2 Klix Limited's book-keeper prepared the following details about the firm's outstanding trade receivables at 31 December 2010.

Age of debt	**Trade Receivables**
	$
Up to 30 days	16 800
31 to 60 days	12 600
61 to 90 days	7 100
Over 90 days	1 300

The following rates are applied for the estimation of doubtful debts.

Age of debt	**%**
Up to 30 days	1
31 to 60 days	2
61 to 90 days	3
Over 90 days	10

A provision for doubtful debts account is maintained. This had a balance of $800 on 1 January 2010.

The bad debts written off for the year ended 31 December 2009 amounted to $1420.

Debbie, a customer who owed the company $700, has recently been declared bankrupt. This amount had been included in the details above as 'outstanding for 61 to 90 days'. It has been decided to write off the debt immediately.

On 2 October 2010, Harvey, a credit customer, ceased trading and Klix Limited received payment of $0.25 in the dollar in final settlement of the debt of $600. The remainder had been written off as a bad debt.

Other bad debts written off during the year ended 31 December 2010 totalled $350. These had been taken into account when drawing up the list of trade receivables above.

REQUIRED

(a) Calculate the amount which should be provided as a provision for doubtful debts at 31 December 2010. Show your workings.

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.... [6]

(b) Prepare the following ledger accounts for the year ended 31 December 2010, showing the closing entry to the final accounts at the end of the year.

(i) Provision for doubtful debts account

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(ii) Bad debts account

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(iii) Harvey account

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(c) Prepare an extract from the statement of financial position (balance sheet) at 31 December 2010 showing the net amount of trade receivables.

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Klix Limited's directors are reviewing the existing policy for calculating the provision for doubtful debts.

They are considering applying a 4% rate to all debts as the basis for calculation.

REQUIRED

(d) **(i)** Calculate the effect of this change on the provision for doubtful debts.

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(ii) Explain how this change would affect the company's income statement and statement of financial position.

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(iii) Explain why this change might be necessary.

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.... [4]

(e) State **three** factors that the directors should consider when creating a provision for doubtful debts.

(i) ....

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(ii) ....

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(iii) ....

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[3]

[Total 30]