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**Nolan Ltd**

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**2022**

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**Company Accounts**

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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

Asset		Liabilities		Expense		Income	
+	-	-	+	+	-	-	+
Increase	Decrease	Decrease	Increase	Increase	Decrease	Decrease	Increase

**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 €6,4000 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 &amp; BS CA

Closing Stock

### Adjustment (ii) - Sale or Return

#### **Credit Sales**

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. Sales Decrease with the full price as we haven't sold the goods yet
3. Debtors Decrease with the full price as we are not owed the money as we haven't Sold the goods on credit

#### Explanation

We sold goods on a sale or return basis - if they didn't sell them, they can return them. We have recorded this transaction as a credit sales (in the sales and debtors account) but it is not a credit sale. We need to adjust the following accounts with the cost of the Good (100%) and the sales price (120%) - This figure will have to be calculated

1. Closing stock will increase as the goods can be returned (By the cost price - needs to be calculated)
2. 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 sale price (120%) amount in the question)

3. Debtors will decrease as they don't owe use the money as we have not sold goods on credit to them - they can return them if they are not sold (by the sale price (120%) 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

<b>Accounts to be adjusted</b>		
	W1 Closing Stock	Decrease by cost price (100%) T & BS CA
Sale or Return (Credit Sales)	W2 Sales	Decrease by sale price (120%) T
	W3 Debtors	Decrease by sale price (120%) BS CA

#### Adjustment (iii) - 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 from part 2 away from the figure calculated in part 1

## Question 1

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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**

Investment Income	W 4 Investment Income	Increase	Add OI
Patents	W 5 Investment Income Due	Decrease	BS CA
	W 6 Patents	Increase	BS IA
	W 7 Patents Written off	Increase	P & L (a)

**Adjustment (iv) - Stock & Warehouse Destroyed by Fire****Steps to this adjustment**

1. Purchases      Decrease the purchase figure with the damaged stock
2. Buildings      Decrease buildings by the damage cause by the fire and increase it with the figure for materials and labour (new storeroom)
3. Compensation    Create a compensation account with the figure that is given in the question
4. Profit or loss    Find out if there was a profit or loss made
5. Wages            Decrease the wages (Salaries and expenses) with the figure that is given in the question.

**Explanation**

1. Decrease the purchase figure with the damaged stock as we can't sell these to get the money back (be careful not to use closing stock) (P & L T)
2. Reduce the buildings figure by the figure that was damaged in the fire because our buildings have decrease by this figure and also increase it with the figures for materials and labour as this is the new value of the storeroom (BS s & d)
3. Create a compensation figure for the current assets in the balance sheet for the amount received by the insure company. (BS CA)

## Question 1

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4. 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) )
5. Decrease the wages (Salaries and expenses) with the figure that is given in the question. This is because the employees already work for us and we pay them a wage, so we will not pay them twice (P & L (A))

**Accounts to be adjusted**

	W 8 Purchases	Decrease	P & L (T)
Warehouse destroyed by Fire	W 9 Buildings	Decrease/Increase	BS TA
	W 10 Compensation	Create a compensation	BS CA
Stock destroyed by Fire	W 11 P/L on stock	Profit/Loss	Profit - Add OI Loss - P & L (a)
	W 12 Salaries	Decrease	P & L (a)

**Adjustment (v) - Suspense**Step to this adjustment (Discount Received)

1. Increase / Decrease the discount figure depending if it the figure is on the debit side or credit side.
2. Increase / Decrease the expense with the suspense. (Opposite to what was done in one above)

Explanation

1. Remember discount received is an income so you credit an income. Check to see if there is a discount in the trial balance. If the discount is on the debit side in the trial balance you will take the discount received figure away but if the discount figure is on the credit side in the trial balance then you will add it on. If there is no discount in the trial balance, you will just create one with the figure given in the question
2. The opposite to this will be a debit in the expense account that has the suspense (Add it on)

Tip

1. On the trial balance on the credit side put plus €800 the Cr side is now higher than the debit side

## Question 1

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- Remember the DR and CR must equal so in the expense that has the suspense (on the Trial balance) you will add €800 to this expense (Directors Fees) do the opposite to balance the DR and Credit side

