

2 Samir buys and sells on credit. He has provided the following information.

2023		\$
1 January	Total trade receivables	10 115
31 December	Totals for the year:	
	Cash sales	136 900
	Credit sales	124 670
	Returns from credit customers	5 234
	Bank transfers received from credit customers	98 620
	Cash received from credit customers	11 470
	Interest charged on overdue sales ledger accounts	139
	Contra entries	1 833
	Discount allowed to credit customers	3 125

In addition, one of Samir’s trade receivables, Ria, has become bankrupt and Samir will not receive the \$178 which she owes to him. Samir thinks he will receive most of the other amounts due to him from his trade receivables.

REQUIRED

(a) (i) Prepare the journal entry to write off the amount owed by Ria. A narrative **is** required.

Samir
Journal

Date	Details	Debit \$	Credit \$
.....
.....
.....
.....

[3]

(ii) State **two** reasons why Samir should use a provision for doubtful debts account.

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..... [2]

Question	Answer	Marks																																																												
2(a)(i)	<p style="text-align: center;">Samir Journal</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 50%;">Details</th> <th style="width: 15%;">Debit \$</th> <th style="width: 15%;">Credit \$</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2023 Dec 31</td> <td>Irrecoverable debts (1) Ria (1) Amount due from Ria written off due to bankruptcy. (1)</td> <td style="text-align: center;">178</td> <td style="text-align: center;">178</td> </tr> </tbody> </table>	Date	Details	Debit \$	Credit \$	2023 Dec 31	Irrecoverable debts (1) Ria (1) Amount due from Ria written off due to bankruptcy. (1)	178	178	3																																																				
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2(a)(ii)	<p>To comply with the prudence principle/avoid overstating the profit for the year/avoid overstating the trade receivables (1) To comply with the matching principle/to ensure that a possible irrecoverable debt is recognised in the year in which the sale was made (1) It is unlikely that all the amounts due from trade receivable will be received (1)</p> <p>Max 2</p>	2																																																												
2(b)	<p style="text-align: center;">Samir Sales ledger control account</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 25%;">Details</th> <th style="width: 10%;">\$</th> <th style="width: 15%;">Date</th> <th style="width: 25%;">Details</th> <th style="width: 10%;">\$</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2023 Jan 1</td> <td>Balance b/d</td> <td style="text-align: right;">10 115</td> <td style="text-align: center;">2023 Dec 31</td> <td>Sales returns (1)</td> <td style="text-align: right;">5 234</td> </tr> <tr> <td style="text-align: center;">2023 Dec 31</td> <td>Sales (1)</td> <td style="text-align: right;">124 670</td> <td></td> <td>Bank (1)</td> <td style="text-align: right;">98 620</td> </tr> <tr> <td></td> <td>Interest charged (1)</td> <td style="text-align: right;">139</td> <td></td> <td>Cash (1)</td> <td style="text-align: right;">11 470</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Contra (1)</td> <td style="text-align: right;">1 833</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Discount allowed (1)</td> <td style="text-align: right;">3 125</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Irrecoverable debts (1)</td> <td style="text-align: right;">178</td> </tr> <tr> <td></td> <td></td> <td style="border-top: 1px solid black; text-align: right;">134 924</td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">14 464</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black; text-align: right;">134 924</td> </tr> <tr> <td style="text-align: center;">2024 Jan 1</td> <td>Balance b/d (1)OF</td> <td style="text-align: right;">14 464</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Date	Details	\$	Date	Details	\$	2023 Jan 1	Balance b/d	10 115	2023 Dec 31	Sales returns (1)	5 234	2023 Dec 31	Sales (1)	124 670		Bank (1)	98 620		Interest charged (1)	139		Cash (1)	11 470					Contra (1)	1 833					Discount allowed (1)	3 125					Irrecoverable debts (1)	178			134 924		Balance c/d	14 464						134 924	2024 Jan 1	Balance b/d (1)OF	14 464				9
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2(c)(i)	<p>Advantages: Customers would pay the full amount of each invoice (1) Profit for the year may increase as expenses would be reduced (1) Book-keeping would be less complicated (1) May improve relationship with trade payables/may reduce trade payables turnover (1) May be able to obtain cash discount from trade payables (1) Trade payables may charge interest if payment made late (1) Max (3)</p> <p>Disadvantages: No incentive for customers to pay quickly/customers may take longer to pay (1) Increased risk of irrecoverable debts (1) Customers may buy less/go elsewhere/sales decrease/relationship with customers may deteriorate (1) Over half of sales are made for cash so the removal of cash discount would have limited effect (1) Max (3)</p> <p>Accept other valid points Max (4)</p> <p>Recommendation (1)</p>	5
2(c)(ii)	<p>Increase selling price (1) Reduce other expenses (1) Reduce drawings/introduce additional capital (1) Apply for a short-term loan/overdraft (1) Charge interest on overdue accounts (1) Improve credit control (1)</p> <p>Accept other valid points Max (1)</p>	1