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**West Ltd**

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**2012**

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**Company Accounts**

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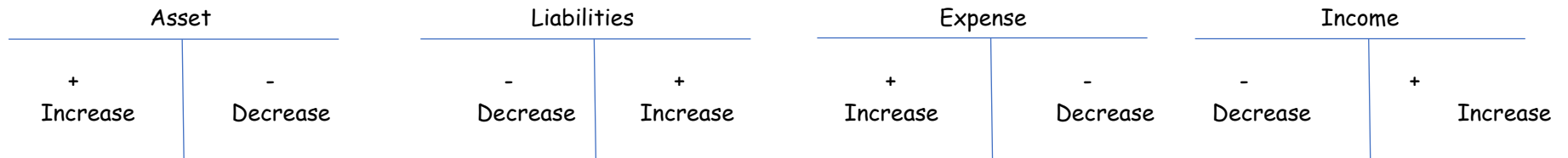
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**Support Material**

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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

#### 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 €5,400 but then we realise we could the NRV was €2,300
2. Use the €5,400 and take it away from €81,200 (this is the damaged stock)
3. Now use the NRV figure (€2,300) and add it back onto the figure calculated in part 2

#### Accounts to be adjusted

W1 Closing Stock

Increase/ Decrease

T &amp; BS CA

Closing Stock
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### 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.
  - 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 form part 2 away from the figure calculated in part 1

## Question 1

2012

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

<u>Accounts to be adjusted</u>			
Investment Income	W2 Investment Income	Increase	Add OI
Patents	W3 Investment Income Due	Decrease	BS CA
	W4 Patents	Increase	BS IA
	W5 Patents Written off	Increase	P & L (a)

**Adjustment (iii) - Suspense**
Step to this adjustment (Debenture Interest)

1. Calculate the Debenture interest (for the year)
2. Calculate how much should have been paid for Debenture interest for the first few months.
3. Calculate the Debenture 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 Debenture interest (for the year)
  - Debenture \* rate
  - this is the total interest for the year (yearly) - Less OI
2. Calculate how much should have been paid for debenture interest for the first few months.
  - Look at the Trial balance and see if there has been debenture 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 debenture interest due. (No 1 - No 2 above)
4. Adjust the expense that has the suspense included in it in the trial balance.

## Question 1

2012

- Find the expense that includes the suspense and adjust it

**Tip**

1. Find out how much the debenture interest should have been, on the trial balance beside debenture 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**

	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

Suspense
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**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 our money back (P & L T)
2. Create a compensation figure for the current assets in the balance sheet for the amount received by the insurance company. (BS CA)
3. Find out if the company made a profit or loss from the damaged stock (damaged stock - compensation) (P & L - Profit add Operating Income, Loss P & L (A) )

Accounts to be adjusted

Stock Destroyed (Insurance Compo)
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W10 Purchases	Decrease by damage figure.	T
W11 Compensation	Create a compensation	BS CA
W12 P/L on stock	Profit/Loss	Profit - Add OI Loss - P & L (a)

Tutorial Video

<b>Adjustment (v) - Depreciation (Delivery Vans)</b>
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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 if a profit or loss has been made (Disposal Account)
8. Purchases Adjust the purchase with the net amount (Value of the asset - allowance)

Explanation

1. 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
2. Calculate the Depreciation for This year

## Question 1

2012

- 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
3. 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
    1. Dep on all the vans (remember to take away the vans total from the van sold)
    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**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	P & L (s & d)
	Profit	Add OI
W10 Purchases	Increase	T

**Adjustment (vi) - Bank Statement****(i) Steps to this adjustment**

- |            |   |
|------------|---|
| 1. Bank OD | Increase with the difference between what you did pay and what was recorded in the books. This is because we have paid extra to our creditors, so we are going further into the bank OD |
| Creditors  | Decrease with the difference between what you did pay and what was recorded in the books. This is because we have paid extra to our creditors so what we now owe them will be less      |

**(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 (You will need to find what the total debt is (100% |
| 2. Bad debt | Create a bad debt with the amount of money the company will not Received. This will be an expense as the company will have to pay it        |
| 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 14 Bank	Increase	BS CA
W 15 Creditors	Decrease	BS CL
W 16 Bad Debt	Decrease	P & L (s & d)



### Adjustment (vii) - Advertising Prepaid

#### Steps to this adjustment

1. Advertising Expense Calculate the amount of advertising for this year. This will be the expense that will go in the P & L s & d)
  - a.  $4800 / 18$  - this will give you the amount of advertising to be paid each month
  - b. Multiply the figure calculated in part a by 3 because this is how long the expense is for this year  
(Started on the 1.10.11 - 3 months to the end of the year)
  
2. Advertising Prepaid Multiply the figure calculated in part a by 1 by 15 because this is how long is left in the campaign

#### Accounts to be adjusted

Advertising prepaid
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W 17 Advertising (expense)	Decrease	P & L (s & d)
W 17 Advertising (Prepaid)	Increase	BS CA

### Adjustment (viii) - Directors Recommendations

1. Investment Income due is already calculated as part of adjustment (ii)  
Debenture interest has been already calculated as part of adjustment (iii)
  
2. 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
  2. Then check to see if this provision is and increase or decrease - find the provision for bad debt figure in the question and take away the new provision (part 1)
  3. 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.
  
3. Buildings to be depreciated
  1. Use the new building figure (Less VAT) and calculate the depreciation on it

**Accounts to be adjusted**

Provision for Bad Debts
Dep Buildings

W 18 Provision for bad debt

Increase

BS CA

P &amp; L (s &amp; d)

Decrease

Add Income

W 19 Dep Buildings

P &amp; L (s &amp; d)

BS TA