

ACCOUNTING OF FORMING AND USING RESERVE OF DOUBTFUL DEBTS

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Whatever activities are not involved in the company, on which tax system would they work and whatever are the characteristics of most of these companies –receivable arises in accounting of almost any entity. The notion of receivables is inextricably linked to the concept of provision for doubtful debts, by which the adhering to a principle of prudence in accounting is taking place.

According to P (S) 10, receivables of an enterprise is recognized as an asset in the case where it is probable to receive the future economic benefits by enterprise and its amount can be reliably measured.

Guided by paragraph 7, P (S) 10, current receivables, which is a financial asset, should be included in the total balance at net realizable value. For this it is foreseen a mechanism of formation of doubtful debts allowance. Initial cost of current receivables is reduced by the amount of such an allowance and thus the financial reporting reflects a residual value of receivable, entitled “net realizable value”.

Creation of a reserve for doubtful accounts results in increased operating costs. Thereby is the achieving of compliance with the implementation of one of the major accounting principles – prudence.

Paragraph 8, P (S) 10, defines two methods of calculation:

- 1) the method of application of the absolute amount of doubtful debts;
- 2) the method of application of uncertainty factor.

Selecting one of the two methods has to be justified. The selected method should now be recorded in accounting policy.

Practice shows that companies often use the method of absolute amount of doubtful debts as easier to be used. This method consists in that the value of the allowance is determined based on the analysis of the solvency of individual debtors.

The method of application of uncertainty factor is based on the fact that the value of the doubtful debts allowance is determined by multiplying the total amount of receivable balance at the beginning of the reporting period by a factor of uncertainty.