

TASK 5.19

Peebo Traders: Provision for bad debts

NOTE TO THE TEACHER:

After completing these ledger accounts, Teachers should ask their classes the following questions:

- What figures should be reflected in the financial statements for Debtors each year? [*i.e. Provision for bad debts should be deducted off Trade debtors in the note to the Balance Sheet for Trade & other receivables to show net trade debtors, 20.5 = R38 000 (40 000 – 2 000); 20.6 = R57 000 (60 000 – 3 000); 20.7 = R42 750 (45 000 – 2 250); 20.8 = R62 700 (70 000 – 4 000 – 3 300)*].
- What figures will affect the Income Statement each year? (*i.e. Provision for bad debts adjustment, 20.5 = R2 000 (expense); 20.6 = R1 000 (expense); 20.7 = R750 (income); 20.8 = R1 050 (expense)*).
- What will the entries look like in the General Journal at the end of each financial year? *i.e.*

For 20.5, 20.6 & 20.8:

Provision for bad debts adjustment – Debit	XXX
Provision for bad debts – Credit	XXX
<u>Increase in provision.</u>	

For 20.7:

Provision for bad debts – Debit	XXX
Provision for bad debts adjustment – Credit	XXX
<u>Decrease in provision.</u>	

5.19.1

**GENERAL LEDGER OF PEEBO TRADERS
BALANCE SHEET ACCOUNTS SECTION
PROVISION FOR BAD DEBTS**

(a) Dr				B10		Cr			
20.5	Feb 28	Balance	c/d	2 000	20.5	Feb 28	Provision for bad debts adjustment	GJ	2 000
				2 000					2 000
20.6	Feb 28	Balance	c/d	3 000	20.5	Mar 1	Balance	b/d	2 000
				3 000	20.6	Feb 28	Provision for bad debts adjustment	GJ	1 000
20.7	Feb 28	Provision for bad debts adjustment	GJ	750					3 000
		Balance	c/d	2 250	20.6	Mar 1	Balance	b/d	3 000
				3 000					3 000
20.8	Feb 28	Balance	c/d	3 300	20.7	Mar 1	Balance	b/d	2 250
				3 300	20.8	Feb 28	Provision for bad debts adjustment	GJ	1 050
									3 300
					20.8	Mar 1	Balance	b/d	3 300

**NOMINAL ACCOUNTS SECTION
PROVISION FOR BAD DEBTS ADJUSTMENT**

(b) Dr				N7		Cr			
20.5	Feb 28	Provision for bad debts	GJ	2 000	20.5	Feb 28	Profit & loss a/c	GJ	2 000
20.6	Feb 28	Provision for bad debts	GJ	1 000	20.6	Feb 28	Profit & loss a/c	GJ	1 000
20.7	Feb 28	Profit & loss a/c	GJ	750	20.7	Feb 28	Provision for bad debts	GJ	750
20.8	Feb 28	Provision for bad debts	GJ	1 050	20.8	Feb 28	Profit & loss a/c	GJ	1 050

5.19.2

Year ending	ASSETS =	OWNERS' EQUITY +	LIABILITIES
28 Feb 20.5	-R2 000	-R2 000	0
28 Feb 20.6	-R1 000	-R1 000	0
28 Feb 20.7	+R750	+R750	0
28 Feb 20.8	-R4 000	-R4 000	0
	-R1 050	-R1 050	0

NOMINAL ACCOUNTS SECTION
PROVISION FOR BAD DEBTS ADJUSTMENT

(b) Dr

N7

Cr

20.5					20.5				
Feb	28	Provision for bad debts	GJ	4 000	Feb	28	Profit & loss a/c	GJ	4 000
20.6					20.6				
Feb	28	Provision for bad debts	GJ	1 200	Feb	28	Profit & loss a/c	GJ	1 200
20.7					20.7				
Feb	28	Profit & loss a/c	GJ	1 600	Feb	28	Provision for bad debts	GJ	1 600
20.8					20.8				
Feb	28	Profit & loss a/c	GJ	640	Feb	28	Provision for bad debts	GJ	640

5.20.2

Year ending	ASSETS =	OWNERS' EQUITY +	LIABILITIES
28 Feb 20.5	-R 4 000	-R4 000	0
28 Feb 20.6	-R1 200	-R1 200	0
28 Feb 20.7	+R1 600	+R1 600	0
28 Feb 20.8	-R12 000	-R12 000	0
	+R640	+R640	0