

Week 14

Penang Sangam High School

Accounting-Year 11

Strand 4: Measuring Periodic Income 1

Sub-strand: Balance Day Adjustments

Greetings students

Let us continue with our topic Balance day adjustments.

Learning outcome: Examine balance day adjustments and account for them in the financial records of the business.

Bad Debts

A bad debt is the loss arising from the debtor that is unlikely to pay his/her debt.

Bad Debt arises when:

- The debtor has gone bankrupt
- The debtor has migrated
- It is too costly to take legal action to collect a small amount of debt

Rules for Posting

Date	Particulars	Dr (\$)	Cr (\$)
	Bad debts	xxx	
	Debtors		Xxx

- The amount of bad debts from the adjustment is added to the related bad debts expense on the debit side of the profit and loss account
- The debtor is decreased by the amount of bad debts from the adjustment in the balance sheet under current assets
- **Example** Trial balance

	\$		\$
Debtors	1600		
Bad debts	340		

Additional Information

1. Provide bad debts on debtors at 10%

Solution:

General Journal Entry

Date	Particulars	Dr (\$)	Cr (\$)
	Bad debts (10/100 x 1600)	160	
	Debtors		160
	(to record bad debts written off)		

Profit And Loss Account (extract)

	\$		\$
Bad debts (340 + 160)	500		

Balance sheet (extract)

	\$		\$
<u>Current Assets</u>			
Debtors (1600 – 160)	1440		

Homework Activity

Trial balance

	\$		\$
Debtors	2000		
Bad debts	280		

Additional Information

1. Provide bad debts on debtors at 8%

Required:

Prepare general journal entries, profit and loss account and balance sheet.