
Liken Ltd

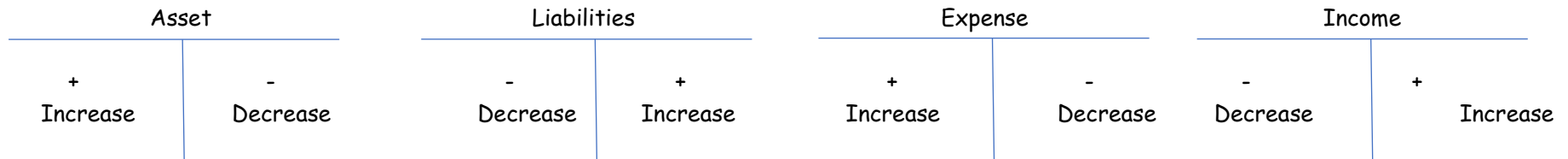
2019

Company Accounts

Support Material

VERY IMPORTANT FOR DOUBLE ENTRY

1. There are 4 different types of accounts - Assets, Liabilities, Expenses and Income
2. For double entry we do the following to increase and decrease each one of these 4 different accounts
 - a. Assets - to increase an asset we put the figure on the debit side and to decrease an asset put in on the credit side
 - b. Liabilities - to increase a liability we put the figure on the credit side and to decrease a liability we put the figure on the debit side
 - c. Expense- to increase an asset we put the figure on the debit side and to decrease an asset put in on the credit side
 - d. Income - to increase a liability we put the figure on the credit side and to decrease a liability we put the figure on the debit side



TIP - If you are finding it hard to remember if an item goes on the debit side or credit side have a look at the Trial balance in Question 1. The trial balance gives you a list of debits and credit balance

| Expense | | Income | |
|---------|--|---------|---|
| Due | Current Liability (has be to paid - we owe it) | Due | Current Asset (We are owed it) |
| Prepaid | Current Asset (We have it paid already) | Prepaid | Current Liability (We have received the money, now we owe it to the business) |

Adjustment (i) - Closing Stock

Step to this adjustment

1. Closing stock You need to adjust the closing stock figure by taking the damage stock away and then adding on the net realisable figure.

Explanation

1. We had stock that we thought we couldn't get the value back so stock is reduced by €6,000 but then we realise we could get 75% of the cost price back.
2. Use the €6,000 and take it away from 75,400 (this is the damaged stock)
3. Now use the €6,400 and get 75% of it this is the NRV (Net Realisable Value) and is added back onto the figure calculated in part 2

Accounts to be adjusted

W1 Closing Stock

Increase

T & BS CA

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|---------------|
| Closing Stock |
|---------------|

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Adjustment (ii) - Stock Destroyed by Fire

Steps to this adjustment

1. Purchases Decrease Purchase by the amount of stock damaged
2. Compensation Create a compensation account
3. Profit or loss Find out if there was a profit or loss made

Explanation

1. Reduce the purchase figure by the figure that was damaged in the fire because we can't sell these goods to get out money back (P & L T)
2. Create a compensation figure for the current assets in the balance sheet for the amount received by the insure company. (BS CA)
3. Find out if the company made a profit or loss from the damage stock (damage stock - compensation) (P & L - Profit add Operating Income, Loss P & L (A))

Accounts to be adjusted

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| Stock Destroyed (Insurance Compo) |
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|-----------------|----------------------------|-------------------------------------|
| W2 Purchases | Decrease by damage figure. | T |
| W3 Compensation | Create a compensation | BS CA |
| W4 P/L on stock | Profit/Loss | Profit - Add OI Loss - P & L (a) |

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| Adjustment (iii) - Depreciation (Delivery Vans) |
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Steps to this adjustment

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|------------------------|---|
| 4. Fixed Assets (Vans) | Calculate the Value of the Fixed Assets (Vans) |
| 5. Acc Dep (Vans) | Calculate the Depreciation for This year (Acc Depreciation Vans) |
| 6. Acc Dep (Vans) | Calculate the Accumulate Depreciation for the Fixed Asset (Acc Depreciation Vans) |
| 7. Disposal | Calculate is a profit or loss has been made (Disposal Account) |
| 8. Purchases | Adjust the purchase with the net amount (Value of the asset - allowance) |

Explanation

- To calculate the value of the Fixed assets, complete the following
 - Opening Balance (dr) + New Vehicle (dr) Bought - Vehicle Sold (cr)
 - The balancing figure will be on the dr side
- Calculate the Depreciation for This year
 - add the dep for the van we sold and the van we bought for this year only
 - this figure will go in on the cr side of the acc dep account
- To calculate the Accumulate Depreciation for the Fixed Asset (Vans) - complete the following
 - Opening Balance (cr) + *This year Dep (cr) - Dep on van sold (dr)
 - Balancing figure will be on the cr side
 - To find this year's dep you will need the following figures
 - Dep on all the vans (remember to take away the vans total from the van sold)

