

Cambridge IGCSE · Accounting 0452 · Notes

Irrecoverable debts and provision for doubtful debts

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Read first: [The double entry system of book-keeping](#), [Books of prime entry](#)

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What you need to know

By the end of this topic you should be able to:

1. **Say what an irrecoverable debt is:** an amount owed by a credit customer that the business has decided it will never receive (for example because the customer is bankrupt or has gone out of business), so it is removed from trade receivables and treated as an expense. Also say what **recovery of a debt written off** means: a customer later pays some or all of a debt that was already written off.
2. **Record an irrecoverable debt** by journal entry (with a narrative) and in the ledger: the customer's account, the irrecoverable debts account and its transfer to the income statement.
3. **Record the recovery of a debt written off** by journal entry and in the ledger, using a debts recovered account.
4. **Explain why a business keeps a provision for doubtful debts:** some of today's trade receivables will probably never be paid, and the prudence and matching principles say the likely loss should be recognised now.
5. **Record the creation of a provision, and each year's increase or decrease**, in the provision for doubtful debts account and by journal entry.

You also need to show the provision in the financial statements: the change in the income statement, and trade receivables less the provision in the statement of financial position. Full financial statements are practised in the sole traders and limited companies topics.

Understand it

Selling on credit has a risk

When a business sells on credit, the customer becomes a **trade receivable**: an asset, money the business expects to collect. Most customers pay. A few don't:

- some pay late, but do pay in the end;
- some will **never** pay, because they have gone bankrupt, closed down or disappeared.

A debt that will never be paid is not really an asset any more. Keeping it in trade receivables would overstate the assets, and leaving it out of the expenses would overstate the profit.

Irrecoverable debts: writing a debt off

When the business decides a particular debt cannot be collected, it **writes it off**. The customer's account is closed with a **credit** entry (the customer no longer owes anything), and the loss is **debited** to an **irrecoverable debts** account, which is an expense.

Suppose Sofia sold goods on credit to Kemal for \$1 150. Kemal paid \$400, then was declared bankrupt on 20 June 2025, and Sofia decides the rest will never be paid.

Journal

Date	Details	Debit \$	Credit \$
2025			
Jun 20	Irrecoverable debts	750	
	Kemal		750
	Amount owed by Kemal written off as irrecoverable: customer bankrupt		

Kemal account

Date	Details	\$	Date	Details	\$
2025			2025		
Apr 3	Sales	1 150	May 8	Bank	400
			Jun 20	Irrecoverable debts	750
		1 150			1 150

A customer who is simply **late**, or whose cheque has been dishonoured, is **not** written off: they still owe the money, and the business keeps chasing it.

Every write-off in the year is collected in the irrecoverable debts account. At the year end the total is transferred to the income statement as an expense (debit income statement, credit irrecoverable debts), so the account is closed and starts the next year at nil.

Recovering a debt that was written off

Sometimes a customer whose debt was written off pays after all, perhaps months later. The money is **income**: it was counted as a loss in an earlier year, and now it has come back. It is recorded as

- **debit** Bank (or Cash), **credit** Debts recovered.

At the year end the debts recovered account is closed to the income statement (debit debts recovered, credit income statement), where it is added to gross profit with the other income. It is **not** credited to the irrecoverable debts account, and it does not go into the statement of financial position.

Some businesses like the customer's account to show that the debt was paid in the end. They first **reinstate** the debt (debit the customer, credit irrecoverable debts) and then record the payment in the usual way (debit Bank, credit the customer). The result on profit is the same.

The provision for doubtful debts: expecting some losses

Irrecoverable debts deal with customers we **know** won't pay. But at the year end there are also debts we can't yet name as bad, although experience says some of them will go bad. If a business usually loses about 3% of what it is owed, then of trade receivables of \$25 000, about \$750 will probably never arrive.

The **provision for doubtful debts** is that estimate: an amount set aside, usually a percentage of the trade receivables at the year end. It is **not** money put aside in the bank, and no customer's account is touched. It does two things:

- it reduces trade receivables in the statement of financial position to the amount the business **realistically expects to collect**;
- its **change** each year is an expense (or, if it falls, income) in the income statement.

