

## 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 credit worthiness:

- The prospective debtor will be asked to complete a credit application form. The following personal details will be given:
  - Full names
  - 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.



## 2.2.2 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 750 |
| D2 | Sam Seemeeu    | R1 460 |
| D3 | Olivia Olifant | R9 385 |

#### General ledger:

|                   |   |
|-------------------|---|
| Debtors control   | R19 595 ( <b>Note: The three debtors' balances added together</b> ) |
| Trading inventory | R05 000   |

### Transactions for June 2015:

- 3 Sam Seemeeu pays 10% of his account. Receipt 298 is issued to him.
- 10 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.
- 25 Olivia Olifant bought R4 800 worth of trading inventory and pays cash. 20% trade discount was given on the transaction.
- 26 Olivia Olifant sent trading inventory with an original cost price of R1 000 back that she bought on the 10<sup>th</sup>. Issue credit note 33 to her.
- 30 Olivia Olifant settled her account via an EFT.

| Debtors journal of Manyane Retailer for June 2015 |     |                   |     |        | 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 allowance 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 receipt journal of Manyane Retailer for June 2015 |    |                |     |                      |   |        |   |       |   |               | CRJ |                 |   |        |     |         |
|--|----|----------------|-----|----------------------|---|--------|---|-------|---|---------------|-----|-----------------|---|--------|-----|---------|
| Doc  | D  | Details        | Fol | Analysis of Receipts |   | Bank   |   | Sales |   | Cost of Sales |     | Debtors Control |   | Sundry |     |         |
|  |    |                |     |                      |   |        |   |       |   |               |     |                 |   | Amount | 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          | - |        |     |         |

| Debtors ledger of Manyane Retailer |    |                  |  |     |           |   |            |   |         |   |
|------------------------------------|----|------------------|--|-----|-----------|---|------------|---|---------|---|
| Leon Lionman D1                    |    |                  |  |     |           |   |            |   |         |   |
| 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  | - |
| Sam Seemeeu D2                     |    |                  |  |     |           |   |            |   |         |   |
| Jun                                | 1  | Account rendered |  |     |           |   |            |   | 1 460   | - |
|                                    | 3  | Receipt 298      |  | CRJ |           |   | 146        | - | 1 314   | - |
|                                    | 13 | Invoice 79       |  | DJ  | 10 050    | - |            |   | 11 364  | - |
| Olivia Olifant D3                  |    |                  |  |     |           |   |            |   |         |   |
| 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     | - | -       | - |

| General ledger of ... |    |                 |     |        |   |     |    |                   |     |        |   |
|-----------------------|----|-----------------|-----|--------|---|-----|----|-------------------|-----|--------|---|
| Balance sheet section |    |                 |     |        |   |     |    |                   |     |        |   |
| Debtors control 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 | - |     |    |                   |     |        |   |
| Trading inventory 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 | - |     |    |                   |     |        |   |
| Bank B3               |    |                 |     |        |   |     |    |                   |     |        |   |
| Jun                   | 30 | Totals receipts | CRJ | 31 121 | - |     |    |                   |     |        |   |

| Nominal account section  |    |                   |     |         |     |           |                   |                 |         |         |  |
|--------------------------|----|-------------------|-----|---------|-----|-----------|-------------------|-----------------|---------|---------|--|
| <b>Sales</b>             |    |                   |     |         |     | <b>N1</b> |                   |                 |         |         |  |
|                          |    |                   |     |         |     | Jun       | 30                | Bank            | CRJ     | 3 840-  |  |
|                          |    |                   |     |         |     |           |                   | Debtors control | DJ      | 34 950- |  |
|                          |    |                   |     |         |     |           |                   |                 |         | 38 790- |  |
| <b>Debtors allowance</b> |    |                   |     |         |     | <b>N2</b> |                   |                 |         |         |  |
| Jun                      | 30 | Debtors control   | DAJ | 1 500-  |     |           |                   |                 |         |         |  |
| <b>Cost of sales</b>     |    |                   |     |         |     | <b>N3</b> |                   |                 |         |         |  |
| 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 - .                 |
|    |                | <b><u>R25 764</u></b> |