2 Zak owns a wholesale business. He makes sales on credit.

REQUIRED

(a) Explain why it may be important for a business to maintain a provision for doubtful debts.

....

....

....

.... [2]

Additional information

Zak has prepared an aged schedule of trade receivables at 31 December 2020.

Period outstanding	Amount $	Estimated irrecoverable debts
Less than 1 month	34 200	1%
Between 1 month and 3 months	6 680	5%
Between 4 and 6 months	2 130	10%

In addition, two accounts had been outstanding for over 6 months.

	$
P Limited	340
Q Limited	510

Zak's policy is to write off as irrecoverable any amounts outstanding for more than 6 months. Zak updates the provision for doubtful debts at each financial year end based on the estimated percentage of irrecoverable debts.

REQUIRED

(b) Prepare a journal entry to write off the irrecoverable debts. A narrative is **not** required.

Journal

	Dr	Cr
	$	$

[2]

(c) State **two** ways in which the risk of irrecoverable debts may be reduced.

1 ....

....

2 ....

.... [2]

Additional information

At 1 January 2020 the business had a provision for doubtful debts of $980.

REQUIRED

(d) Calculate the adjustment required to the provision for doubtful debts at 31 December 2020.

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.... [4]

(e) Prepare the provision for doubtful debts account for the year ended 31 December 2020.

Provision for doubtful debts account

	$		$

[3]

(f) State **two** factors that should be taken into account when setting a provision for doubtful debts.

1 ....

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2 ....

....

[2]