Two accounting principles are behind it:

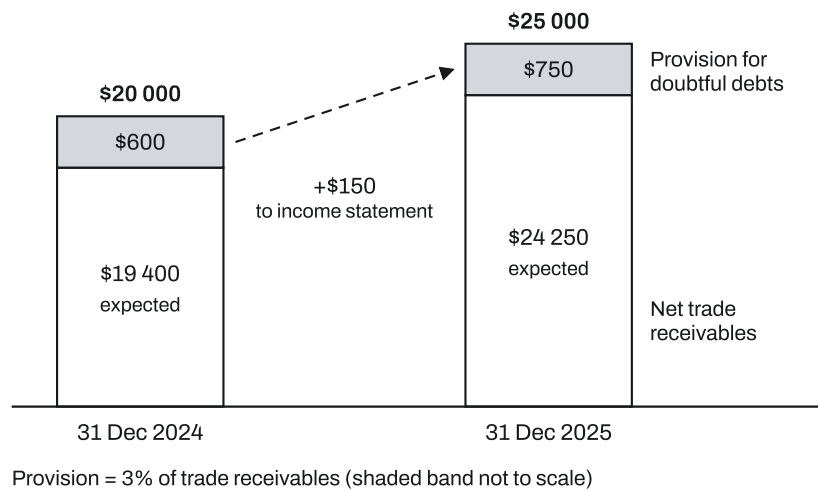
- **Prudence**: don't overstate assets or profit. Showing trade receivables at the amount expected to be received, and profit after the likely losses, avoids both.
- **Matching** (accruals): the likely loss belongs to the year in which the **sales were made**, so it is charged as an expense of that year, not of the later year when the customer finally fails to pay.

Only the change goes to the income statement

The provision account keeps its balance from year to year, like a provision for depreciation. Each year end the business works out what the provision **should now be**, compares it with the balance already in the account, and puts only the **difference** in the income statement:

- **Increase**: debit income statement (an expense), credit provision for doubtful debts.
- **Decrease**: debit provision for doubtful debts, credit income statement (income, added to gross profit).

The balance itself is never charged to the income statement again. It goes to the statement of financial position, where it is taken away from trade receivables.



In the diagram, the business keeps a provision of 3% of trade receivables. At 31 December 2024 trade receivables were \$20 000, so the provision was \$600. At 31 December 2025 trade receivables are \$26 000, but \$1 000 of that must still be written off as irrecoverable, which leaves \$25 000. The new provision is $25\,000 \times 3\% = 750$, an increase of \$150:

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
2025			2025		
Dec 31	Balance c/d	750	Jan 1	Balance b/d	600
			Dec 31	Income statement	150
		750			750
			2026		
			Jan 1	Balance b/d	750

The account has a **credit** balance, like a provision for depreciation. It is not a liability: it sits under current assets as a deduction from trade receivables.

Statement of financial position at 31 December 2025 (extract)

Current assets	\$	\$
Trade receivables	25 000	
Less Provision for doubtful debts	750	24 250

The \$1 000 written off and the \$150 increase are both expenses in the 2025 income statement: profit falls by \$1 150 in total.

Creating a provision for the first time

In the first year there is no opening balance, so the **whole** new provision is the increase. A business that first creates a provision of \$480 debits \$480 to the income statement and credits \$480 to the provision account.

Key facts and formulas

There is no formula list in the IGCSE Accounting exam, so everything here must be learnt.

