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**Austin Ltd**

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**Manufacturing and  
Company Accounts**

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**2018**

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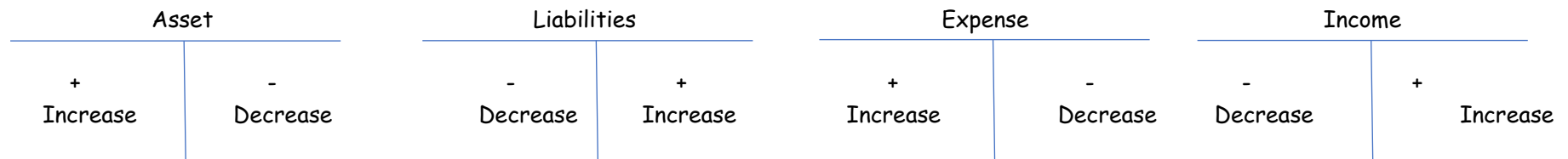
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**Support Material**

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**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**

Steps to this adjustment

1. There will be a closing stock figure for
  - (i) Raw materials (MA) - Include the figure in the adjustment
  - (ii) Work in progress (MA) - Include the figure in the adjustment
  - (iii) Finished Goods (T & BSCA) - Include the figure in the adjustment

Accounts to be adjusted

Closing Stock

|    |                |                   |           |
|----|----------------|-------------------|-----------|
| W1 | Raw material   | as per adjustment | M RM      |
|    | WIP            | as per adjustment | M FC      |
|    | Finished Goods | as per adjustment | T & BS CA |

Note - you might have to adjust the finish goods figure later on in the question

**ADJUSTMENT (ii) - SALE OR RETURN**

Steps to this adjustment

1. Sales            Sales will need to be decreased because these sales have not occurred as the goods can be returned (T). This will be decrease by the figure given in the adjustment
2. Debtors        Debtors will also be decrease because the sales have not occurred so the The goods have not been sold on credit. Hence debtors will decrease by the figure in the question
3. Closing Stock    Closing stock will increase by the cost price of the goods sold. This cost price will have to be calculate (100%)

Accounts to be adjusted

Sale or Return

|    |               |                      |           |
|----|---------------|----------------------|-----------|
| W1 | Closing Stock | Increase by cost     | T / BS CA |
|    | W2 Sales      | Decrease figure in Q | T         |
|    | W3 Debtors    | Decrease figure in Q | BS CA     |

**ADJUSTMENT (iii) - SUSPENSE**

Remember

Discount Received and Creditors go together

Discount Allowed and Debtors go together

Step to this adjustment (Discount)

Discount allowed €600 entered only in the debtors so now we need to adjust the discount figure. As this is discount allowed (we are given the discount) we need to decrease the discount figure

Tip

1. On the trial balance beside discount - 600 this means DR is now lower (Remember the DR and CR must equal)
2. Now adjust the expense that has the suspense (on the Trial balance General Factory Overhead) to balance the DR and CR side - 600 to balance the Dr and Cr sides

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

Step to this adjustment (Creditors)

Credit purchases of raw materials €6,000 entered on the incorrect side of the creditor account. Because it is on the wrong side of the creditors account it was put on the Dr side, so to record it properly we need to do two things

1. we have to put €6,000 on the Cr side to correct the error and
2. then add another €6,000 on the Cr side to record the transaction

Tip

1. Increase the creditors figure by Adding the €12,000 to the creditors figure in the trial balance (€6,000 + €6,000)
2. This will increase the CR side (Remember the DR and CR must equal) so in the General Factory Overhead where the suspense is we add €12,000 as well

Remember to do this on the trial balance

Accounts to be adjusted

|          |
|----------|
| Suspense |
|----------|

W4 Discount

Decrease

add OI

W5 Creditors

Increase

BS CL

W6 General Factory Overheads

Inc / Dec

M PC

|   |
|---|
| <b>Adjustment (iv) - BANK STATEMENT</b> |
|---|

(i) Steps to this adjustment (Bad Debt Recovered)

- |                       |   |  |
|-----------------------|---|--|
| 1. Bank overdraft     | Decrease the bank overdraft with the amount of money received (€1,000)  |  |
| 2. Debtors            | Decrease the debtors by the figure that is let to be paid (need to find out 100% and take it away from the amount received) |  |
| 3. Bad debt recovered | Create a bad debt expense. This is the difference between the two figures above   |  |

Accounts to be adjusted

|                |
|----------------|
| Bank Statement |
|----------------|

|                         |          |        |
|-------------------------|----------|--------|
| W 07 Bad Debt Recovered | Create   | add OI |
| W 03 Debtors            | Decrease | BS CA  |
| W 08 Bank               | Decrease | BS CL  |

(ii) Steps to this adjustment (Rent Due)

- |                   |   |
|-------------------|---|
| 1. Bank overdraft | Decrease the bank overdraft with the amount paid for the 3 month (Have a look at the trail balance to see when the rent was paid up to) |
| 2. Rent           | Increase the rent figure from the trial balance by the 3 months' rent figure paid in the adjustment                                     |

NOTE - Rent is on the credit side of the trial balance so is a income (Rental Income)

NOTE - Rent is paid up to 30/09/2017 is 9,000. Rent has been paid up to the end of the year 31/12/2017. So this is an extra 3 month. To find out how much extra was paid  $9,000 / 9 = 1,000$  per month ( $1,000 * 3 = 3,000$ )

Accounts to be adjusted

|                |
|----------------|
| Bank Statement |
|----------------|

|           |          |        |
|-----------|----------|--------|
| W 08 Bank | Decrease | BS CL  |
| W 09 Rent | Increase | Add OI |

(iii) Steps to this adjustment (Cheque not presented for payment)

As the cheque has not been presented for payment - no money has left or entered the bank account. Because of this no adjustment is needed.

