

**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 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 profit and loss account 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 profit and loss 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) **Balance sheet extract**

<i>Current assets</i>	€	€
Debtors	320,000	
Less provision for bad debts	(16,000)	
Less provision for discount	<u>(7,600)</u>	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	Profit & Loss Extract		CR
	€		€
Bad debts	1,286.00		
Provision - bad debts	1,702.50		

**Balance Sheet Extract**

<i>Current assets</i>	€	€
Debtors	56,750.00	
Less provision for bad debts	<u>(1,702.50)</u>	55,047.50

**Solution 10.3****Profit and Loss Extract**

	2001	2002	2003	2004	2005
	€	€	€	€	€
<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)

**Balance Sheet Extract**

	2001	2002	2003	2004	2005
	€	€	€	€	€
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)
	142,500	152,000	152,000	145,597	156,655

**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	19,075	31/12/04 P & L a/c (increase)	1,075
		<u>19,075</u>		<u>19,075</u>
			1/1/05 Bal b/d	19,075

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

**Balance Sheet Extract**

	2003		2004	
	€	€	€	€
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>			<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	200	Dec	Bank a/c	300
		<u>1,200</u>			<u>1,200</u>
			Jan	Bal b/d	200