Formula	Status
Write off an irrecoverable debt: Dr Irrecoverable debts, Cr the customer (or Trade receivables)	Learn it
Year end: Dr Income statement, Cr Irrecoverable debts (with the year's total)	Learn it
Debt written off is recovered: Dr Bank (or Cash), Cr Debts recovered; year end Dr Debts recovered, Cr Income statement	Learn it
New provision = (trade receivables – irrecoverable debts still to be written off) × rate	Learn it
Change in provision = new provision – old provision (positive: increase, negative: decrease)	Learn it
Increase: Dr Income statement, Cr Provision for doubtful debts (an expense)	Learn it
Decrease: Dr Provision for doubtful debts, Cr Income statement (income, added to gross profit)	Learn it
Net trade receivables = trade receivables – provision for doubtful debts (under current assets)	Learn it
Change in profit = – irrecoverable debts – increase in provision (or + decrease) + debts recovered	Learn it
Principles: prudence (don't overstate profit or assets) and matching (the loss belongs to the year of the sale)	Learn it

How to do it

We have 56 tagged questions for this topic from 2021 to 2025 (42 different, as many appear on two or three paper variants): 42 one-mark multiple-choice questions from Paper 1 and 14 twenty-mark Paper 2 questions where this topic is one or more parts. 11 questions mix more than one type, so the counts add up to 77.

Question type	Questions
Calculate a provision change or its effect on profit (multiple choice)	14
Explain why a provision for doubtful debts is kept (prudence, matching)	11
Prepare the provision for doubtful debts account	10
Record an irrecoverable debt write-off (journal, ledger accounts)	10
Identify what an irrecoverable debt is, or what an entry records	9
Record the recovery of a debt written off	5
Suggest ways to reduce irrecoverable debts / advise on credit control	6
State the effect of the provision or an omitted adjustment on the statements	4
Choose the double entry for a change in the provision	4
Show trade receivables less the provision (financial statement extracts)	4

1. Calculate a provision change or its effect on profit (14 questions)

1. **Old provision:** the balance b/d, or the old rate $\times$ the old trade receivables.
2. **Net trade receivables now:** take off any debt "still to be written off" **before** applying the rate.
3. **New provision** = net trade receivables $\times$ the new rate.
4. **Change** = new – old. An increase is an **expense** (debit income statement, credit provision); a decrease is **income** (debit provision, credit income statement).
5. **Effect on profit**, if asked: subtract the irrecoverable debt written off, then subtract an increase or add a decrease.

For example, provision \$900 at the start; trade receivables \$34 800 at the end, of which \$800 is to be written off; rate 2.5%. New provision = $34\,000 \times 2.5\% = 850$, a decrease of \$50. Profit changes by $-800 + 50 = -750$.

Variations you will meet:

- **"What is the balance on the provision at the start of next year?"** That is simply the new provision, not the change.
- **The rate changes** (for example from 4% to 5%): use the old rate on the old receivables and the new rate on the new ones.
- **First year of trading:** there is no old provision, so the whole new provision reduces profit, along with the irrecoverable debt.
- **Only the change in receivables is given** ("receivables rose by \$6 000"): the provision changes by the rate $\times$ that change, as long as the rate stays the same: $6\,000 \times 5\% = 300$ increase.
- **Working backwards from a journal:** "Dr Provision \$40, Cr Income statement \$40" is a decrease, so the closing provision is the opening balance **minus** \$40.

- **Where it goes in the income statement:** an increase is listed with the expenses (deducted from gross profit); a decrease is added to gross profit.

2. Explain why a provision for doubtful debts is kept (11 questions)

1. **Meaning:** an estimate of the amount of today's trade receivables that will probably never be received (not money kept aside, and not any one customer).
2. **Prudence:** it stops profit and trade receivables being **overstated**; trade receivables are shown at a realistic amount.
3. **Matching:** the likely loss is charged as an expense of the **same year as the sales** that caused it.
4. **Not every customer will pay:** experience shows some debts go bad.

"State two reasons" wants two different points, one mark each. "Explain how the prudence principle is applied" wants the point **and** what it means for this business: "profit is not overstated, **and** trade receivables are shown at the amount the business expects to receive."

Variations you will meet:

- **"Name the principle":** prudence (matching is also accepted). Not going concern, and not consistency.
- **Factors to consider when setting the rate:** past experience of customers not paying; how long debts have been outstanding; what is known about particular customers' ability to pay; the state of the economy.
- **Multiple choice:** the provision makes trade receivables **realistic**. It doesn't have to rise when sales fall, and it doesn't reduce future irrecoverable debts.