Step to this adjustment (Sales)

- Adjust the sales figure - Sales is a n income and is on the cr side. So if sales were returned, we need to reduce the sales figure in the trial balance by €300
- So to reduce the sales figure we put €300 on the debit side
- We also need to adjust the expense that has the suspense included in it in the trial balance. This will decrease as the dr side is €300 higher that the credit side

Tip

- On the trial balance beside sale put -300 this means Dr side is now higher (Remember the Dr and Cr must equal)
- Now adjust the expense that has the suspense to balance the DR and CR side -300 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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W 13 Discount

Create

Add OP

W 2 Sales

Decrease

P &amp; L (T)

W14 Directors Fees

De/Increase

P &amp; L (a)

**Adjustment (vi) - Advertising**
Step to this adjustment

- Using the figure in the trial balance for advertising. Find out how much of it is for this year's expense ( $3/18 * €30,000 = €5,000$ )
- The remainder €25,000(€30,000 - €5,000) is how much advertising we have prepaid for the next year

Accounts to be adjusted

Advertising
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W 15 Advertising

Expense

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

Prepaid

BS CA

**Adjustment (vii) - Bank Statement**Part 1 - Investment Income

- |                          |   |
|--------------------------|---|
| 1. Bank                  | Increase the bank by the amount of money received   |
| 2. Investment Income Due | Decrease the investment income figure that is due by the figure that was received for investment income |

Part 2 - 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 3 - Cheque entered in the books incorrectly

- |          |  |
|----------|--|
| 1. Bank  | 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 we will have less in the bank    |
| Creditor | 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 4

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

Accounts to be adjusted

	W 16 Bank	Increase/decrease	BS CA
Bank Statement	W 5 Investment Income Due	Decrease	BS CA
Investment Income Due	W 3 Debtors	Decrease	BS CA
Debtors	W 17 Bad Debt	Increase	P & L (s & d)
Bad Debts	W 18 Creditors	Decrease	BS CL
Creditors			



### Adjustment (viii) - Provisions

#### Depreciation of Premises

1. Depreciation                      Calculate the depreciation for this year

#### Explanation

1. Calculate the depreciation for this year this will be the expense for this year
2. Add this year depreciation figure to the depreciation figure in the trial balance. This will be the new accumulated figure that will go in the balance sheet.

Note - Remember to use the most up to date premises figure

#### Accounts to be adjusted

W19 Dep Buildings

Increase

P & L (a)

Dep Buildings

BS TA

#### Depreciation (Delivery Vans)

#### Steps to this adjustment

1. Acc Dep (Vans)                      Calculate the Depreciation for This year (Acc Depreciation Vans)
2. Acc Dep (Vans)                      Calculate the Accumulate Depreciation for the Fixed Asset (Acc Depreciation Vans)

NOTE - Remember to use the Net Book Figure to calculate the depreciation. The Net Book Value is Cost - Accumulated Depreciation. These two figures are in the trial balance.

#### Explanation

1. Calculate the Depreciation for This year
  - Use the cost and accumulated figures for delivery vans in the trial balance and take these away from each other. This gives you the NBV
  - Now multiply the NBV figure by the rate in the question (30%)
2. To calculate the accumulate Depreciation for the delivery Vans complete the following
  - Use the accumulate depreciation figure for vans in the trial balance and add it to this year depreciation figure

**Accounts to be adjusted**

W 20 Dep Delivery Vans

Increase

P &amp; L (s &amp;

d)

Depreciation of Fixed Assets
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BS TA

<b>Debenture Interest Due &amp; Investment Income Due</b>
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Steps to this adjustment (Debenture Interest due)

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  
(400000 - 100000)  
 $€300,000 * 8\% = €24,000$   
 $€100,000 * 6\% * 6/12 = €4,000$
- 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

Step to this adjustment (Investment Income Due)

Investment Income due is already calculated as part of working 5

**Accounts to be adjusted**

W 21 Debenture Interest

Increase

P &amp; L (less OP)

Debenture Interest Due
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W 22 Debenture Interest Due

Decrease

BS CL

Investment Income Due
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W5 Investment Income Due

Increase

BS CA