

Advanced Bookkeeping

Irrecoverable Debts and Allowance for Doubtful Debts

Exercise 1

You work for a small business as an Accounting Technician. The company accountant has given you the following information at the year end of 31 December 2011:

- ***Gross Receivables £20,120***
- ***Irrecoverable debts of £380 and £140 need to be written off***
- ***The Allowance for Doubtful Debts should be set at 2% of the remaining receivables balance after irrecoverable debts have been written off.***

Tasks

- 1. Calculate the Allowance for Doubtful Debts and the balance of Net Receivables***
- 2. Record the bookkeeping entries for the creation of the Allowance for Doubtful Debts in the Main Ledger accounts below.***

At the end of the following financial year (31 December 2012) the company accountant provides you with the following information:

- ***Gross Receivables £24,470***
- ***Irrecoverable debts of £240 and £730 need to be written off***
- ***It has been decided that the Allowance for Doubtful Debts should be increased to 3% of the remaining receivables balance after irrecoverable debts have been written off.***

Tasks

- 3. Calculate the increase or decrease in the Allowance for Doubtful Debts and the balance of Net Receivables***

4. Record the bookkeeping entries for the adjustment to the Allowance for Doubtful Debts in the Main Ledger accounts below.

At the end of the following financial year (31 December 2013) the company accountant provides you with the following information:

- **Gross Receivables £20,300**
- **An irrecoverable debt of £250 needs to be written off**
- **Due to improvements in credit control procedures, it was decided that the Allowance for Doubtful Debts should be reduced to 2% of the remaining receivables balance after irrecoverable debts have been written off.**

Tasks

5. Calculate the increase or decrease in the Allowance for Doubtful Debts and the balance of Net Receivables

6. Record the bookkeeping entries for the adjustment to the Allowance for Doubtful Debts in the Main Ledger accounts below

7. Complete the Financial Statements table for the three years shown.

Allowance for Doubtful Debts – Adjustment Account					

Allowance for Doubtful Debts Account

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<i>Year</i>	<i>Statement of Profit or Loss</i>		<i>Statement of Financial Position</i>	
	<i>Dr Expenses</i>	<i>Cr Income</i>	<i>Dr SLCA</i>	<i>CR Allowance for Doubtful Debts</i>
<i>2011</i>				
<i>2012</i>				
<i>2013</i>				