3. Prepare the provision for doubtful debts account (10 questions)

1. **Opening balance:** credit side, first day of the year, "Balance b/d". If it isn't given, work it out (old rate $\times$ old trade receivables).
2. **Work out the new provision** as in type 1 (net off write-offs first).
3. **The change:** an **increase** goes on the **credit** side, a **decrease** on the **debit** side, both with the detail "Income statement", dated the year end.
4. **Balance c/d** on the **debit** side at the year end, equal to the new provision. Total both sides.
5. **Balance b/d** on the **credit** side on the first day of the next year.

The account only ever contains these four or five lines. Trade receivables, sales and irrecoverable debts never appear in it.

Variations you will meet:

- **A decrease:** the debit side then holds both the income statement entry and the balance c/d. For an opening balance of \$540 and a new provision of \$495, the debit side is "Income statement 45" and "Balance c/d 495", totalling \$540.
- **The account in its first year:** no balance b/d; the income statement entry on the credit side equals the balance c/d.

- **Two years in one question:** the first year's balance b/d is the second year's opening balance.

4. Record an irrecoverable debt write-off (10 questions)

1. **Journal:** debit **Irrecoverable debts**, credit **the customer's name**, with the amount written off.
2. **Narrative:** say what and why, for example "Amount owed by Tariq written off as irrecoverable: business closed down".
3. **Customer's account:** the write-off goes on the **credit** side, detail "Irrecoverable debts", and closes the account.
4. **Irrecoverable debts account:** each write-off on the **debit** side (detail: the customer's name, or "Trade receivables" for a batch); at the year end transfer the total to the income statement on the credit side.

Variations you will meet:

- **Part paid, rest written off:** a customer owing \$2 400 pays \$900 "in full and final settlement". Credit the customer with Bank \$900 and Irrecoverable debts \$1 500.
- **Several write-offs in the year:** the irrecoverable debts account collects them all, and the income statement gets one total.
- **"Close the irrecoverable debts account":** Dr Income statement, Cr Irrecoverable debts.
- **With a sales ledger control account:** the total written off is a **credit** entry there, "Irrecoverable debts" (see the control accounts topic).

5. Identify what an irrecoverable debt is, or what an entry records (9 questions)

1. A debt is written off when the customer **cannot** pay: bankrupt, closed down, disappeared. Not because the customer is late, is making a loss, is short of cash or is unhappy with the goods.
2. Writing it off **reduces trade receivables** (a current asset) and is an **expense**. It has nothing to do with liabilities or the historic cost principle.
3. **Reading an entry:** Dr Irrecoverable debts, Cr a customer means that customer's debt has been written off. Dr Bank, Cr Debts recovered means a written-off debt has been paid.
4. **Reading a customer's account:** if a credit entry balances the account and there was no payment, return or discount, it is the write-off.

6. Record the recovery of a debt written off (5 questions)

1. **Journal:** Dr Bank (or Cash), Cr **Debts recovered**, with a narrative such as "Payment received from Ana for a debt written off in 2024".
2. **Year end:** Dr Debts recovered, Cr Income statement. It is **income**, added to gross profit.
3. **Don't** credit the irrecoverable debts account, and don't show debts recovered in the statement of financial position.

Variation: part of the debt is recovered. Record only the amount actually received. If \$600 was written off and \$150 comes in, the entry is \$150.

7. Suggest ways to reduce irrecoverable debts (6 questions)

Ways (one mark each, be specific):

- ask for **credit references** (from a bank or other suppliers) before giving credit;
- set a **credit limit** for each customer;
- send **invoices and statements of account promptly**;
- **chase overdue accounts** by phone and email, or employ a credit controller;
- offer **cash discount** for early payment, or **charge interest** on overdue amounts;
- **stop supplies** until overdue amounts are paid;
- as a last resort, take **legal action**.

"Sell only for cash" is rarely a sensible answer: a business whose customers expect credit would lose them.

