2.2 Debtors:

A business could decide to sell only for cash or to sell on credit as well. Both cash sales and credit sales have certain advantages:

Advantages of cash sales:

- The business receives the cash immediately.
- No risk of bad debt.
- No additional administrative expenses to keep records of debtors and how much each owes.
- No costs to send statements to debtors every month to remind them to pay their account.

Advantages of credit sales:

- A bigger turnover (more sales), because the business can sell to people who don't have cash to pay immediately for the inventory. It could lead to bigger profits.
- Customer loyalty because they can buy on credit.

It is extremely important that the business exercises good control over who will be allowed to buy on credit and what each debtor's credit limit will be. The following process can be used to determine a debtor's <u>credit worthiness</u>:

- The prospective debtor will be asked to complete a credit application form. The following personal details will be given:
 - Full names
 - o ID-number
 - Contact numbers
 - Residential address
 - Whether the property is owned or rented
 - How long the person has lived there
 - Employer
 - Period of employment by current employer
 - Salary (it will be verified by asking for a pay slip or by phoning the employer)
 - Details of other places where the debtor has bought on account to establish if he/she has made regular payments. The Credit Bureau can also be contacted in this regard to establish if the person has ever been blacklisted.
 - Details of other monthly liabilities are also important to establish if the person is able to honour all commitments.
 - Note: A General report can be requested from the prospective debtor's bank to establish if any of the person's cheques have been dishonoured (if the person has a current account). Alternatively bank statements for a few months may be requested, but not all people are willing to provide a bank statement, because it is personal.
- Once the points above have been checked and verified, a credit limit will be set. This is the maximum amount for which the debtor will be allowed to buy.

2.2.1 Important terms:

- Debtor: A person or another business that buys from us on credit and therefore owes money to our business.
- Invoice: We give the original invoice to the debtor that bought from us and we keep the duplicate invoice as the source document to record that goods have been sold on credit.
- Debtors journal: A transaction of goods sold on credit is recorded in a special auxiliary journal called the Debtors journal. The source document is a duplicate credit invoice.
- Debtors allowance journal: If a debtor returns goods or if the debtor has been overcharged on the invoice, the transaction is recorded in the Debtors allowance journal.
- Debtors ledger: An auxiliary ledger where a separate record is kept of how much each debtor owes us by
 <u>immediately</u> recording all sales, returns and receipts (payments made by debtors), to ensure that at any
 given point in time, we know exactly how much each debtor owes us.
- Debtors list: A list of the final balance of each debtor at the end of the month. It is prepared by using the final balance of each debtor in the debtors ledger.
- Debtors control account: A summary account to which we post the totals of all relevant journals in order to calculate how much all debtors owe in total at the end of the month.
- Current asset: A debtor is a current asset, because the account is generally repayable by the debtor within three to six months.

Let's look at the Debtors journal; Debtors allowance journal and Debtors ledger:

Debtors j	ournal o	DJ				
Doc	Day	Details of Debtor	Fol	Sales	Cost of sales	

Debtors allowance journal of < <name business="" of="">> for << MONTH AND YEAR >> DAJ</name>												
Doc	Day	Details of Debtor	Fol	Debtors allowance		Cost of sales						

The Debtors ledger:

Debtors le	edg	jer < <name busine<="" of="" th=""><th>ESS>></th><th></th><th></th><th></th><th></th><th></th></name>	ESS>>						
Date		Details	Fol	Debit (+)	Credit (-)		Balance		

2.2.2 Recording the transactions that relate to Debtors:

This is how we record transactions in the Debtors journal, Debtors allowance journal, Cash receipts journal, Debtors ledger and in the General ledger:

The following information is taken from the financial records of Manyane Retailer for June 2015. Take into account that the business maintains a profit margin of 50% on cost of sales.

Balances on 31 May 2015:

List of Debtors:

D1 Leon Lionman R8 750D2 Sam Seemeeu R1 460D3 Olivia Olifant R9 385

General ledger:

Debtors control R19 595 (Note: The three debtors' balances added together)

Trading inventory R05 000

Transactions for June 2015:

- 3 Sam Seemeeu pays 10% of his account. Receipt 298 is issued to him.
- Sell trading inventory with an original cost price of R7 000 to Olivia Olifant. Invoice 77 is issued to her.
- 11 Credit sales to Leon Lionman amounts to R14 400 according to the invoice.
- 13 Sam Seemeeu bought inventory to the value of R10 050 on credit.
- 17 Leon Lionman pays his account as on 1 June.
- Olivia Olifant bought R4 800 worth of trading inventory and pays cash. 20% trade discount was given on the transaction.
- Olivia Olifant sent trading inventory with an original cost price of R1 000 back that she bought on the 10th. Issue credit note 33 to her.
- 30 Olivia Olifant settled her account via an EFT.

