

Riga College of Accountancy and Finance



**EVALUATION OF DOUBTFUL AND BAD DEBTS,
CREATION OF PROVISIONS,
RECORDING AND PRESENTATION
IN THE ACCOUNTING OF A COMPANY**

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About the College

(I)

Limited Liability Company
“College of Accountancy and Finance”
is a commercial company founded by a legal entity

The College mainly specializes in the preparation of professionally qualified accountants of the fourth level and business professionals

More than 2322 graduates have already received state-recognized diplomas for the first level professional higher education

The places of implementation of the College academic activity are in Riga, Daugavpils and Valmiera

About the College (II)

The College implements the first level professional higher education study programs in the following study fields or directions:

1. Economics, study program
“Accounting and Finance”

2. Management, administration and real estate
management, study program
“Business and Finance”

Goal of the research

To explore recognition, accounting and valuation of doubtful and bad debtors, and their presentation in the accounts of an enterprise in accordance with the existing laws and regulations

Tasks of the research

1. To explore and analyse acts of legislation, information available in specialist literature and statistics on doubtful and bad debtors

2. To describe and evaluate the accounting of receivables and documents related to recognition of doubtful and bad debts

3. To analyse and describe presentation of debtors in financial accounting

4. To explore and describe the creation of provisions for doubtful debtors

5. To analyse the impact of doubtful and bad debtors on tax calculation

Topicality of the chosen theme in the context of Covid-19 (I)

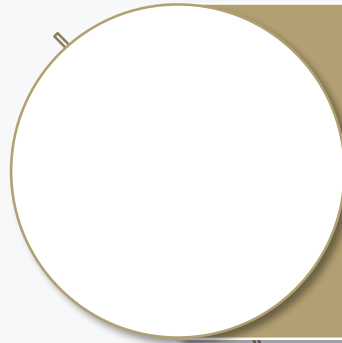
Impact of the pandemic on financial reporting data

When preparing the financial report for 2020, the impact of the pandemic on the stability of economic performance of an enterprise at the reporting date must be taken into account

Law “On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19” dated 21.03.2020

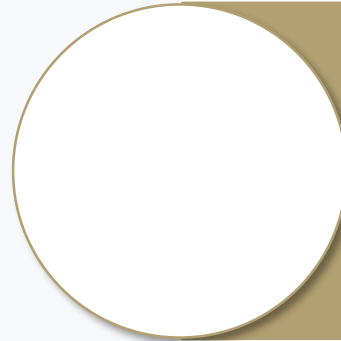
The criteria for recognizing doubtful debtors may need to be revised

Research methodology



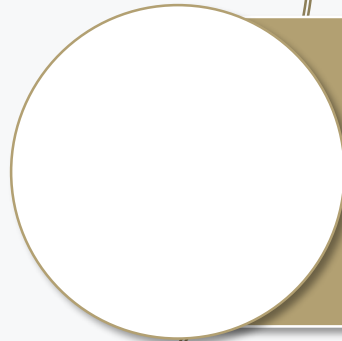
1. Monographic method

(information on the selection, data processing and analysis for the research topic)



2. Analytical method

(Research object structure and analysis)



3. Graphical method

(Characteristics of the research object)

Research results (I)

The concept of doubtful receivables, evaluation and provisioning

Doubtful debts are
receivables which receipt
probability is questioned

Doubtful receivables are
provided with provisions
so as to be seen in the
balance sheet at the net
value

The concept of bad debtors, evaluation and exclusion from financial statements

Bad debts are the
amounts that are
considered lost without
hope of recovery

Bad debts are excluded
from the accounts

Research results (II)

Impact of provisions for doubtful debts on EIT taxable income

In Latvia, the EIT rate is 25 %
(base amount / 0,8*20 %)

Writing off the doubtful receivable,
increases the base taxable income of an
enterprise

Except in cases where the company has taken all
appropriate measures for debt collection and recovery
within the meaning of Section 9, Paragraph 1 of the EIT
Law, and the conditions laid by the law are met

The base taxable with the enterprise
income tax shall include the amount of
the debts of debtors ...**and the debt has
not been recovered within 36 months**
from the day of the creation of provision

Research results (III)

Section 105 of the VAT Law describes a special procedure
for the adjustment of input tax on bad debts

VAT rate in Latvia 21 %

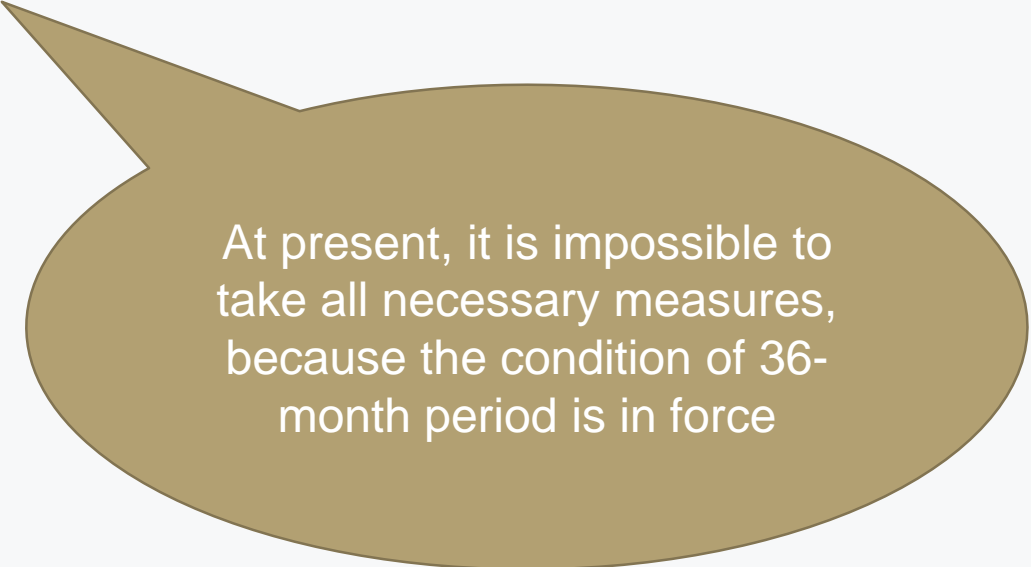
... has the right to reduce the amount paid into the State budget by the amount of the tax of bad debt, if all the conditions referred to in this Paragraph of Section are met and the debt has arisen during **the last three taxation years...**

...when the court has approved **completion of the insolvency proceedings** of the recipient of goods or services...

Summary

(I)

Legislation provides that identifying receivables in a timely manner will allow the enterprise to take all necessary measures so that in case the debtor's debt cannot be recovered, to avoid the increase of the base of enterprise income tax



At present, it is impossible to take all necessary measures, because the condition of 36-month period is in force

Summary

(III)

Customer monitoring should be performed in accordance with pre-assessed risks and lending policies according to the needs of an enterprise

At present, risks are assessed subjectively.

There are two trends:

1. To reduce post-payment time (precautionary principle).
2. To increase post-payment time (hoping for stabilization and governmental support)

Summary

(V)

Review regularly whether the current policy regarding debt collection is effective, whether the criteria of Section 9 of the Enterprise Income Tax Law and Section 105 of the Value Added Tax Law for reducing tax costs are met

Follow the Government policies in the state that influence economic processes in the situation of crisis, including the policy of awarding grants and benefits which promote the solvency of debtors.

**Thank you
for your
attention!**



Time for questions