Different degrees of certainty/uncertainty over whether a debtor will pay

A business may discover that a particular debtor can’t pay or is unlikely to pay:

- Apply a specific write-down to the particular debtor:
  -↓Debtor (cr), ↑Expense (provision for bad debt)

Universities have bad debt provisions because it has to give out loans or scholarships to students however students who do not pay debts may not be rewarded the diplomat.

Uncertainty cases

- Uncertainty over whether debtor will pay can apply to whole classes of debtor assets in certain circumstances
- Consider the effect of the financial crisis of 2007 onwards on banks internationally

Example of recognition: depending on management assessments

- Risk of over-statement
- Market value of assets versus book value of assets
- Introduces judgement over asset values – “will debtor's pay and if so how much and when?”
- Conflict between reliability (ensure the balance sheet does not overstate assets) and conservatism (if in doubt, over-provide)
- Allows creativity through over optimism