Advise questions (usually 5 marks): give points for and against the plan, one mark each, then a clear **recommendation**. For example, charging interest on overdue accounts may make customers pay on time and brings in extra income, but it may annoy good customers, who go to a competitor, and customers may simply refuse to pay the interest.

8. State the effect of the provision or an omitted adjustment (4 questions)

1. **Creating or increasing** the provision: expenses up, **profit down**, net trade receivables (current assets) **down**. **Cash is not affected**, because no money moves.
2. **Decreasing** it: profit up, current assets up.
3. **An adjustment left out:** the statements are wrong by the **change**, not by the whole provision. An increase of \$300 not made means profit, current assets and capital (or retained earnings) are all **overstated by \$300**. A decrease not made means they are all **understated**.

9. Choose the double entry for a change in the provision (4 questions)

- **Increase:** Dr **Income statement**, Cr **Provision for doubtful debts**.
- **Decrease:** Dr **Provision for doubtful debts**, Cr **Income statement**.

The customer's account and the irrecoverable debts account are never part of this entry.

10. Show trade receivables less the provision (4 questions)

1. **Trade receivables:** the closing figure **after** any write-offs still to be made.
2. **Less Provision for doubtful debts:** the new (closing) provision, not the change.
3. **Net figure** in the total column under **Current assets**, then other receivables, bank and so on.

The **income statement** extract shows **Irrecoverable debts** and **Provision for doubtful debts** (the increase, or the whole provision when it is first created) as expenses. Never put the provision under current liabilities.

Worked examples

Example 1

Ravi's financial year ends on 31 December. On 1 January 2025 Chen Stores owed him \$1 380. On 11 April 2025 Chen Stores was declared bankrupt and paid Ravi \$480 by bank transfer in full and final settlement. On 31 December 2025 Ravi also wrote off other trade receivables of \$620 as irrecoverable.

On 18 October 2025 Nadia, whose debt of \$350 had been written off in 2023, paid the full amount by bank transfer.

(a) Prepare the journal entry to write off the amount owed by Chen Stores. A narrative is required. [3]

(b) Prepare the journal entry to record Nadia's payment. A narrative is required. [3]

(c) Prepare the irrecoverable debts account for the year ended 31 December 2025. [3]

(a) The amount written off is $1\,380 - 480 = 900$.

Date	Details	Debit \$	Credit \$
2025			
Apr 11	Irrecoverable debts (1)	900	
	Chen Stores (1)		900
	Balance owed by Chen Stores written off as irrecoverable after final settlement: customer bankrupt (1)		

(b)

Date	Details	Debit \$	Credit \$
2025			
Oct 18	Bank (1)	350	
	Debts recovered (1)		350
	Payment received from Nadia for a debt written off in 2023 (1)		

(c)

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2025			2025		
Apr 11	Chen Stores (1)OF	900	Dec 31	Income statement (1)OF	1 520

Date	Details	\$	Date	Details	\$
Dec 31	Trade receivables (1)	620			
		1 520			1 520

Nadia's \$350 is **not** in this account: it goes to the debts recovered account and then to the income statement as income.

Example 2

Maria's financial year ends on 30 September. She keeps a provision for doubtful debts of 4% of trade receivables. The provision on 1 October 2024 was \$1 260. On 30 September 2025 trade receivables were \$38 600, of which \$1 100 is to be written off as irrecoverable.

(a) Prepare the provision for doubtful debts account for the year ended 30 September 2025. Balance the account and bring down the balance on 1 October 2025. [4]

(b) Prepare an extract from Maria's statement of financial position at 30 September 2025, showing trade receivables. [2]

(a) Net trade receivables = $38\,600 - 1\,100 = 37\,500$. New provision = $37\,500 \times 4\% = 1\,500$. Increase = $1\,500 - 1\,260 = 240$.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
2025			2024		
Sep 30	Balance c/d	1 500	Oct 1	Balance b/d (1)	1 260
			2025		
			Sep 30	Income statement (1)OF	240
		1 500			1 500
			2025		
			Oct 1	Balance b/d (2)CF or (1)OF	1 500

(b)

Current assets	\$	\$
Trade receivables	37 500	
Less Provision for doubtful debts	1 500	36 000

(1) for trade receivables after the write-off, (1)OF for the provision deducted and the net figure.