**ADJUSTMENT (v) - WAGE INCREASE**

Step to this adjustment

1. Increase the factory wage figure

This is done by taking the factory wage figure from the trial balance (200,000) and multiply it by the percentage in the adjustment (5%) and then multiple it by how many months it is backdated (3/12)

$$200,000 * 5\% * 3/12 = 2,500$$

Accounts to be adjusted

W10 Factory Wages

M DC

Wage Increase

**Adjustment (vi) - STORE BUILT**

Step to this adjustment

1. Factory      Decrease the factory wages by €24,000 (remember you have to calculate the wage increases first and add it onto the figure in the adjustment).  
We take this figure away as we have already paid our employees and won't pay them twice
2. Purchase      Decrease the purchase of raw materials by figure by €31,500. This is because we have use these purchases so are not able to sell them to get the money back
3. Buildings      Increase the figure for buildings by the two figures used above. This is because the value of buildings has increased by this amount

Accounts to be adjusted

W10 Factory Wages

Decrease

M DC

Store Built  
(Extension)

W11 Purchases of raw material

Decrease

M RM

W12 Buildings

Increase

BS TA

**ADJUSTMENT (iii) - SCRAP MATERIAL**

Steps to this adjustment

Calculate the correct figure of scrap material. The scrap material figure includes money received for the sale of an old machine (this should have went into the disposal account)

1. Scrap Material                      Decrease the scrap material figure (from the trial balance) by the amount received for the sale of machinery (Adjustment)

Note the €20,000 and €3,000 will also be used when calculating the value of machinery, dep of machinery and is a profit was made on the sale of the machine

Accounts to be adjusted                      W 13 Scrap material                      decrease                      M FC

Scrap Material

**ADJUSTMENT (iv) - DEP PLANT AND MACHINERY**

Steps to this adjustment (Dep Plant and Machinery)

1. Calculate the value of Plant and Machinery for this year
2. Calculate the depreciation on the machine just sold
3. Calculate the depreciation for plant and machinery for this year
4. Calculate if there was a profit or loss made

1. Plant and machinery                      Decrease the value of the plant and machinery by €30,000 (see previous adjustment)
2. Acc Dep P & M                              Decrease this account with the dep for the machine just sold (see previous adjustment). Increase this account with the dep for this year
3. Disposal                                      Calculate if there was a profit or loss made (Dr with the value of the machine sold, Cr with the dep for the machine and Cr with the money received for the machine, then balance the account)

Accounts to be adjusted                      W 14 Plant and machinery                      Decrease                      BS TA

Depreciation of P & M  
..

W 14 Plant and machinery                      Increase                      P & L (a)

|                           |           |       |
|---------------------------|-----------|-------|
| W 14 Acc Dep of Machinery | Increase  | BS TA |
| W 14 Disposal             | Inc / Dec | M PC  |

Steps to this adjustment (Dep Building)

1. Take the up to date figure for buildings (see previous workings) and multiply it by the rate given in the adjustment ( $995,800 * 2\% = 19,916$ ). This is the depreciation figure for this year. (P & L -  $19,916 * 25\% = 4,979$ , M -  $19,916 * 75\% = 14,937$ )
2. Make sure to add this year depreciation to the accumulated dep figure to get the new accumulated depreciation figure.

Accounts to be adjusted

|              |                    |       |
|--------------|--------------------|-------|
| Building Dep | W 15 Dep Buildings | M PC  |
|              |                    | BS TA |

**Adjustment (ix) - PROVISIONS**

(i) Steps to this adjustment (Investment Income Due)

1. Investment Income Calculate the investment income figure for the year. Use the investment figure from the Trial Balance (€330,000) multiply it by the rate (4%) and multiply it by how many months the company has invested the money (01/04/2021 - 31/12/2021 = 10 months)  
 $330,000 * 4\% * 10/12 = 11,000$
2. Investment Income Due Calculate the amount of income that is due. Look at the trial balance and see if an investment income has been received (there is non in this question so 11,000 will go in the BS CA).

Accounts to be adjusted

|                         |                           |          |             |
|-------------------------|---------------------------|----------|-------------|
| Investment Income (Due) | W13 Investment Income     | Increase | Add OI (OP) |
|                         | W14 Investment Income Due | Decrease | BS CA       |



(ii) Steps to this adjustment (Debenture Interest Due)

1. Debenture Interest Calculate the debenture interest figure for the year. Use the debenture figure from the Trial Balance, remember there are two so we need to find out the figure for the full year and the figure for part of the year, multiply both figures by the rate (8%)

$$250,000 * 8\% = 20,000$$

$$\underline{50,000} * 8\% * 9/12 = \underline{3,000}$$

$$300,000 = 23,000$$

2. Debenture Interest Due Calculate the amount of interest that is due. Look at the trial balance and see if any interest has been paid has been received (there is non in this question so 23,000 will go in the BS CL).

**Accounts to be adjusted**

|                             |
|-----------------------------|
| Debenture Interest<br>(Due) |
|-----------------------------|

W15 Debenture Interest Increase Less OI (OP)

W16 Debenture Interest Due Increase BS CL

(iii) Steps to this adjustment (Provision for bad debts)

1. Take the debtors figure and multiply it by the present in the question (make sure to use the most up to date debtors' figure) (46,000 \* 6% = 2,760)
2. Then check to see if this provision is and increase or decrease - find the provision for bad debt figure in the trial balance and take away the new provision (there is none in this question so 2,760 will go in the P \* L (s &d) and BS CA.)

**Accounts to be adjusted**

|                            |
|----------------------------|
| Provision for Bad<br>Debts |
|----------------------------|

W 17 Provision for Bad debt

M PC / BS CA