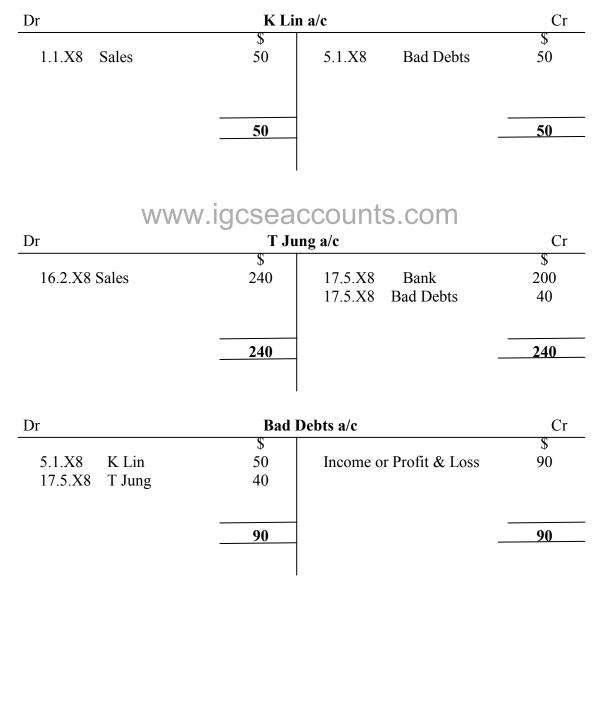
## **Bad Debts**

## Bad debts

If a firm finds that it is impossible to collect a debt then that debt should be written off as a *bad debt*. This would happen if the firm was almost certain the debtor could not pay the debt.

## Example

We sold \$50 of goods to K Lin on the 5<sup>th</sup> of January 20X8, but he became bankrupt. On the 16<sup>th</sup> of February 20X8 we sold \$240 of goods to T. Jung. He managed to pay \$200 on the 17<sup>th</sup> of May, but it became obvious that he would never be able to pay the final \$40. The accounts would appear as follows:



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Di Trading and Front and Loss Account for the year ended the 51.12.88 Ci			
	\$	0.1	\$
Opening Stock	XXX	Sales	XXX
		Closing Stock	XXX
Gross Profit bal. c/d	XXX		XXX
Wages	XXX	Gross Profit bal. b/d	XXX
Lighting and heating	XXX		
Provision for Depreciation	XXX		
Rent	XXX		
Bad Debts	90		
General expenses	XXX		
Carriage inwards	XXX\		
Net Profit bal. c/d	$XXX \setminus$		
			XXX
Capital	XXX	Net Profit bal. b/d	
		$\backslash$	
		$\mathbf{h}$	
A debt that is not asing to be remaid must be deducted as on evenence from the metit of			

## Dr Trading and Profit and Loss Account for the year ended the 31.12.X8 Cr

A debt that is not going to be repaid must be deducted as an expense from the profit of the firm. This is because we would have counted the debtor in our sales figure (realisation) and in order to cancel the effect out then a debit entry for the amount owing from the debtor is necessary.

