2 **A** During the year ended 31 March 2007 Jeremiah lost money through customers not paying the amounts due to him. On 1 April 2007 he set up a provision for doubtful debts account.

REQUIRED

(a) **(i)** Give **one** reason why Jeremiah decided to set up this account.

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(ii) Describe **two** factors Jeremiah might consider when deciding the amount to be provided for in the provision for doubtful debts account.

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(iii) Explain the difference between the accounting treatment of a bad debt and a doubtful debt.

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On 1 April 2008, Jeremiah's provision for doubtful debts account had a balance of \$8000. This consisted of an anticipated loss of \$2500 which was the total owed by a debtor, Uriah, who had been declared bankrupt, and a general provision of \$5500, which was 2½% of **all** of his debtors.

On 31 May 2008 Liew, who owed Jeremiah \$1200, paid Jeremiah only \$0.40 for every dollar owed. The remainder was written off as a bad debt.

On 30 June 2008, Uriah paid Jeremiah \$0.35 for every dollar owed, in **final** settlement of his account.

On 28 February 2009 Jeremiah wrote off \$300 of overdue debts from various debtors.

On 31 March 2009 Jeremiah's total debtors amounted to \$205 000 and he adjusted his provision for doubtful debts account to 3% of that amount.

REQUIRED

(b) Prepare in Jeremiah's ledgers the following accounts for the year ended 31 March 2009.

(i) Provision for doubtful debts account;

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(ii) Bad debts account.

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On 31 March 2009 Khalil, whose debt of $3000 had been written off in 2007, after he unexpectedly left the country, returned and paid the amount due.

REQUIRED

(iii) Prepare in Jeremiah's ledgers the bad debts recovered account for the year ended 31 March 2009.

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B Lari, a retailer whose financial year ends on 31 May, failed to check his stock until 8 June in 2009. At that date his stock at cost was valued at $72 200. Lari's mark-up is 30 % on cost.

During the first 8 days of June, the following transactions took place:

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(i)	Purchases of goods for resale	21 200
(ii)	Purchases returns	510
(iii)	Sales	25 740
(iv)	Sales returns (at selling price)	273
(v)	Goods taken for personal use, at cost	700

After taking stock, Lari discovered that the following items had been included in the valuation at 8 June:

(vi) A parcel of stock which had been water-damaged. This had been on sale for $390 but was now worthless.

(vii) Stock which had cost $1200 but was now out of fashion and would have to be sold for $400 less than cost.

(viii) Goods costing $950 which Lari had acquired on a sale or return basis. He had not decided whether or not to keep them.

(ix) Goods, sold during May for $1560, which were awaiting collection by a customer.

REQUIRED

(a) Explain the difference between mark-up and margin.

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(b) Prepare a statement to calculate the correct value of stock at cost at 31 May 2009. Begin your calculation with the original stock valuation of $72 200. Show **all** workings.

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[Total 30]