

## Chapter 10 - Trade Receivables

### Trade Receivables (Asset)

- Refers to the amounts owed by customers who buy goods or enjoy services from businesses on credit

### Valuation of Trade Receivables

- Trade receivables is valued at net trade receivables, which is total trade receivables less allowance for impairment of trade receivables

### Allowance for Impairment of Trade Receivables (Contra-Asset)

- Refers to the amount of debt owed by trade receivables that is estimated likely to be uncollectible

### Impairment Loss on Trade Receivables (Expense)

- The change in the allowance from the beginning of the year to the end of the year

### Prudence Theory (when asked about AFOTR)

- The allowance for impairment of trade receivables is reported in the statement of financial position as a deduction against the trade receivables book value to ensure that the trade receivables balance is not overstated

### Matching Theory (when asked about Impairment Loss)

- As an increase in allowance for impairment of trade receivables is an expense, it should be recorded in the same accounting year to obtain a true and fair profit for the year

Trade Discount	Cash Discount
Discount given on the list price	Discount given on the invoiced price
Given to encourage bulk purchase/loyalty	Given to encourage prompt payment
Not recorded in journal entries	Recorded in journal entries

### Double entries that you should master for this chapter

Sold goods worth \$1000 to customer on credit less 10% trade discount

Dr Trade receivables (90% x 1000)	900	
Cr Sales revenue		900

Customer returned goods worth \$500

Dr Sales returns (90% x 500)	450	
Cr Trade receivables		450

Customer paid amount owing which was \$800 less 10% cash discount

Dr Cash at bank (90% x 800)	720	
Dr Discount allowed (10% x 800)	80	
Cr Trade receivables		800

Cheque given by customer was dishonoured, withdraw cash discount

Dr Trade receivables	800	
Cr Discount allowed (10% x 800)		80
Cr Cash at bank (90% x 800)		720

Allowance for impairment of trade receivables increase by \$300 from the start to the end of the year

Dr Impairment loss on trade receivables	300	
Cr Allowance for impairment of trade receivables		300

Allowance for impairment of trade receivables decrease by \$200 from the start to the end of the year

Dr Allowance for impairment of trade receivables	200	
Cr Impairment loss on trade receivables		200

Customer declared bankrupt and entire amount owing of \$800 is to be written off

Dr Allowance for impairment of trade receivables	800	
Cr Trade receivables		800

Customer paid \$0.60 for every dollar owed and remaining amount owed is to be written off

Dr Cash at bank	480	
Dr Allowance for impairment of trade receivables	320	
Cr Trade receivables		800

### Calculating Allowance for impairment of trade receivables

- Trade receivables at year end = \$100000  
Allowance of TR at 5%  
AFIOTR = 5% x \$100000 = \$5000 (present in financial position)

### Calculating Impairment loss on trade receivables

- If AFIOTR @ the start = \$300, amount written off = \$100  
AFIOTR @ the start = 300 - 100 = \$200 (old)  
AFIOTR @ the end = \$500 (new)  
Impairment loss (new - old)  
= 500 - 200 = \$300 (present in financial performance)

### Extracts of Financial Statements

Statement of financial performance for the year ended 31 Dec 2025

<u>Less: Other expenses</u>	\$
Discount allowed	80
Impairment loss on trade receivables (if AFIOTR increase)	300
Reversal of impairment loss on trade receivables (if AFIOTR decrease)	(100)

Statement of financial position as at 31 Dec 2025

<u>Current Assets</u>	\$	\$
Trade receivables	100000	
Less: Allowance for impairment of trade receivables	(5000)	
Net trade receivables		95000