

## Solution 10.1

- a)** A provision is an adjustment made to the accounts to allow for a transaction or event that is likely to occur in the future. A provision is carried in the accounts to ensure the financial statements comply with the accounting concepts.
- b)** A provision for bad debts is an adjustment made to the accounts to adjust the accounts receivable (debtors) figure in the balance sheet a realistic figure representing the cash likely to be received in the future period taking into account non payment by some of the debtors.
- c)** The provision for bad debts should be carried at €16,000 (debtors €320,000 x 5%)
- d)** If the new provision is €16,000 and the old provision was €16,340 then a reduction in the provision of €340 is needed. The affect on the income statement will be an addition of €340 to profit.
- e)** The provision for discount should be €7,600 (debtors €320,000 – provision bad debts €16,000 x 25%). The effect in the income statement will be an additional expense of €7,600 decreasing profit by the full amount of the provision as it is being created for the first time.

**f) Statement of financial position extract**

|                              |          |         |
|------------------------------|----------|---------|
| <i>Current assets</i>        | €        | €       |
| Accounts Rec (debtors)       | 320,000  |         |
| Less provision for bad debts | (16,000) |         |
| Less provision for discount  | (7,600)  | 296,400 |

## Solution 10.2

| DR              | Bad Debts Account |           | CR           |
|-----------------|-------------------|-----------|--------------|
|                 | €                 |           | €            |
| F. Flanagan a/c | 500               |           |              |
| G. Dunne a/c    | 236               |           |              |
| A. Kearns a/c   | 425               |           |              |
| C. White a/c    | 125               | P & L a/c | 1,286        |
|                 | <u>1,286</u>      |           | <u>1,286</u> |

| DR      | Provision for Bad Debts Account |           | CR              |
|---------|---------------------------------|-----------|-----------------|
|         | €                               |           | €               |
| Bal c/d | <u>1,702.50</u>                 | P & L a/c | <u>1,702.50</u> |
|         |                                 | Bal b/d   | 1,702.50        |

| DR                    | Income statement Extract |  | CR |
|-----------------------|--------------------------|--|----|
|                       | €                        |  | €  |
| Bad debts             | 1,286.00                 |  |    |
| Provision - bad debts | 1,702.50                 |  |    |

#### Statement of financial position Extract

|                               |            |           |
|-------------------------------|------------|-----------|
| <i>Current assets</i>         | €          | €         |
| Accounts receivable (debtors) | 56,750.00  |           |
| Less provision for bad debts  | (1,702.50) | 55,047.50 |

### Solution 10.3

#### Income statement Extract

|                              | Y1 | Y2    | Y3 | Y4  | Y5 |
|------------------------------|----|-------|----|-----|----|
|                              | €  | €     | €  | €   | €  |
| <i>Gross profit</i>          |    |       |    |     |    |
| <i>Add gains</i>             |    |       |    |     |    |
| Bad debt recovered           |    | 5,000 |    |     |    |
| Reduction bad debt provision |    |       |    | 100 |    |

|                             |         |          |          |          |          |
|-----------------------------|---------|----------|----------|----------|----------|
| <i>Less expenses</i>        |         |          |          |          |          |
| Bad debts                   |         | (35,000) | (55,000) | (34,000) | (25,000) |
| Increase bad debt provision | (7,500) | (500)    |          |          | (600)    |
| Increase discount provision |         |          |          | (4,503)  | (342)    |

### Statement of financial position Extract

|                         | Y1             | Y2             | Y3             | Y4             | Y5             |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
|                         | €              | €              | €              | €              | €              |
| Accounts Rec (debtors)  | 150,000        | 160,000        | 160,000        | 158,000        | 170,000        |
| Less bad debt provision | (7,500)        | (8,000)        | (8,000)        | (7,900)        | (8,500)        |
| Less discount provision |                |                |                | (4,503)        | (4,845)        |
|                         | <u>142,500</u> | <u>152,000</u> | <u>152,000</u> | <u>145,597</u> | <u>156,655</u> |

