 May 11	Balance b/d	\$ 1 313		
		<u>1 392</u>	30 Apr 12	Income Statement	79		
					<u>1 392</u>		
			1 May 12	Balance b/d	1 392		

### Question 4

#### Workings

Trade receivables	\$119 750
Less Bad debts (to be written off)	<u>\$2 050</u>
Trade receivables net of bad debts	\$117 700
New allowance for doubtful debts (2% x \$117 700)	\$2 354
Less Previous year's allowance	<u>\$2 528</u>
<b>Decrease</b> in allowance for doubtful debts	<u><u>(\$174)</u></u>

Note: Bad debts in this question **has not yet** been written off. Therefore, bad debts of \$2 050 has to be deducted from trade receivables of \$119 750 before calculating allowance for doubtful debts. Hence, allowance for doubtful debts is calculated 2% x (\$119 750 - \$2 050).

Dr		Allowance for doubtful debts account				Cr	
Date	Details	Amount	Date	Details	Amount		
31 Mar 12	Income Statement	\$ 174	1 Apr 11	Balance b/d	\$ 2 528		
31 Mar 12	Balance c/d	2 354			<u>2 528</u>		
		<u>2 528</u>			<u>2 528</u>		
			1 Apr 12	Balance b/d	2 354		

### Question 5

#### Workings

New allowance for doubtful debts (3% x \$127 200)	\$3 816
Less Previous year's allowance	<u>\$3 416</u>
<b>Increase</b> in allowance for doubtful debts	<u><u>(\$400)</u></u>

Note: Bad debts in this question has already been written off. Therefore, trade receivables amounting to \$127 200 is final amount on which allowance for doubtful debts is to be calculated.

Dr		Allowance for doubtful debts account				Cr
Date	Details	Amount	Date	Details	Amount	
		\$			\$	
30 Apr 12	Balance c/d	3 816	1 May 11	Balance b/d	3 416	
30 Apr 12			30 Apr 12	Income Statement	400	
		<u>3 816</u>			<u>3 816</u>	
			1 May 12	Balance b/d	3 816	

### Question 6

i.

Age of debt	Amount	Provision for doubtful debts	Provision for doubtful debts \$
Up to 2 months	\$35 200	2%	704
2 to 3 months	\$10 500	5%	525
3 to 6 months	\$2 400	10%	240
6 to 12 months	\$1 500	20%	300
12 months	\$3 200	30%	960
<b>Total provision for doubtful debts</b>			<b>2 729</b>

Note: Trade receivables aged up to 2 months = \$52 800 – (\$10 500+\$2 400+\$1 500+\$3 200), that is \$52 800 - \$17 600 = \$35 200.

ii.

New Provision	\$2 729
Less Previous provision	<u>\$1 448</u>
<b>Increase</b> in provision for doubtful debts	<u><u>\$1 281</u></u>

iii.

Dr		Allowance for doubtful debts account				Cr
Date	Details	Amount	Date	Details	Amount	
		\$			\$	
31 Dec 11	Balance c/d	2 729	1 Jan 11	Balance b/d	1 448	
			31 Dec 11	Income Statement	1 281	
		<u>2 729</u>			<u>2 729</u>	
			1 Jan 12	Balance b/d	2 729	



### Question 7

i.

<i>Age of debt</i>	<i>Amount</i>	<i>Provision for doubtful debts</i>	<i>Provision for doubtful debts \$</i>
Up to 2 months	\$37 350	2%	747
2 to 3 months	\$3 620	5%	181
3 to 6 months	\$250	10%	25
6 to 12 months	\$780	20%	156
12 months	\$560	30%	168
<b>Total provision for doubtful debts</b>			<b>1 277</b>

Note: Trade receivables aged up to 2 months = \$42 560 – (\$3 620+\$250+\$780+\$560), that is \$42 560 - \$5 210 = \$37 350.

ii.

New Provision	\$1 277
Less Previous provision	<u>\$1 616</u>
<b>Decrease</b> in provision for doubtful debts	<u><u>\$339</u></u>

iii.

Dr			Cr		
Date	Details	Amount	Date	Details	Amount
		\$			\$
31 Dec 11	Income Statement	339	1 Jan 11	Balance b/d	1 616
31 Dec 11	Balance c/d	1 277			
		<u>1 616</u>			<u>1 616</u>
			1 Jan 12	Balance b/d	1 277

### Question 8

i.

Year	New provision for doubtful debts	Adjustment to Profit (Income Statement) for provision for doubtful debts		Entry in provision for doubtful debts account	
		Dr	Cr	Dr	Cr
2008	$(12500-100) \times 2\% = \$248$	$248-210 = \$38$			\$38
2009	$(16400-50) \times 3\% = \$490.50$	$490.50-248 = \$242.50$			\$242.50
2010	$14800 \times 2.5\% = \$370$		$490.50-370 = \$120.50$	\$120.50	
2011	$(15200-300) \times 3\% = \$447$	$447 - 370 = \$77$			\$77

**Note:**

Provision for doubtful debts is calculated as a % of trade receivables less any bad debts *not yet* written off (i.e bad debts to be written off in the question).

An increase in provision for doubtful debts has been Dr to Income Statement and Cr to Provision for doubtful debts account (Years 2008, 2009 and 2011).

A decrease in provision for doubtful debts has been Cr to Income Statement and Dr to Provision for doubtful debts account (Year 2010).

ii.

***Balance Sheet extract as at 31 December 2008***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	12 400		
Less Allowance for doubtful debts	(248)	12 152	

***Balance Sheet extract as at 31 December 2009***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	16 350.00		
Less Allowance for doubtful debts	(490.50)	15 859.50	

***Balance Sheet extract as at 31 December 2010***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	14 800		
Less Allowance for doubtful debts	(370)	14 430	

***Balance Sheet extract as at 31 December 2011***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	14 900		
Less Allowance for doubtful debts	(447)	14 453	

**Question 9**

i.

Year	New provision for doubtful debts	Adjustment to Profit (Income Statement) for provision for doubtful debts		Entry in provision for doubtful debts account	
		Dr	Cr	Dr	Cr
2008	$182\,500 \times 2\% = \$3\,650$	$3\,650 - 3\,430 = \$220$			\$220
2009	$(166\,400 - 1\,900) \times 3\% = \$4\,935$	$4\,935 - 3\,650 = \$1\,285$			\$1 285
2010	$(174\,800 - 2\,200) \times 2.5\% = \$4\,315$		$4\,935 - 4\,315 = \$620$	\$620	
2011	$(174\,200 - 300) \times 3\% = \$5\,217$	$5\,217 - 4\,315 = \$902$			\$902

**Note:**

Provision for doubtful debts is calculated as a % of trade receivables less any bad debts *not yet* written off (i.e bad debts to be written off in the question).

An increase in provision for doubtful debts has been Dr to Income Statement and Cr to Provision for doubtful debts account (Years 2008, 2009 and 2011).

A decrease in provision for doubtful debts has been Cr to Income Statement and Dr to Provision for doubtful debts account (Year 2010).

ii.

***Balance Sheet extract as at 31 December 2008***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	182 500		
Less Allowance for doubtful debts	(3 650)	178 850	

***Balance Sheet extract as at 31 December 2009***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	164 500		
Less Allowance for doubtful debts	(4 935)	159 565	

***Balance Sheet extract as at 31 December 2010***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	172 600		
Less Allowance for doubtful debts	(4 315)	168 285	

***Balance Sheet extract as at 31 December 2011***

<u>Current Assets</u>	\$	\$	\$
Trade receivables	173 900		
Less Allowance for doubtful debts	(5 217)	168 683	

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