



Jenny currently does **not** maintain a provision for doubtful debts. When all reasonable steps to obtain payment from credit customers have failed, she writes off the debt. Her colleague has advised her that she should create a provision for doubtful debts when she prepares her next set of financial statements.

REQUIRED

- (f) Advise Jenny whether or not she should create and maintain a provision for doubtful debts. Justify your answer by providing **two** arguments for and **two** arguments against maintaining a provision for doubtful debts.

[5]

[Total: 20]



Question	Answer	Marks
2(f)	Arguments for creating a provision for doubtful debts Max 2 Profit for the year is not overstated/expenses for the year are not understated (1) Trade receivables shown at a more realistic amount/trade receivables not overstated/current assets not overstated (1) Applies the principle of matching/accruals (1) Applies the principle of prudence (1) Arguments against creating a provision for doubtful debts Max 2 Provision is only an estimate/may not be accurate/does not ensure that the customer will pay (1) May be difficult to estimate the amount of doubtful debts (1) Has to be re-calculated each year/ time consuming (1) Profit for the year will be reduced/expenses for the year will be increased/larger impact on profit in the first year (1) Accept other valid responses Recommendation (1)	5