How to Prepare Final Account and Deals with Adjustments in Final Accounts

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Every student needs to go through the stage of preparing final accounts from the Trial balance and dealing with ADJUSTMENTS in Final Accounts
Below are some guidelines and simple snapshots for students to take note of when preparing and adjusting items in Final Accounts. Students should aim at ensuring speed and accuracy in their preparation and ensure that confidence and competence is achieved.

MAJOR STEPS IN PREPARING THE FINAL ACCOUNTS

- Even before you start, get a ruler to scroll line by line (from the trial balance) to avoid taking up a wrong figure (don't belittle this especially when the candidate feel stressful in an examination)
  - Decide where each item is going BEFORE you start to prepare the Final Accounts i.e.
  - Manufacturing account
  - Trading account
  - Income statement (previously known as profit & loss account)
  - Balance sheet

- Remember that:
- Each item displayed in the Trial balance must only be entered ONCE in the Final Accounts
- Any item usually at the foot of a Trial Balance exercise should be dealt with twice (i.e. when an item is prepaid at the date of the Final Accounts)
- For limited companies, you need to show information on Authorized and Issued Capital re: enter Issued Capital ONCE in Balance Sheet and Enter Authorized Capital ONCE at the foot of the Balance Sheet.

SIMPLE SNAPSHOTS TO DEAL WITH ADJUSTMENTS IN FINAL ACCOUNT

1.0 Returns inwards and return outwards

- Return inwards- deduct from Sales in Trading Account
- Return outwards- deduct from Purchases in Trading Account

2.0 Carriage inwards and Carriage outwards:

- Carriage inwards-add to Purchases in Trading Account
- Carriage outwards-charge as an expense in Profit & Loss Account (Income Statement)

3.0 Prepayments (amounts paid in advance)

- Deduct amount from Expenses in Trial Balance
- Add amount to Debtors in Trial Balance

4.0 Accruals (amounts owing)

- Add amount to Expense in Trial Balance
- Add amount to Creditors in Trial Balance

5.0 Depreciation

If on Straight line or on cost basis

- Find cost price of asset (say) $100,000
- Using % (say 20% or 5 years life span) (normally given in question papers)
- Calculate 20% x $100,000 = $20,000

Then :-

(a) Charge $20,000 as an expense in Profit & Loss (Income Statement)

(b) In Balance sheet, deduct total depreciation (namely $20,000 from this year plus depreciation deducted in previous years) from cost price of assets to arrive at Net book value

If on Reducing balance or written down value basis

- Find cost price of asset (say) $100,000
- Find total amount of depreciation deducted to date (see credit side of Trial Balance) say $40,000
- Find the difference = $100,000-$40,000=$60,000 (net book value)
- Using % (say 20% of $60,000) =$12,000

Then:-

(a) Charge $12,000 as an Expense in Profit & Loss Account (Income Statement)
(b) In Balance sheet deduct total depreciation ($12,000 from this year plus any depreciation deducted in previous years $40,000, see figure on credit side of Trial Balance) from cost price

6.0 BAD DEBTS PROVISION

When **CREATING:**

- Decide on the amount of provision to be created (say 2% of Trade Debtors = $10,000)

Then:

(a) Charge the provision $10,000 to Profit & loss account (Income Statement)
(b) In Balance sheet, deduct provision $10,000 from Trade Debtors

INCREASE IN PROVISION:

- Compute the new provision for this year
- Look for old provision (ie last year's – look in Trial balance – credit side)
- Find the difference

Then:

(a) Charge the difference only to Profit & loss account (Income statement)
(b) Deduct the new provision from Trade Debtors in Balance sheet

REDUCTION IN PROVISION:

- Compute the new provision for this year
- Find out the old provision (ie last year's – look in Trial Balance-credit side)
- Find the difference

Then:

(a) Add back the difference as INCOME in Profit & loss account (Income statement)
(b) Deduct the NEW provision from Trade Debtors in Balance Sheet

FOR **BAD DEBTS**

- Just WRITE OFF as an expense in the Profit & Loss Account (Income statement)