### **GJ Transactions**

### Interest on overdue debtors

If a business sells on credit, it must have a policy describing how long a debtor has to pay off their account. To encourage early payment, business will allow a discount. If an account is overdue, business will charge interest on the overdue account.

This interest is an income to the business and is entered in the *Interest on overdue debtors*. The interest must be added to the debt of the debtor – Dr Debtors control account and Cr Interest on over debtors.

### For example 1

On 01 Oct 2018 Charge the overdue account of S Salamon, R170, with 10% interest per annum for three months.

### Calculation

R170 X 10% X 
$$\frac{3}{12}$$
 = R4,25

### **General Journal of FEM Traders - October 2018**

**GJ10** 

Doc. No.	Day	Details	Fol.	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
JV2	01	S Salamon	D1	4,25		4,25			
		Interest on overdue debtors (charge interest at 10% p.a. for 3 months)	N8		4,25				
						4,25			

# Posting to General Ledger Balance Sheet accounts

Debtors control (A)

B10

N8

Date		Details	Fol.	Amount	Date	Details	Fol.	Amount
2018	31	Interest on overdue debtors	GJ	4,25				
Oct								

### **Nominal accounts**

Interest on overdue debtors	
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Date		Details	Fol.	Amount	Date	Details	Fol.	Amount
2018 Oct	1	Debtors control	GJ10	150				

# Debtors Ledger of FEM Traders

## S Salamon

D1

Date		Details	Fol.	Debit	Credit	Balance
2018	01	Debit note/dishonoured cheque	CPJ10	150		150
Oct		Journal voucher no. 1/discount allowed	GJ10	20		170
		Journal voucher no. 2/interest on overdue debtors	GJ10	4,25		174,25

# How is the accounting equation affected?

Assets	Owner's equity	Liabilities	
+ R4,25 Debtors increased	+R4,25 interest received is an income	0	

Do

Task 6.5 p.174