

Tutorial 7 – Accounting for Trade Receivables**Useful notes**

AFDD - Allowance for Doubtful Debts

Doubtful debts - estimate how much of the debts cannot be collected

Dr Bad Debts (sales decrease)

Cr Trade Receivables (asset decrease)

Dr Cash/Bank (asset increase)

Cr Bad Debts Recovered (sales increase)

Dr Doubtful Debts (expense increase)

Cr Allowance for Doubtful Debts (AFDD increase)

Dr AFDD (AFDD decrease)

Cr Doubtful Debts (expense decrease)

AFDD = (TR - Additional bad debts) * %

Statement of profit or loss (extract)

<u>Add: income</u>	RM
bad debts recovered	xxx
decrease in AFDD	xxx

<u>Less: expenditure</u>	RM
Doubtful debts	xxx
Bad debts	xxx

Statement of financial position (extract)

<u>Current assets</u>	RM
Trade receivables	xxx
Less: Allowance for doubtful debts	<u>(xxx)</u>
Net trade receivables	<u>xxxx</u>

Section A:

1. Adam's trade receivables as at 31 December is RM28,000. A **bad debt of RM1,200 has been written off from the trade receivables**. He is of the opinion that about 3% (0.03) of this outstanding balance will not be able to be collected and he wants to make an appropriate allowance to reflect the uncertainty. How much would be shown as the allowance for doubtful debts (AFDD) in the statement of financial position of the same date?

$$28,000 \times 3\% = \mathbf{840 \text{ (AFDD)}}$$

RM 840 should be shown in SFP as AFDD. The RM 1200 has been written off from the trade receivables earlier, hence, we no need to deduct again.

2. At the end of the year, Coleen had an amount of RM180,600 outstanding from trade receivables. There is a **bad debt of RM1,400 to be written off (haven't deducted)** in addition to an amount of **RM900 which has been written off earlier (already deducted earlier)**. She has never made any allowance for doubtful debts prior to this but her experience indicates that 2% will become irrecoverable. What is the amount of allowance of doubtful debts that should appear in the Statement of Financial Position?

$$(180,600 - 1,400) \times 2\% = \mathbf{3584 \text{ (AFDD)}}$$

RM 3,584 should be shown in SFP. RM 1400 has been deducted from the TR while RM 900 has no need to deduct since it has been written off earlier.

3. Venture Trading provided the following information as at 31 December:

	RM
Trade Receivables	71,800
Allowance for doubtful debts (b/d)	2,600

There are further bad debts amounting to RM840 to be written off. Allowance for doubtful debts for the year end 31 Dec is RM3,548 (closing balance).

Compare the 2 AFDD - the difference will go into Doubtful Debts A/C
 $3548 - 2600 = 984$ (increase in doubtful debt expenses)

TR - further bad debts

Net trade receivables = $71800 - 840$
 = RM 70,960

What are the amounts of *Doubtful Debts* in the **Statement of Profit or Loss** and *Allowance for Doubtful Debts* in the **Statement of Financial Position** at year end?

Statement of profit or loss (extract)

<u>Expenses</u>	RM
Doubtful debts	948
Bad debts	840

Statement of financial position (extract)

<u>Current assets</u>	RM
Trade receivables	70,960
Less: Allowance for doubtful debts	<u>(3,548)</u>
	<u>67,412</u>

Additional Notes for each chapter

Chapter 9:

Accruals and Prepayments. Affects C. asset, C. liabilities, Income & Expenses

Chapter 10:

Adjusting of the bank balance

Chapter 7 & Chapter 8:

Adjusting items in the Current assets (namely T.receivables and Inventory)

Chapter 6:

Adjusting of Non-current assets (those that are depreciable assets i.e Items that can get worn out)

Chapter 4:

Preparation of Trial balance, then moving from Trial balance to financial statements.

Chapter 11:

Preparation of Financial Statements.
 Given all the above adjustments.

Question 4

The Trial Balance of Safe & Sound as at 30 June revealed the following:

	RM
Trade Receivables	402,500
	-2500
Bad Debts	2,500
	+2500
Allowance for doubtful debts, 1 July (b/d)	20,000
	-4000

Before the accounts were closed, the owner decided:

- To write off an amount of RM2,500 (bad debt) owing by Boris because the amount could not be recovered from him [Total bad debts = 5000 (2500 + 2500)]
- It was decided to reduce the allowance for doubtful debt for the year to RM16,000. [20000 - 16000 = decrease 4000 in AFDD - income in SPL]
Dr AFDD, Cr Doubtful Debts

Required:

Prepare the following as at 30 June:

(a) **Trade Receivables Control account** Dr Bad debts, Cr TR

Dr Bad Debts, Cr TR			
Trade Receivables Control Account (asset)			
	RM		RM
bal b/d	402500	bad debt (further bac	2500
		bal c/d	400000
	402500		402500

(b) **Bad Debts account**

Bad debt Account (expense)			
	RM		RM
bal b/d	2500	SPL	5000
TR control	2500		
	5000		5000

(c) **Allowance for doubtful debts account**

Dr AFDD (decrease) , Cr doubtful debt			
AFDD Account			
	RM		RM
doubtful debt	4000	bal c/d	20000
bal c/d	16000		
	20000		20000
		bal b/d	16000

(d) **Doubtful debts accounts**

Doubtful Debt Account (expense)			
	RM		RM
SPL	4000	AFDD	4000
	4000		4000

(e) Statement of Profit or Loss (extract)

(f) Statement of Financial Position (extract)

