

- 1 The provision for doubtful debts at 1 August 2015 was \$1940.
- 2 Trade receivables at 31 July 2016 were \$48 500.
- 3 A customer owing \$2100 has been declared bankrupt. This amount is to be written off.
- 4 A customer owing \$900 did not pay within the agreed credit terms. There are concerns about the recovery of this debt.
- 5 The business policy is to make a 5% provision for doubtful debts on remaining trade receivables.

(a) (i) State **one** reason why a business may make a provision for doubtful debts.

[1]

[1]

[5]

(b) Explain how a provision for doubtful debts is treated in:

(i) the statement of financial position

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(ii) the income statement

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..... [3]

Additional information

- 1 Accrued telephone expenses at 1 August 2015 were \$275.
- 2 Prepaid telephone expenses at 1 August 2015 were \$380.
- 3 The total amounts paid for telephone expenses during the year were \$4750. This included a rental charge of \$2980 covering the period from 1 November 2015 to 31 October 2016.
- 4 Telephone call charges of \$840 were paid on 12 September 2016 covering the period from 1 June 2016 to 31 August 2016.

REQUIRED

(c) Prepare the telephone expenses account for the year ended 31 July 2016.

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