Example 3

Tomas's year ends on 31 December. At 31 December 2024 his trade receivables were \$52 000 and his provision for doubtful debts was 5% of this. At 31 December 2025 trade receivables were \$58 000. Because his customers now pay more reliably, Tomas reduces the provision to 4% of trade receivables.

(a) Calculate the change in the provision for doubtful debts, and state whether it is an increase or a decrease. [2]

(b) Prepare the journal entry to record the change. A narrative is required. [3]

(c) Explain how the prudence principle is applied when Tomas keeps a provision for doubtful debts. [2]

(a) Old provision = $52\,000 \times 5\% = 2\,600$. New provision = $58\,000 \times 4\% = 2\,320$. **(1)** for both.

Change = $2\,320 - 2\,600 = -280$: a **decrease of \$280**. **(1)**OF

Trade receivables went **up**, but the provision went **down**, because the rate fell.

(b)

Date	Details	Debit \$	Credit \$
2025			
Dec 31	Provision for doubtful debts (1) OF	280	
	Income statement (1)		280
	Provision for doubtful debts reduced from 5% to 4% of trade receivables (1)		

(c) The provision makes sure that Tomas's profit for the year is not overstated **(1)**, and that trade receivables are shown in the statement of financial position at the amount he realistically expects to receive **(1)**.

Example 4

Aisha has prepared draft financial statements for the year ended 31 March 2025, showing a draft profit for the year of \$31 500 and trade receivables of \$14 140. She then finds that:

1. a customer owing \$700 has closed down, and the debt must be written off as irrecoverable;
2. the provision for doubtful debts must be adjusted to 3% of the remaining trade receivables. The provision in the draft statements is its balance on 1 April 2024, \$520;
3. \$160 received from a customer whose debt was written off two years ago was credited to trade receivables in error.

(a) Calculate the corrected profit for the year. [4]

(b) Calculate the net trade receivables to be shown in the statement of financial position at 31 March 2025. [2]

(a) Item 3 first: the \$160 was wrongly credited to trade receivables, so trade receivables are **understated** by \$160 and profit is missing \$160 of income.

Correct trade receivables = $14\,140 + 160 - 700 = 13\,600$. **(1)**

New provision = $13\,600 \times 3\% = 408$. Decrease = $520 - 408 = 112$. **(1)OF**

	\$
Draft profit for the year	31 500
Less Irrecoverable debt	(700)
Add Decrease in provision for doubtful debts	112
Add Debts recovered	160
Corrected profit for the year	31 072

(1) for the irrecoverable debt and the debts recovered, **(1)OF** for the corrected profit.

(b) $13\,600 - 408 = 13\,192$. **(1)OF** for the provision deducted, **(1)OF** for the net figure.

Common mistakes

- **Putting extra items in the provision account.** Examiners see trade receivables at the start and end of the year, sales and irrecoverable debts written into it nearly every year. It only holds the opening balance, the change (income statement) and the closing balance.
- **Charging the whole provision to the income statement.** Only the **change** goes there (except when the provision is first created). Putting the opening or closing balance in the income statement is a fundamental error that corrupts profit.
- **Getting the direction of the change wrong.** An increase is a **credit** in the provision account (debit income statement); a decrease is a **debit**. Examiners report candidates finding the right amount but choosing the wrong side.
- **Applying the rate before writing off the irrecoverable debt.** Take off the debt still to be written off first, then work out the percentage.
- **Crediting irrecoverable debts when a written-off debt is recovered.** The credit is to **debts recovered**, an income account.
- **Crediting the wrong name in the write-off journal**, such as the trader's own business instead of the customer, or debiting and crediting two names. Debit Irrecoverable debts, credit the customer.
- **Showing the provision as a liability**, or not deducting it from trade receivables in the statement of financial position, so no net figure appears. Also forgetting to deduct the irrecoverable debt from trade receivables there, or using the opening trade receivables.
- **Vague principle answers.** "It is treated as an expense" earns little. Link the principle to the debts: profit and trade receivables are not overstated (prudence); the loss is charged to the year the sales were made (matching). When the question asks about the provision, don't just define matching in general.

