
Texas Ltd

**Manufacturing and
Company Accounts**

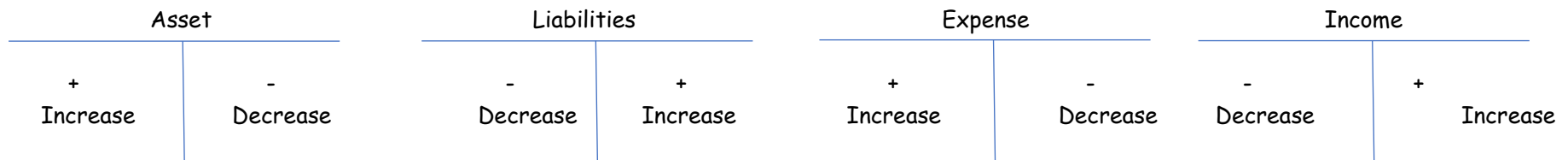
2022

Deferred Paper

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

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	W1	Raw material	as per adjustment	M RM
Closing Stock		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	W1 Closing Stock	Increase by cost	T / BS CA
Sale or Return	W2 Sales	Decrease figure in Q	T
	W3 Debtors	Decrease figure in Q	BS CA

ADJUSTMENT (ii) - SUSPENSE

Remember

Discount Received and Creditors go together

Discount Allowed and Debtors go together

Step to this adjustment (debtors)

- Discount allowed has been entered in the discount account but not in the debtors account, so we need reduce the debtors account by the figure in the adjustment

Tip

- Reduce the debtor's figure by subtracting the €500 from the debtors in the trial balance
- This will decrease the Dr side (Remember the Dr and Cr must equal) so in the General Factory Overhead where the suspense is we add €500 as well

Remember to do this on the trial balance

Step to this adjustment (creditors)

- We bought goods on credit and recorded the transaction on the wrong side of the creditors account. We need to correct the error by putting €8,000 on the credit side of the creditors account and then record another €8,000 to record the transaction. This is €16,000 in total)

Tip

- On the trial balance beside creditors + 16,000 this means Cr side is now higher (Remember the Dr and Cr must equal)
- Now adjust the expense that has the suspense (on the Trial balance General Factory Overhead) to balance the DR and CR side + 16,000 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

W3 Debtors

BS CL

W4 Creditors

M RM

W5 General Factory Overheads

M PC

Adjustment (vii) - EXTENTIONStep to this adjustment

- Factory Wages Decrease the factory wages by €32,000. This is because we used our own employees to build the extension and won't pay them twice

Question 1

2022

2. Purchase Decrease the purchase of raw materials by figure by €28,000. 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

Store Built (Extension)

W6 Factory Wages	Decrease	M DC
W7 Purchases of raw material	Decrease	M
W8 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 €4,500 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

Scrap Material

W9 Scrap material	decrease	M FC
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ADJUSTMENT (iv) - DEP PLANT AND MACHINERY
Steps to this adjustment

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 €20,000 (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

Depreciation of P & M

W10 Plant and machinery	Decrease	BS TA
W10 Plant and machinery	Increase	P & L (a)
W10 Acc Dep of Machinery	Increase	BS TA
W10 Disposal	Inc / Dec	M PC

Adjustment (viii) - BANK STATEMENT

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

1. Bank overdraft Decrease the bank overdraft with the amount of money received (€900)
2. Debtors Increase the debtors by the different between the total debt and how much we received
3. Bad debt Recovered Create a bad debt recovered Income. (Need to find out 100%)

Accounts to be adjusted

Bank Statement

W 11 Bank	Decrease	BS CL
W 03 Debtors	Increase	BS CA
W 12 Bad debt Recovered	Create	P & L (a)

(ii) Steps to this adjustment (Cheque entered incorrectly)

1. Bank overdraft Decrease the bank overdraft with the difference between what was recorded and what was paid (€8,500 - €5,800 = €2,700)
2. Creditors Decrease the creditors by the same amount above

Accounts to be adjusted

Bank Statement

W 11 Bank	Decrease	BS CL
W 04 Debtors	Decrease	BS CA

(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 (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 (€260,000) 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 = 9 months)

$$260,000 * 4\% * 9/12 = 7,800$$

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 (0). Take is figure away from the investment income calculate above

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%)

$$240,000 * 6\% = 14,400$$

$$\underline{50,000} * 6\% * 9/12 = \underline{2,250}$$

$$290,000 = 16,650$$

Question 1

2022

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 (0). Take is figure away from the investment income calculate above

Accounts to be adjusted

Debenture Interest (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) ($53,600 * 6\% = 3,216$)
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. As there is no provision in the trial balance it will be an expense in the profit and loss account

Accounts to be adjusted

Provision for Bad Debts

W 17 Provision for Bad debt	P & L s & d/ BS CA
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(iv) Steps to this adjustment (Sales Commission)

1. To find the figure that is multiply by 2% take 1,400,000 and take away 1,000,000. This will give you 400,000 ($400,000 * 2\% = 8000$)
2. To find the figure that is multiply by 4% take 1,469,500 (from working 2) and take away 1,400,000. This will give you 69,500 ($69,5000 * 4\% = 2,780$)

Accounts to be adjusted

Sales Commission

W 18 Sales Commission	P & L s & d / BS CL
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