
Melba Ltd

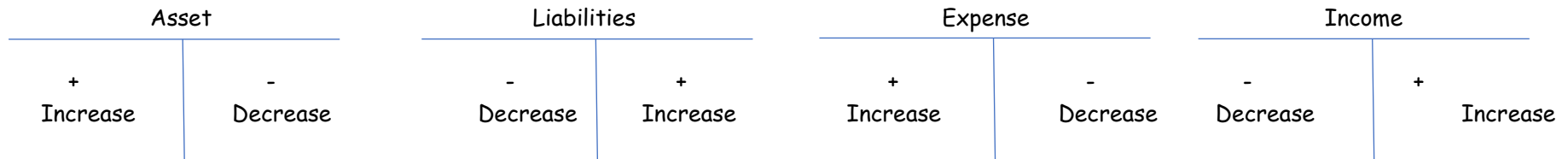
2015

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 €6,600 but then we realise we could the NRV was €3,200
2. Use the €6,600 and take it away from €80,400 (this is the damaged stock)
3. Now use the NRV figure (€3,200) and add it back onto the figure calculated in part 2

Accounts to be adjusted

W1 Closing Stock

Increase/ Decrease

T & BS CA

Closing Stock

Tutorial Video



Adjustment (ii) - Patents & Investment Income

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. |
| 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.

Question 1

2015

- 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 taking the written off figures away from the patents figure

Accounts to be adjusted

Investment Income
Patents

W2 Investment Income	Increase	Add OI
W3 Investment Income Due	Decrease	BS CA
W4 Patents	Increase	(BS IA)
W5 Patents Written off	Increase	P & L (a)

Tutorial Video**Adjustment (iii) - Suspense**Step 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

Question 1

2015

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 (Debtors)

1. Adjust the Debtors - The discount of €400 has been entered in the discount account but not in the debtor account
2. We need to decrease the debtors in the trial balance by €400 because they owe us less
3. Adjust the expense that has the suspense included in it in the trial balance. This will decrease as well as the cr side is €400 lower than the debit side

Tip

1. On the trial balance beside Debtors put -400 this means DR is now lower (Remember the DR and CR must equal)
2. Now adjust the expense that has the suspense to balance the DR and CR side - +400 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

W6 Debenture Interest	Increase	Less OI
W7 Debenture Interest Due	Increase	BS CL
W8 Expense with suspense	De/Increase	P & L (s & d)
W9 Debtors	Decrease	BS CA

Tutorial Video**Adjustment (iv) - 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 form the damage stock (damage stock - compensation) (P & L - Profit add Operating Income, Loss P & L (A))

Accounts to be adjusted

Stock Destroyed (Insurance Compo)

W10 Purchases	Decrease by damage figure.	T
W11 Compensation	Create a compensation	BS CA
W12 P/L on stock	Profit/Loss	Profit - Add OI

Tutorial Video**Adjustment (v) - Depreciation (Delivery Vans)**Steps to this adjustment

- | | |
|------------------------|---|
| 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 years dep you will need the following figures
 - Dep on all the vans (remember to take away the vans total from the van sold)
 - Dep on the van we sold to date
 - Dep on the new van we boughtTotal * rate * how long you had the vehicle for

Question 1

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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

Depreciation of Fixed Assets

W13 Value of Fixed Asset	Increase	BS FA
W13 Dep of Fixed Asset	Increase	BS FA
W13 Dep This year	Increase	P & L (s & d)
W13 Profit/Loss (Disposal)	Loss Profit	P & L (s & d) Add OI
W10 Purchases	Increase	T

Tutorial Video**Adjustment (vi) - VAT**

This will affect the following accounts

1. Buildings Decrease Buildings
2. VAT Adjust the VAT account.

Explanation

1. Buildings decrease buildings as VAT should not be recorded here
2. VAT Adjust the VAT account. Make sure to look and see if the VAT is a DR or

CR. If the VAT is on the CR side it is a liability and if the VAT is on the DR side it is an asset. We can claim VAT back on purchase. So in this question after the adjustment we will have be owe VAT and it will be an Asset

<u>Accounts to be adjusted</u>			
	W14 VAT	Decrease	BS CA
VAT	W15 Buildings	Decrease	BS TA

Tutorial Video



Adjustment (vii) - Bank Statement

(i) Steps to this adjustment (Investment Income Already Paid)

1. Find out how much the two months represents.
2. Go back to the investment income working (w2) and get the yearly figure ((w2) and get the yearly figure (10500) divide this by 12 this will give you the monthly figure (€875). Multiply this by 2 to get the two months figure (€1,750)
3. Decrease the bank by €1,750. As this money was paid into our bank and will reduce the bank overdraft.
4. Take this away from the investment income (€7,000) and this will give you the investment income due

(ii) Steps to this adjustment (Partly payment form a creditor)

1. Debtors Reduce the debtors by the full amount as this is how much we will not receive from them
2. Bad debt recovered Create a bad debt recovered with the amount of money they Received (Get 25% of the full Debt)
3. Bank Decrease the bank with the money that we received

(iii) Cheque not presented for payment

Has this cheque has not been presented for payment - no money has left our account, so no adjustment is needed

Accounts to be adjusted

Bank Statement

W 9 Debtors	decrease	BS CA
W 16 Bad Debt recovered		Add OI
W 17 Bank	Decrease	BS CL

Tutorial Video

Adjustment (viii) - Directors Recommendations
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- Investment Income due is already calculated as part of adjustment (ii)
Debenture interest has been already calculated as part of adjustment (iii)
- 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.
- Buildings to be depreciated
 - Use the new building figure (Less VAT) and calculate the depreciation on it
- Steps to this adjustment (Sale commission)
 - Find the figure to calculate the commission percentage (sales - excess figure in the question)

Question 1

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2. 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

Accounts to be adjusted

Provision for Bad Debts	W 18 Provision for bad debt	Increase	BS CA P & L (s & d)
Dep Buildings	W 15 Dep Buildings	Decrease	Add Income P & L (s & d)
Commission	W 20 Commission	Increase	BS TA P & L (s & Dd) BS CL

Tutorial Video