<u>SPL (extract)</u>					
Add: Income			RM		
Decrease in AFDD			4000		
<u>SFP (extract)</u>			RM		RM
Current Asset					
Trade Receivables			400000		
Less: AFDD			-16000		384000

Section B: Extra exercise questions (for students' own practice)**Question 1:**

The following relates to the Trade Receivables of Mama-Mia Sdn Bhd (Mama Mia) for the accounting years ended 30 September for 3 years:

Year Ended	Trade Receivables (gross)	Bad Debts to be written off
30 Sept	RM	RM
Year 1	110,000	2,500
Year 2	90,000	-
Year 3	120,000	4,800

Mama Mia decided to write off the above debts as bad debts due to some of the debts being irrecoverable as the trade receivables are bankrupt. Allowance for doubtful debts is to be provided at 3% on the net trade receivables.

Required:

(a) Fill in the following table and calculate the trade receivable (net) and allowance for doubtful debts:

Year ended 30 Sept	Trade Receivables (Gross) RM	Bad debts to be written off RM	Trade Receivables (Net) RM	Allowance for doubtful debts @3% RM	Change in allowance (Increase/Decrease)
Year 1	110,000	2,500	107,500	107500* 0.03 = 3,225	3,225 Increase (expense)
Year 2	90,000	-	90000	90000 * 0.03 = 2,770	525 Decrease (income)
Year 3	120,000	4,800	115200	115200 * 0.03 = 3,456	756 Increase (expense)

Which side of the allowance for doubtful debts account would you enter the above 3 years?

Year 1 - Cr (AFDD holds credit balance)

Year 2 - Dr (decrease n AFDD, so it become Cr)

Year 3 - Cr (increase in AFDD, Dr)

- (b) Prepare the **allowance for doubtful debts account** for the year ended 30 Sept for the 3 years.

AFDD Account					
Year 1		RM	Year 1		RM
Sep-30	bal c/d	3225	Sep-30	doubtful debt	3225
Year 2			Year 2		
	doubtful debt	525		bal b/d	3225
	bal c/d	2700			
		3225			3225
Year 3			Year 3		
	bal c/d	3456		bal b/d	2700
				doubtful debt	756
		3456			3456
				bal b/d	3456

- (c) Prepare extracts of the **Statement of Profit or Loss** for the year ended 30 Sept for **Year 2** and **Year 3**.

SPL for the years ended 30 Sept (extract)					
		Year 1	Year 2	Year 3	
<u>Add: income</u>					
Decrease in AFDD			525		
<u>Less: Expenditure</u>					
Doubtful debts		3225		756	
Bad debts		2500		4800	

- (d) **Statement of Financial Position** as at 30 Sept for **Year 3**.

SFP as at 30 September (extract)					
		Year 1	Year 2	Year 3	
<u>Current Asset</u>					
Trade Receivables		107500	90000	115200	
Less: AFDD		-3225	-2770	-3456	
Net TR		104275	87230	111744	

- (e) In Year 3, **bad debts of RM4,800** proved and were written off. Amanda, whose debt of RM500 (**income**) was written off as bad in year 1, settled her old debt in full by cash during the year.

- i) Show Bad Debts Recovered account; and

Dr Cash (asset) 500, Cr Bad Debt Recovered (income) 500

Bad debt Recovered Account (income)					
		RM			RM
Sep-30	SPL	500	Sep-30	Cash	500

ii) Extract of the Statement of Profit or Loss for the year ended 30 Sept.

<u>SPL for the year ended 30 Sept, Year 3 ... (extract)</u>			
<u>Add: Income</u>			RM
Bad debts recovered		500	
<u>Less: Expenditure</u>			
Doubtful debts		756	
Bad debts		4800	

Question 2:

Alberto's trading which prepare its financial statements annually to 31 Dec suffered **bad debts** which were written off:

Year 1: RM420

Year 2: RM310

Year 3: RM580

The business has a balance of **RM400 on Allowance for doubtful debts account on 1 Jan Year 1**. At the end of each year, the business considered to make **provision on the allowance of doubtful debts** as :

Year 1: RM500 (increase 100 in AFDD, put at Cr in AFDD account)

Year 2: RM600 (increase 100 in AFDD, put at Cr in AFDD account)

Year 3: RM400 (decrease 200 in AFDD, put at Dr in AFDD account)

Required:

(a) Prepare Allowance for doubtful debts account

AFDD Account							
Year 1			RM	Year 1			RM
Dec-31	bal c/d		500	Jan-01	bal b/d		400
					doubtful debt		100
			500				500
Year 2				Year 2			
Dec-31	bal c/d		600	Jan-01	bal b/d		500
					doubtful debt		100
			600				600
Year 3				Year 3			
Dec-31	doubtful debt		200	Jan-01	bal b/d		600
	bal c/d		400				
			600				600
					bal b/d		400

- (b) Show the Statement of Profit or Loss and Statement of Financial Position extract for the 3 years.

<u>SPL for the years ended 31 Dec (extract)</u>			
	Year 1	Year 2	Year 3
<u>Add: income</u>			
Decrease in AFDD			200
<u>Less: Expenditure</u>			
Doubtful debts	100	100	
Bad debts	420	310	580
<u>SFP as at 31 Dec (extract)</u>			
	Year 1	Year 2	Year 3
<u>Current Asset</u>			
Trade Receivables	xxx	xxx	xxx
Less: AFDD	-500	-600	-400
Net TR	xxx	xxx	xxx

Net TR = Net Trade Receivables