

CREDIT TRANSACTIONS: DEBTORS

UNIT 1

Credit sales

- =business allows customers to buy something NOW and pay for it AT THE END OF THE MONTH/ AFTER 60 DAYS.
- IMPORTANT
 - the business must keep good record of these DEBTORS.
 - that the business must make sure that they can replace the stock sold on credit, in order to continue operate.

Credit sales

Advantages

- *More clients* visit the business
- *Sells more* goods & business grows
- *Gains* the client's good favour and *loyalty*.

Disadvantages

- Only receive *payment* at the end of the month
- Always a risk of a '*bad debt*'
- *Administrative expenses* increase

Debtors

- = **consumer who buys on credit!**
- = are regarded as **current assets** (pay for goods within given period)
- Before buying on credit, businesses evaluate a consumer's **creditworthiness** to protect themselves from 'bad debtors'.



His/ her ability to pay back the debt.

Class work p.64 activity 1

National Credit Act 34 of 2005

- Created to protect the **CONSUMERS & BUSINESSES** from June 2007
- It aims to prevent people from spending money they don't have.
- Helps a bank to manage their massive debt, and from reckless lending to people who can't pay back their loans.
- On application this Act requires that the banks must look at the client's income, expenses and credit history.

NCA 34 of 2005

- The Act's function...
 - Informing consumers to understand the responsibility to buying on credit
 - Ensure borrowed money can be paid back
 - Protect consumers who feel they've been unfairly treated in a credit agreement
 - Provide a debt counselling process for consumers who are not able to find a solution to repay their debts.

Debtor's allowance

- When goods are sold on credit, but customer not happy with it. The debtor can return it or get an allowance.

When goods are damaged/ faulty

Allowance is granted when the debtor decides to keep the damaged goods, but gets a reduction on the price.

Credit sales

- Credit sales are entered in the DEBTORS JOURNAL (DJ)
- Returns & allowances are entered in the DEBTORS ALLOWANCES JOURNAL (DAJ)

- CLASS WORK P.67 ACTIVITY 3

DEBTORS JOURNAL (DJ)

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- A credit sale gets a credit invoice with duplicate invoice.

(given to customer)

(used by the business to record the transaction into the books)

- A credit sale will be recorded in the DEBTORS JOURNAL (DJ used for folio reference)
- Class work p.67&68 read together & Own Class work p68 activity 4
- HOME WORK !!! P.69 ACTIVITY 5

DEBTORS ALLOWANCES JOURNAL (DAJ)

- **DEBTORS ALLOWANCE**= business takes goods back & decreasing the debtor's debt with the selling price of the returned goods.
 - = when customer agrees to keep the damaged goods & business reduces the selling price
- DAJ will be opened to record all the credit notes issued to debtors.
- DAJ have record of all the goods returned.

Class work; read together p.70&71 (the credit note)

HOME WORK P.71 activity 6

Record the debtors in the CRJ

- → only when the debtor settles his/her account (paid off), THEN the business receives money which is recorded in the CRJ!!
- The CRJ will then have a 'DEBTORS CONTROL' column.

Look at the example, p.73

HOME WORK P.75 ACTIVITY 9