### Solution 10.4

| DR       |         | Bad Debts Account |          | CR        |              |
|----------|---------|-------------------|----------|-----------|--------------|
|          |         | €                 |          |           | €            |
| 2003     | Debtors | 7,750             | 31/12/03 | P & L a/c | 7,750        |
|          |         | <u>7,750</u>      |          |           | <u>7,750</u> |
| 2004     | Debtors | 4,500             |          |           |              |
| 31/12/04 | Debtors | 2,500             | 31/12/04 | P & L a/c | 7,000        |
|          |         | <u>7,000</u>      |          |           | <u>7,000</u> |

| DR       |           | Provision for Bad Debts Account |          | CR                   |               |
|----------|-----------|---------------------------------|----------|----------------------|---------------|
|          |           | €                               |          |                      | €             |
| 31/12/03 | P & L a/c | 2,000                           | 1/1/03   | Bal b/d              | 14,000        |
| 31/12/03 | Bal c/d   | 12,000                          |          |                      |               |
|          |           | <u>14,000</u>                   |          |                      | <u>14,000</u> |
|          |           |                                 | 31/12/04 | Bal c/d              | 12,000        |
|          |           |                                 | 31/12/04 | P & L a/c (specific) | 6,000         |
| 31/12/04 | Bal c/d   | <u>19,075</u>                   | 31/12/04 | P & L a/c (increase) | <u>1,075</u>  |

|               |        |               |
|---------------|--------|---------------|
| <u>19,075</u> |        | <u>19,075</u> |
|               | 1/1/05 | Bal b/d       |
|               |        | 19,075        |

| <b>DR</b>        | <b>Provision for Discount Account</b> |                    | <b>CR</b>    |
|------------------|---------------------------------------|--------------------|--------------|
|                  | €                                     |                    | €            |
| 31/12/03 Bal c/d | <u>6,840</u>                          | 31/12/03 P & L a/c | <u>6,840</u> |
|                  |                                       | 1/1/04 Bal b/d     | 6,840        |
| 31/12/04 Bal c/d | <u>7,453</u>                          | 31/12/04 P & L a/c | <u>613</u>   |
|                  | <u>7,453</u>                          |                    | <u>7,453</u> |
|                  |                                       | 1/1/05 Bal b/d     | 7,453        |

### Statement of financial position Extract

|                         | 2003           |         | 2004           |         |
|-------------------------|----------------|---------|----------------|---------|
|                         | €              | €       | €              | €       |
| Accounts Rec (debtors)  | 240,000        |         | 267,500        |         |
| Less bad debt provision | (12,000)       |         | (19,075)       |         |
| Less discount provision | <u>(6,840)</u> | 221,160 | <u>(7,453)</u> | 240,972 |

## Solution 10.5

| DR  |          | Insurance Account |     | CR        |              |
|-----|----------|-------------------|-----|-----------|--------------|
|     |          | €                 |     |           | €            |
| Jun | Bank a/c | 1,560             | Dec | P & L a/c | 1,200        |
|     |          |                   | Dec | Bal c/d   | 360          |
|     |          |                   |     |           | <u>1,560</u> |
| Jan | Bal b/d  | 360               |     |           |              |

| DR  |          | Rent Account |     | CR        |              |
|-----|----------|--------------|-----|-----------|--------------|
|     |          | €            |     |           | €            |
| Jan | Bank a/c | 300          |     |           |              |
| Apr | Bank a/c | 300          |     |           |              |
| Jul | Bank a/c | 300          | Dec | P & L a/c | 1,200        |
| Nov | Bank a/c | 800          | Dec | Bal c/d   | 500          |
|     |          | <u>1,700</u> |     |           | <u>1,700</u> |
| Jan | Bal b/d  | 500          |     |           |              |

| DR  |          | Motor Expenses Account |     | CR        |            |
|-----|----------|------------------------|-----|-----------|------------|
|     |          | €                      |     |           | €          |
|     | Bank a/c | 560                    | Dec | P & L a/c | 660        |
| Dec | Bal c/d  | 100                    |     |           |            |
|     |          | <u>660</u>             |     |           | <u>660</u> |
|     |          |                        | Jan | Bal b/d   | 100        |

| DR  |          | General Expenses Account |     | CR        |            |
|-----|----------|--------------------------|-----|-----------|------------|
|     |          | €                        |     |           | €          |
|     | Bank a/c | 700                      | Dec | P & L a/c | 750        |
| Dec | Bal c/d  | 50                       |     |           |            |
|     |          | <u>750</u>               |     |           | <u>750</u> |
|     |          |                          | Jan | Bal b/d   | 50         |

| DR  |           | Rental Income Account |     | CR       |     |
|-----|-----------|-----------------------|-----|----------|-----|
|     |           | €                     |     |          | €   |
|     |           |                       | Mar | Bank a/c | 300 |
|     |           |                       | Jun | Bank a/c | 300 |
| Dec | P & L a/c | 1,000                 | Sep | Bank a/c | 300 |

|     |         |              |     |          |              |
|-----|---------|--------------|-----|----------|--------------|
| Dec | Bal c/d | <u>200</u>   | Dec | Bank a/c | <u>300</u>   |
|     |         | <u>1,200</u> |     |          | <u>1,200</u> |
|     |         |              | Jan | Bal b/d  | 200          |