Question 1

2019

2. Dep on the van we sold to date

3. Dep on the new van we bought

Total * rate * how long you had the vehicle for

4. Calculate is a profit or loss has been made (Disposal Account)

- Dr the disposal account with the value of the van you just sold, Cr the disposal account with the depreciation for the van just sold and the allowance received.
- The balance figure will be either a profit or loss. If the balance figure is on the cr side, it is a loss and if the figure is on the dr side it is a profit
- A loss will go in the P & L as a selling and distribution (S & d) and if it is a Profit it will go in the Add income (OI)

5. Adjust the purchase with the net amount

- Value of the asset - the allowance given
- This figure is then taken out of purchases

Accounts to be adjusted

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| Depreciation of Fixed Assets |
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| W5 Value of Fixed Asset | Increase | BS FA |
| W5 Dep of Fixed Asset | Increase | BS FA |
| W5 Dep This year | Increase | P & L (s & d) |
| W5 Profit/Loss (Disposal) | Loss Profit | P & L (s & d) Add OI |
| W2 Purchases | Increase | T |

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| Adjustment (iv) - Sale or Return |
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This will affect the following accounts

1. Sales decrease as we have not sold the goods
2. Debtors decrease as they don't owe use the
3. Closing stock increase as the goods can be returned

Explanation

We gave goods to a debtor and told them that if they didn't sell them, they could return them. We have recorded this transaction as a credit sale (in the sale and debtor account) but it is not a credit sale

1. Sales will decrease as we have not sold the goods as they can be returned if not sold by the company who bought them (by the total amount in the question)
2. Debtors will decrease as they don't owe use the money as we have not sold goods on credit to them - they can return it not sold (by the total amount in the question)
3. Closing stock will increase as the goods can be returned (By the cost price - needs to be calculated)

NOTE

Remember to calculate the cost of the goods that were sold (100%). Remember that the business will sell that as cost plus a profit

Accounts to be adjusted

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| Sale or Return |
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|------------------|-------------------------|-----------|
| W6 Sales | Decrease by cost price. | T |
| W7 Debtors | Decrease by cost Price. | BS CA |
| W1 Closing Stock | Increase by cost price. | T & BS CA |

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| Adjustment (v) - Patents & Investment Income |
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Steps to this adjustment

1. Investment Income Calculate how much the Investment income has been paid (Incorporate in patents)
2. Investment Income Due Calculate investment income due.

Question 1

2019

3. Patents Take investment income out of patents (Add on)
4. Patents written off Find the patents to be written off

Explanation

Some one has recorded investment income (which is an income) with the patents (which is an asset)

1. Calculate how much the Investment income has been paid (Incorporate in patents)
 - Find the investment figure * rate * how long we had it
 - This is the yearly amount that goes is added onto the Operating income (OI)
2. Calculate investment income due.
 - Find out how many months have been incorporated
 - Figure from step 1 * how many months incorporated
 - This will give you the figure for how much we have received for investment income
 - Take the figure from part 2 away from the figure calculated in part 1
3. Take investment income out of patents (Add on) to find the patents figure and find out how much is to be written off.
 - Take the figure for investment that was incorporated in patents and add this to the patents figure to take it out of it (Remember the investment income is an income and will go on the cr side and the double entry will be to dr the patents account which is an asset account - this is why you add it on and NOT take it away)
4. Recalculate the patents figure by taken the written off figures away from the patents figure

Accounts to be adjusted

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|-------------------|
| Investment Income |
| Patents |

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|--------------------------|----------|-----------|
| W8 Investment Income | Increase | Add OI |
| W9 Investment Income Due | Decrease | BS CA |
| W10 Patents | Increase | (BS IA) |
| W11 Patents Written off | Increase | P & L (a) |

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Adjustment (vi) - SuspenseStep to this adjustment (Mortgage Interest)

1. Calculate the mortgage interest (for the year)
2. Calculate how much should have been paid for mortgage interest for the first few months.
3. Calculate the Mortgage interest due. (No 1 - No 2 above)
4. Adjust the expense that has the suspense included in it in the trial balance.

