VCE Accounting 2019–2024
Advice for teachers

Examples

The following are a range of examples.

GST Clearing

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
| June 30 | Bank1 | 12,000 | June 1 | Balance | 12,000 |
|  | Accounts Payable2 | 13,000 | June 30 | Bank5 | 30,000 |
|   | Account Receivable3 | 2,000 |   | Account Receivable6  | 24,000 |
|   | Account Receivable4 | 900 |   | Accounts Payable7 | 1,000 |
|  | Bank | 13,000 |  |  |  |

1Settlement

2Credit Purchases

3Sales Returns

4Bad Debts

5Cash Sales

6Credit Sales

7Purchase Returns

Bad and Doubtful Debts

Ethan Cowden owns and operates Golf Warehouse, a wholesale outlet selling specialised golf clubs on credit to retail Golf Shops Australia wide. On 30 June 2023 the accounts showed the following balances:

Pre-adjustment Trial Balance as at 30 June 2023

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit$** | **Credit$** |
| Sales |  | 100,000 |
| Sales returns | 2,000 |  |

**Additional information:**

* Past experience suggests that 3% of Net credit sales (Sales – Sales Returns) will be doubtful of collection.
* As at 30 June 2023 the balance of Accounts Receivable was $85,000.

At 30 June 2023 the accountant recorded a balance day adjustment to recognise bad debts for June 2023 (Memo 87).

|  |
| --- |
| General Journal |
| **Date** | **Details** | **Debit** | **Credit** |
| June 30 | Bad Debt Expense | 2,940 |  |
|  | Allowance for Doubtful Debts |  | 2,940 |

The balance day adjustment reflects an estimate of what is doubtful of collection and is recorded as a Bad debt, and also creates an Allowance for doubtful debts (negative asset). There is no impact on Accounts Receivable as no Account Receivable has been written off at this time.

Balance Sheet as at 30 June 2023

|  |  |  |
| --- | --- | --- |
| **Current Assets** | **$** | **$** |
| Accounts Receivable | 85,000 |  |
| Less Allowance for Doubtful Debts | 2,940 | 82,060 |

On 7 July 2023, the business is notified that Golf Am Pro, one of the Accounts receivable who owed $550, has been declared bankrupt and their account is deemed irrecoverable. At this time the Allowance for Doubtful Debts and GST Clearing accounts are debited to acknowledge that this amount will no longer be received.

|  |
| --- |
| General Journal |
| **Date** | **Details** | **Debit** | **Credit** |
| July 7 | Allowance for Doubtful Debts | 500 |  |
|  | GST Clearing | 50 |  |
|  | Accounts Receivable |  | 550 |
|  | Amount written off as irrecoverable |  |  |

At the end of the next reporting period (31 July 2023), net credit sales was $125,000 and the balance of Accounts Receivable was $78,000. Doubtful debts was again estimated to be 3% of Net credit sales (3,750).

At this time, the balance in the Allowance for doubtful debts account is (2,940–500) = 2,440. To increase the amount to $3,750 an entry is made to increase the existing allowance for doubtful debts (3,750–2,440 =1,310) to this amount to reflect 3% of net credit sales. (Memo 99).

|  |
| --- |
| General Journal |
| **Date** | **Details** | **Debit** | **Credit** |
| July 31 | Bad Debts | 1,310 |  |
|  | Allowance for Doubtful Debts |  | 1,310 |

Allowance for Doubtful Debts

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount $** | **Date** | **Cross-reference** | **Amount $** |
| July 7 | Accounts Receivable | 500 | July 1 | Balance | 2,940 |
| 31 | Balance | 3,750 | July 31 | Bad Debts | 1,310 |
|  |  | 4,250 |  |  | 4,250 |
|  |  |  | Aug 1 | Balance | 3,750 |

Balance Sheet as at 31 July 2023

|  |  |  |
| --- | --- | --- |
| **Current Assets** | **$** | **$** |
| Accounts Receivable | 78,000 |  |
| Less Allowance for doubtful debts | 3,750 | 74,250 |