

Bad Debts and Provision for Doubtful Debts

Bad debt is debt that is not collectible and therefore worthless to the creditor. Bad debt is usually a product of the debtor going into bankruptcy but may also occur when the creditor's cost of pursuing the debt collection activities is more than the amount of the debt. Once a debt is considered bad, the business may be able to write it off as an expense.

Doubtful Debts refer to those debtors, which show signs of becoming bad, but have not yet become bad.

Q. The Trial Balance of Mr. X as on May 31, 2015 included the following figures (Figs in Rs):

1.6.14 Provision for Doubtful Debts Rs.2,000

Discount Allowed during the year Rs.1,200

1.6.14 Provision for Discount Allowed Rs.1,000

Bad Debts recovered during the year Rs.475

Bad Debts written-off during the year Rs.600

31.5.15 Sundry Debtors Rs.22,740

Write off further Rs.240 (judged completely irrecoverable). Maintain the provision for doubtful debts @ 10% the provision for discount allowed @ 2%. Prepare necessary ledger accounts.

Solution**Books of Mr. X
Bad Debt A/c**

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
—	To Sundry Debtors A/c	600	31.5.15	By Provision for Doubtful Debts A/c	840
	- Written off during the year			(Transfer)	
31.5.15	To Sundry Debtors A/c	240			
	- Further Written off				
		840			840

Dr.			Provision for Doubtful Debts A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
31.5.15	To Bad Debt A/c	840	1.6.14	By Balance b/f	2,000		
	- Total amount written off		31.5.15	By Profit & Loss A/c	1,090		
31.5.15	To Balance c/f (WN: 1)	2,250		(B/Fig. – transfer)			
		3,090					3,090

Dr.			Discount Allowed A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
—	To Sundry Debtors A/c	1,200	31.5.15	By Prov. for Discount Allowed A/c	1,200		

Dr.			Provision for Discount Allowed A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
31.5.15	To Discount Allowed A/c	1,200	1.6.14	By Balance b/f	1,000		
31.5.15	To Balance c/f (WN: 1)	405	31.5.15	By Profit & Loss A/c (B/Fig. – transfer)	605		
		1,605					1,605

Dr.			Bad Debt Recovery A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
31.5.15	To P/L A/c (Transfer)	475	—	By Bank A/c	475		

WORKINGS**1. Balance of Provision for Bad Debts and Provision for Discount Allowed on May 31, 2015 (₹):**

Balance of Debtors as per Books	22,740
Less: Further Bad Debt to be written off	240
∴ Balance of Debtors on May 31, 2015	22,500
∴ Provision for Bad Debts ($₹22,500 \times 11\%$)	2,250
∴ Provision for Discount on Debtors A/c [$₹(22,500 - 2,250) \times 2\%$]	405