Explanation

1. Calculate the mortgage interest (for the year)
 - Mortgage * rate
 - this is the total interest for the year (yearly) - Less OI
2. Calculate how much should have been paid for mortgage interest for the first few months.
 - Look at the Trial balance and see if there has been mortgage interest paid
 - Take the yearly figure and * by the months paid
 - This will give the figure for how much we should have paid
3. Calculate the Mortgage interest due. (No 1 - No 2 above)
4. Adjust the expense that has the suspense included in it in the trial balance.
 - Find the expense that includes the suspense and adjust it

Tip

1. Find out how much the mortgage interest should have been, on the trial balance beside mortgage interest paid add or minus this figure.
2. This will increase the DR side (Remember the DR and CR must equal) so in the expense that has the suspense (on the Trial balance) you will do the opposite to balance the DR and Credit side

Step to this adjustment (Discount)

1. Adjust the Discount - The discount is on the cr side to it is discount received (Income)
2. The discount will increase by €460 because it is extra discount that we received
3. Adjust the expense that has the suspense included in it in the trial balance. This will increase as well as the cr side is €460 higher than the debit side

Tip

1. On the trial balance beside Discount put +460 this means CR is now higher (Remember the DR and CR must equal)

2. Now adjust the expense that has the suspense to balance the DR and CR side - +460 to balance the Dr and Cr sides

You now know if you have to add or takeaway the figures in the expense with suspense.

Accounts to be adjusted

Suspense

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|---------------------------|-------------|---------------|
| W12 Mortgage Interest | Increase | Less OI |
| W13 Mortgage Interest Due | Increase | BS CL |
| W14 Expense with suspense | De/Increase | P & L (s & d) |
| W15 Discount | Increase | Add OI |

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Adjustment (vii) - Depreciation of Buildings & Revaluation

NOTE

Revalue was at the start of the year so is a little bit different form previous revaluation adjustment

Steps to this adjustment

1. Buildings Create a buildings account with the new value
2. Revalue Revaluation Find the increase in the value of the buildings and the accumulate depreciation for buildings for this year
3. Depreciation Calculate the depreciation for this year

Explanation

1. Create a buildings account with the new value
 - Using the revalue figure for buildings given in the question
2. Find the figure to go into the revaluation reserve
 - Find the increase in the value of the buildings (revalue figure in the question less the cost for buildings in the trial balance)

Question 1

2019

- Find the accumulate depreciation for the building (Take the cost figure in the trial balance and take away the value of the building now)
 - Add the two figures calculate above this is the revaluation figure
3. Calculate the depreciation for this year

Accounts to be adjusted

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| Dep Buildings |
| Revaluation Reserve |

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|-------------------------|----------|-----------|
| W16 Buildings | Increase | BS TA |
| W17 Revaluation Reserve | Increase | BS FB |
| W18 Dep Buildings | Increase | P & L (a) |
| | | BS TA |

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Adjustment (viii) - Bank Statement
(i) Steps to this adjustment (Dishonoured Cheque)

1. Reduce/increase Bank depending if the bank is on the Dr or Cr side (Dr side it is an asset and taken away, Cr side it is a liability (overdraft) and add on because the overdraft is increasing)
2. Calculate how must the debtors gave in the Credit Transfer (add/or take this away from the bank depending on if the bank is a overdraft or not. If it is an overdraft it is taken away if is an asset it is added on)
3. Calculate how much of the debt not paid and then create a bad debt and this is an Expense (s & d)

(ii) Steps to this adjustment (Refuse expense)

1. Reduce/increase Bank depending if the bank is on the Dr or Cr side (Dr side it is an asset and taken away, Cr side it is a liability (overdraft) and add on because the overdraft is increasing)
2. Increase the Salaries and General Expense with the figure in the question (€860)

3. Calculate how much of the debt not paid and then create a bad debt and this is an Expense (s & d)

Accounts to be adjusted

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| Bank Statement |
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| W 19 Bank | Increase/decrease | BS CL |
| W 20 Bad Debt | | Exp (s & d) |
| W 21 Salaries | Increase | Exp (s & d) |

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| Adjustment (ix) - Bank Statement |
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- Investment Income due is already calculated as part of adjustment (v)
Debenture interest has been already calculated as part of adjustment (vi)
- Steps to this adjustment (Provision for bad debts)
 - Take the debtors figure and multiply it by the present in the question (make sure to use the most up to date debtors' figure)
 - Then check to see if this provision is an increase or decrease - find the provision for bad debt figure in the question and take away the new provision (part 1)
 - If this figure is an increase - the increase figure goes in the Exp (s & d) if the figure is a decrease - the decrease figure goes in Add Income.
- Steps to this adjustment (Sale commission)
 - Find the figure to calculate the commission percentage (sales - excess figure in the question)
 - Use this figure to multiply by the percentage in the question - this is the commission figure to go in the Exp (s & d) and BS CL

4. Steps to this adjustment (Transfer to Capital Reserve)

3. At the end of the profit and loss account you will deduct 10,000
4. The figure will then be add to the capital figure in the TB

Accounts to be adjusted

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|-------------------------|
| Provision for Bad Debts |
| Commission |
| Capital Reserve |

W20 Provision for bad debt

Increase

BS CA

Exp (s & d)

Decrease

Add Income

W 21 Commission

Exp (s & d)

BS CL

W 22 Capital Reserve

Increase

BS FB

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