

**Week 15**

**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.

Doubtful Debts

- Doubtful debts are those debts which a business or individual is unlikely to be able to collect.
- The reasons for potential non-payment can include disputes over supply, delivery, and the condition of item or the financial stress within a customer's operations. When such a dispute occurs it is prudent to add this debt to the doubtful debt account.

Rules for Posting

1. To Create Provision for Doubtful Debt

Date	Particulars	Dr (\$)	Cr (\$)
	Doubtful debts	xxx	
	Provision for doubtful debts		xxx

2. To increase provision for doubtful debts

Date	Particulars	Dr (\$)	Cr (\$)
	Doubtful debts	xxx	
	Provision for doubtful debts		xxx

3. To decrease provision for doubtful debts

Date	Particulars	Dr (\$)	Cr (\$)
	Provision for doubtful debts	xxx	
	Doubtful debts		xxx

### Formula for calculating

$$\text{Doubtful debts} = (\text{Debtors} - \text{Additional Bad Debts}) \times \text{Rate} / 100$$

- ❖ Actual amount of provision for doubtful debts is calculated by using the above formula.

### Rules to follow

- Estimated amount for doubtful debts is given in the trial balance on the credit side.
- Actual amount > Estimated amount = increase in provision for doubtful debts.
- Actual amount < Estimated amount = decrease in provision for doubtful debts.
- Actual amount is deducted from the Debtor in the balance sheet under current assets.

### **Homework Activity**

1. State two accounts affected for increase in doubtful debts.
2. State two accounts affected for decrease in doubtful debts.
3. State the formula for calculating doubtful debts.