Debtors j	ournal		DJ				
Doc	Day	Details of Debtor	Fol	Sales		Cost of sales	
77	10	Olivia Olifant	D3	10 500	-	7 000	-
78	11	Leon Lionman	D1	14 400	-	9 600	-
79	13	Sam Seemeeu	D2	10 050	-	6 700	-
				34 950	-	23 300	-

Debtors a	allowan	ce journal of Manyane Retailer	for June	2015		DAJ		
Doc	Day	Details of Debtor	Fol	Debtors allowance		Cost of sales		
33	26	Olivia Olifant	D3	1 500	-	1 000	-	
				1 500	-	1 000	•	

Cash ı	rece	eipt journal of Many	ane R	etailer for Jun	e 2015									CRJ				
														Sundry				
Doc	D	Details	Fol	Analysis of Receipts	Ва	ınk		Sales		Cost of Sales			Debtors Control		Fol		Details	
298	3	Sam Seemeeu	D2	146	-	146	-					146	-					
299	17	Leon Lionman	D1	8 750	- 8	750	-					8 750	-					
CRR	25	Sales		3 840	- 3	840	-	3 840	-	3 200	-							
BS	30	Olivia Olifant	D3	18 385	- 18	385	-					18 385	-					
					31	121	-	3 840	-	3 200	-	27 281	-			ı		

		L	eon Lionn	nan		01			
Date		Details	Fol	Debit (+)		Credit (-)	Balance		
Jun	1	Account rendered						8 750	-
	11	Invoice 78	DJ	14 400	-			23 150	_
	17	Receipt 299	CRJ			8 750	-	14 400	-
		s	am Seeme	eeu	Γ	02			
Jun	1	Account rendered						1 460	
	3	Receipt 298	CRJ			146	-	1 314	
	13	Invoice 79	DJ	10 050	-			11 364	
		C	Olivia Olifa	nt	[03			
Jun	1	Account rendered						9 385	
	10	Invoice 77	DJ	10 500	-			19 885	
	26	Credit note 33	DAJ			1 500	-	18 385	
	30	Bank statement	CRJ			18 385	-	-	

Gene	ral le	edger of								
Balaı	nce s	heet section								
				De	btor	s con	trol		B 1	
Jun	1	Balance	b/d	19 595	-	Jun	30	Bank	CRJ	27 281 -
	30	Sales	DJ	34 950	-			Debtors allowance	DAJ	1 500 -
								Balance	b/o	25 764 -
				54 545	-					54 545 -
Jul	1	Balance	b/d	25 764	-					
				Tradi	ing i	nvent	ory		B2	
Jun	1	Balance	b/d	90 000	-	Jun	30	Cost of sales	CRJ	3 200 -
	30	Cost of sales	DAJ	1 000	-			Cost of sales	DJ	23 300 -
								Balance	b/o	64 500
				91 000	-					91 000 -
Jul	1	Balance	b/d	64 500	-					
					Ва	nk			В3	
Jun	30	Totals receipts	CRJ	31 121	-					

Nomi	inal a	account secti	on								
					Sa	les		N1			
						Jun	30	Bank	CRJ	3 840	-
								Debtors control	DJ	34 950	-
										38 790	-
				Debtor	s al	lowand	се		N2		
Jun	30	Debtors control	DAJ	1 500	•						
					Co	st of s	ales	N3			
Jun	30	Trading inventory	CRJ	3 200	-	Jun	30	Trading inventory	DAJ	1 000	
		Trading inventory	DJ	23 300	-			Total	b/o	25 500	-
				26 500	-					26 500	_
July	1	Total	b/d	25 500							

List of Debtors on 30 June 2015

 D1
 Leon Lionman
 R14 400

 D2
 Sam Seemeeu
 R11 364

 D3
 Olivia Olifant
 R - .

 R25 764