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**Question No#1**

**Doubtful debt** is the estimated amount of bad debt that arise from amount receivables that have been issued but not yet collected the provision is used under accrual basis accounting, so that as expense is recognized for probable bad debts as soon as possible.

**Example:**

**Entries:**

**Provision for bad / doubtful debts**

**1:** profit & loss A/C Dr

To provision for bad debts Cr

**2:** provision for bad debt A/C

To bad debt A/C

**0R** 31st December a merchant has to receive Rs. 50000 from a debtor and he creates reserve of 5% the actual debt –doubtful was also 5% pass the adjustment.

**1988 Dec 31st**

Profit & loss account Rs. 2500

Reserve for doubtful debt Rs. 2500

Being a reserve of 5%

**1989Dec 31st**

Reserve for doubtful debt A/C Rs. 2500

To bad debts A/C 2500

Transfer to bad debts A/C

**Question No#2**

1. **Direct Write-off Method entry:**

1: Bad Debt Expense A/C $2900

Account Receivable A/C $2900

Write-off uncollectable Account receivable from customer

1. **1: 1% for net sales**

Bad Debt expense A/C $13100

Allowance for bad debts $13100

**(**To adjust to total collectable 1,800,000-60,000)

**2: 10% of total account receivables**

Bad Debt expense A/C $13700

Allowance for bad debt $13700

(To adjust to total 18000-4300)

1. **1: 0.75% of net sales**

Bad debt expense A/C 13460

($1,800,000-60000\*0.75%)

Allowance for doubt full debt A/C11210

(13050+410)

**2:6 % of account receivables**

Bad Debt expense A/C (18000\*6%)10800\*410=11210

Allowance for doubtful debt A/C 11210

(10800+410)

**Question No#3**

Account equation states that at any point of time the assets of an entity must be equal to total of equities.

**Asset = Equities**

Asset = Liabilities + Owner’s Equity

**Asset**:

These are a company’s resources things the company owns

e.g. cash, account receivable & inventory etc.

**Liabilities:**

These are company’s obligations amount the company owes

e.g. notes or loan payable, account payable, salaries & wages etc.

**Owner’s Equity:**

It is the investment of owner or stakeholders.

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