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**McCormack Ltd**

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**2022**

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**Company Accounts**

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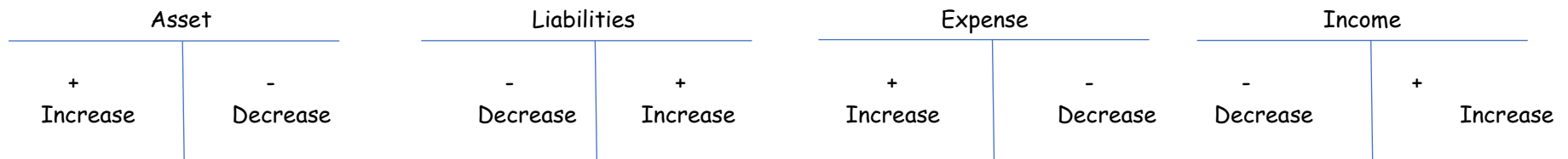
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**Support Material**

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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) - Sale or Return****Credit Purchases**

This will affect the following accounts

1. Closing stock    Decrease as the goods can be returned  
Need to calculate the cost price (100%) and reduce by this figure
2. Purchases        Decrease with the cost price as we haven't purchased the goods yet
3. Creditors         Decrease with the cost price as we don't owe the money as we haven't bought the goods

Explanation

We received goods on a sale or return basis - if they didn't sell them, we could return them. We have recorded this transaction as a credit Purchases (in the purchases and creditors account) but it is not a credit sale. We need to adjust the following account with the cost of the Good (100%) - This figure will have to be calculated

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

## 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

Sale or Return (Credit Purchases)	W1 Closing Stock	Decrease by cost price.	T & BS CA
	W2 Purchases	Decrease by cost price.	T
	W3 Creditors	Decrease by cost Price.	BS CA

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

- |                        |   |
|------------------------|---|
| 1. Fixed Assets (Vans) | Calculate the Value of the Fixed Assets (Vans)                                    |
| 2. Acc Dep (Vans)      | Calculate the Depreciation for This year (Acc Depreciation Vans)                  |
| 3. Acc Dep (Vans)      | Calculate the Accumulate Depreciation for the Fixed Asset (Acc Depreciation Vans) |
| 4. Disposal            | Calculate is a profit or loss has been made (Disposal Account)                    |
| 5. 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
  - 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 years 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)

## Question 1

2022

- 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
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W 4 Value of Fixed Asset	Increase	BS FA
W 4 Dep of Fixed Asset	Increase	BS FA
W 4 Dep This year	Increase	P & L (s & d)
W 4 Profit/Loss (Disposal)	Loss Profit	P & L (s & d) Add OI
W 2 Purchases	Increase	T

**Tutorial Video**
**Adjustment (iii) - Warehouse Destroyed by Fire**
**Steps to this adjustment**

1. Premises      Decrease Premise by the damage cause by the fire
2. Compensation    Create a compensation account
3. Profit or loss    Find out if there was a profit or loss made

**Explanation**

1. Reduce the premise figure by the figure that was damaged in the fire because our buildings have decrease by this figure (P & L T)

## Question 1

2022

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

Warehouse  
destroyed by Fire

W 5 Premises	Decrease by damage figure.	BS TA
W 6 Compensation	Create a compensation	BS CA
W7 P/L on stock	Profit/Loss	Profit - Add OI Loss - P & L (a)

Tutorial Video
**Adjustment (vi) - Depreciation of Buildings**

1. Depreciation      Calculate the depreciation for this year

Explanation

1. Calculate the depreciation for this year  
Remember to take the land figure away form the buildings figure as land doesn't depreciate.

Accounts to be adjusted

Dep Buildings

W8 Dep Buildings	Increase	P & L (a) BS TA
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Tutorial Video

**Adjustment (v) - Bank Statement**
Part 1

Cheque not presented for payment means that no money has left our bank account, so you don't need to make any adjustment just ignore it

Part 2 - Cheque entered in the books incorrectly

- |            |   |
|------------|---|
| 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 |
| Debtors    | 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      |

Part 3 - Cheque for final payment by debtor

- |             |   |
|-------------|---|
| 1. Debtors  | Reduce the debtors by the full amount as this is how much we will not receive from them |
| 2. Bad debt | Create a bad debt with the amount of money they will not receive                        |
| 3. Bank     | Decrease the bank with the money that we received                                       |

Part 4 - cheque from debtor who was declare bankrupt but can now pay

- |                       |  |
|-----------------------|--|
| 1. Bank               | Reduce the bank by the Amount of money received  |
| 2. Debtor             | Increase the debtors with the amount of money we have still yet to receive as in the question, it says that they will pay it |
| 3. Bad debt Recovered | Create a bad debt recovered account and record the full amount of the debt that we are going to received                     |

Accounts to be adjusted

Bank Statement

W 9 Bank	Increase/decrease	BS CL
W 10 Debtors	Decrease	BS CA
W 11 Bad Debt	Increase	P & L (s & d)
W 12 Bad Debt Recovered	Increase	P & L Add OI

Tutorial Video**Adjustment (vi) – Patents & Investment Income**Steps to this adjustment

- |                          |  |
|--------------------------|--|
| 1. Investment Income     | Calculate how much the Investment income has been paid<br>(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
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 and 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**

Investment Income	W 13 Investment Income	Increase	Add OI
Patents	W 13 Investment Income Due	Decrease	BS CA
	W 14 Patents	Increase	BS IA
	W 15 Patents Written off	Increase	P & L (a)

**Tutorial Video****Adjustment (viii) - Directors Recommendations**

- Investment Income due is already calculated as part of adjustment (vi)

Debenture interest will have to be calculated

**Steps to this adjustment (Debenture Interest)**

Debenture Interest	Increase	Calculate the debenture interest for the year
Debenture interest due	Decrease	Calculate how much is left to be paid for debenture interest

**Explanation**

- Debenture interest

Calculate the debenture interest for the year. Remember to take the yearly debenture interest away from the new debenture interest in the Trial balance at this total is not for the year

$$(360000 - 60000)$$

$$300000 * 6\%$$

$$60000 * 6\% * 7/12$$
- Debenture interest Due

Look at the trial balance and see if we have paid any interest. This figure is then taken away from the figure calculate in part 1 above to give you the debenture interest due figure

**2. 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
3. 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 an 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.
4. Transfer to capital
  1. Add the figure in the question to the dividend figure at the end of the profit and loss. This figure is then taken away from the net profit figure to give you the reserve for the year (31.12.xx)
  2. It will also be added to the capital figure in the trial balance and entered in the Balance Sheet in the Finance By section under the capital heading
5. Paying Corporation Tax
  1. Use the figure in the question and take it away from the net profit before tax in the profit and loss account
  2. The figure in the question will also go into the creditor due within one year in the balance sheet as this is a liability that has to be paid

**Accounts to be adjusted**

Debenture Interest Due
Commission
Provision for bad Debts

W 17 Debenture Interest	Increase	P & L (less OP)
W18 Debenture Interest Due	Decrease	BS CL
W 19 Commission	Increase	P & L (s & Dd)
		BS CL
W 20 Provision for bad debts		BS CA

Note if there is an Increase in the provision P & L (s & d)  
 if there is a decrease in the provision P & L (add OI)

Transfer to capital	W 21 Transfer to capital	Increase	P & L (less NP)
	W 22 Capital	Increase	BS FB
Taxation	W 23 Taxation	Decrease	P & L
	W 23 Taxation	Increase	BS CL

Tutorial Video

