# 24 Lecture - MGT101

## **Important Subjective**

#### 1. What is the difference between debtors and creditors?

Answer: Debtors are customers who owe money to a business, while creditors are suppliers who are owed money by a business.

#### 2. Why is it important for businesses to manage their debtors and creditors?

Answer: Proper management of debtors and creditors helps to maintain a healthy cash flow, which is essential for the financial stability of a business.

#### 3. What are accruals in accounting?

Answer: Accruals are expenses that have been incurred but not yet paid.

#### 4. How do accruals impact a business's financial statements?

Answer: Accruals increase expenses and liabilities on a business's financial statements.

#### 5. What is a provision for bad debts?

Answer: A provision for bad debts is a reserve set aside to cover potential losses from customers who may default on their payments.

### 6. How does the provision for bad debts impact a business's financial statements?

Answer: The provision for bad debts decreases the value of accounts receivable on a business's balance sheet.

#### 7. Why is it important for businesses to have a provision for bad debts?

Answer: A provision for bad debts helps businesses to account for potential losses from customers who may default on their payments, which helps to maintain the financial stability of the business.

#### 8. How can businesses reduce the risk of bad debts?

Answer: Businesses can reduce the risk of bad debts by performing credit checks on customers, setting credit limits, and implementing a collection policy.

#### 9. What is the journal entry to record a provision for bad debts?

Answer: Debit provision for bad debts, credit bad debts expense.

#### 10. How can businesses improve their management of debtors and creditors?

Answer: Businesses can improve their management of debtors and creditors by implementing a credit control system, negotiating payment terms with suppliers, and regularly reviewing their accounts receivable and accounts payable.