- **Writing off a customer who is only late**, or whose cheque was dishonoured. They still owe the money.
- **Abbreviations** such as "PDD" or "Prov for DD". Write the account names in full.
- **Unrealistic suggestions** for reducing irrecoverable debts, such as "stop selling on credit". Give specific credit control steps.

How to get the marks

- **Journals**: one mark for the debit line, one for the credit line (with the right account names), and one for a **narrative** that says what happened and why. Leave the narrative out and you lose a mark every time.
- **Ledger accounts**: each line needs a **date**, a **detail** (the other account's name) and the amount on the correct side. The provision account usually scores one mark for the balance b/d, one for the income statement entry (own figure) and one or two for the closing balance.
- **"Balance the account and bring down the balance"**: total both sides and show the new balance b/d on the first day of the next year, on the credit side.
- **Show your workings**, for example $(38\,600 - 1\,100) \times 4\%$. A wrong figure used correctly still earns own-figure (**OF**) marks later.
- **Statement of financial position extracts**: use the heading **Current assets**, show trade receivables, deduct the provision, and give the net figure.
- **"State"** needs a short answer ("prudence"). **"Explain"** needs the point and its effect. **"Advise"** needs points for and against **and** a clear recommendation, with no conflicting advice.
- **Multiple choice**: write the old provision, the new provision and the difference in the margin. The wrong options are usually the right amount on the wrong side, the whole new provision instead of the change, or the figure you get if you forget the write-off.

Quick check

1. Leila has decided that \$385 owed by P. Okafor, who has disappeared, will never be paid. Give the journal entry, without a narrative.
2. A trader keeps a provision of 2.5% of trade receivables. The provision at the start of the year was \$450, and trade receivables at the end are \$21 600. Calculate the change in the provision, and state the entries in the provision account and the income statement.
3. The provision for doubtful debts at the start of the year was \$960. At the year end trade receivables are \$30 000, of which \$1 500 must be written off. The provision is kept at 3% of trade receivables. Calculate the total effect of the write-off and the provision on the profit for the year.
4. A customer whose debt was written off two years ago pays \$275 by cheque. State the double entry and the effect on profit.
5. A trader forgot to increase his provision for doubtful debts from \$700 to \$820. State the effect on (i) the profit for the year, (ii) current assets and (iii) cash at bank.

Answers

1. Dr Irrecoverable debts \$385, Cr P. Okafor \$385.
2. New provision = $21\,600 \times 2.5\% = 540$, an **increase of \$90**. Credit the provision account with "Income statement \$90"; the \$90 is an expense in the income statement.
3. New provision = $(30\,000 - 1\,500) \times 3\% = 855$, a **decrease of \$105**. Effect on profit = $-1\,500 + 105 = -1\,395$: profit falls by \$1 395.
4. Dr Bank \$275, Cr Debts recovered \$275. It is income, so profit **rises by \$275**.
5. The increase not made is \$120. (i) Profit is **overstated by \$120**. (ii) Current assets (net trade receivables) are **overstated by \$120**. (iii) Cash at bank is **not affected**.

Past questions to try

- **0452/23/O/N/22 Q5**: a write-off journal, income statement and statement of financial position extracts, then the customer, irrecoverable debts and provision accounts, and advice on credit control.
- **0452/22/O/N/22 Q4**: parts (a) to (d), a trade receivables account with irrecoverable debts, the provision account, and factors in setting the rate.
- **0452/21/M/J/23 Q2**: part (a), a provision account and two reasons for keeping one.
- **0452/12/F/M/23 Q19**: the change in the provision after a write-off, when the rate is applied to the remaining receivables.