

Financial Statements with adjustments

In this worksheet, you can practise preparing a set of financial statements where a set of adjustments needs to be included. The answers are at the end.

The following balances have been taken from Arnold Smith's books of accounts at 30th June 2022:

Account name	Debit (£)	Credit (£)
Bank	6,892	
Capital at 1 st July 2021		172,096
Discount allowed and Discount Received	358	205
Drawings	33,000	
Electricity and Gas	9,742	
Inventory at 1 st July 2021	2,974	
Irrecoverable debts recovered		176
Insurance	9,975	
Land and Buildings at cost	140,000	
Other expenses	12,462	
Provision for depreciation at 1 st July 2021: Land and Buildings		33,600
Provision for depreciation at 1 st July 2021: Vehicles		33,060
Provision for doubtful debts at 1 st July 2021		645
Purchases	77,284	
Revenue		163,081
Salaries and Wages	52,694	
Trade receivables and Trade Payables	12,999	11,517
Vehicles at cost	56,000	
	414,380	414,380

Additional information:

- Inventory at 30th June 2022 was valued at £4,893
- At the end of the financial year, there was an accrual of wages of £824 and a prepayment of insurance of £292
- During the year, Arnold took goods with a value of £2,400 from his warehouse for his own personal use
- A provision for doubtful debts of 4% of trade receivables is maintained
- Depreciation is calculated as follows:

Land and Buildings – 1% per annum using the straight-line method of depreciation

Vehicles – 20% per annum using the reducing balance method of depreciation

6. An irrecoverable debt of £274 needs to be written off; it has not yet been recorded in the books of accounts
7. When the stock-take was completed at the end of the financial year, it was found that some inventory was damaged. This inventory had originally cost £320. It will cost £140 to repair the damaged goods, and once repaired, they will be sold for £350. No adjustment for the damaged goods has been made in the inventory value
8. A £600 bill for electricity has been incorrectly recorded as Other Expenses.

ANSWERS:

How do you know which is which, when you're given two account balances on one row?

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Discount Allowed and Discount Received:
 Discount Allowed = Expense = Debit balance
 Discount received = Income = Credit balance

Trade Receivables and Trade Payables:
 Trade Receivables = Asset = Debit balance
 Trade Payables = Liability = Credit balance

Workings:

W1: Accrual and Prepayment (Note 2)

Salaries and wages = $52,694 + 824 = 53,518$. The Accrual is shown as Other Payables in the SOFP

Insurance = $9,975 - 292 = 9,683$. The prepayment is shown as Other Receivables in the SOFP

W2: Goods for own use (Note 3) : Purchases = $77,284 - 2,400 = 74,884$.

£2,400 is shown as drawings in the Capital section of the SOFP:

Drawings = $33,000 + 2,400 = 35,400$

W3: Provision for doubtful debts (Note 4)

Provision for doubtful debts this year = $4\% \times$ trade receivables

First, deduct the irrecoverable debt (Note 6) from the Trade Receivables figure:

Trade receivables = $12,999 - 274 = 12,725$

Now calculate the provision for doubtful debts:

Provision for doubtful debts = $4\% \times 12,725 = 509$

Last year's provision was £645 (from the list of balances in the question)

Therefore, there is a decrease in the provision of $£645 - £509 = £136$

The £136 decrease in the provision for doubtful debts is shown as Other Income

The £509 provision for doubtful debts is deducted from Trade Receivables in the Current Asset section of the SOFP: Trade Receivables = $12,999 - 274 - 509 = £12,216$

W4: Depreciation (Note 5)

Depreciation (Land and Buildings) = $1\% \times$ Land and Buildings at cost = $1\% \times £140,000 = £1,400$

New provision for depreciation (Land and Buildings) = $33,600 + 1,400 = 35,000$. This is shown in the Non-Current Asset section of the SOFP

Depreciation (Vehicles) = $20\% \times$ Net Book Value of Vehicles
= $20\% \times (56,000 - 33,060) = £4,588$

New provision for depreciation (Vehicles) = $33,060 + 4,588 = 37,648$. This is shown in the Non-Current Asset section of the SOFP

W5: Damaged goods (Note 7): These goods should be valued at the lower of Cost and Net Realisable Value

Net Realisable Value (NRV) = $350 - 140 = 210$

Cost = £320

The NRV is lower than the cost, so the inventory value needs to be reduced from cost (which inventory is always valued at, unless an adjustment is made) to NRV. The inventory value needs to be reduced from £320 to £210, a decrease of £110

Closing inventory = $4,893 - 110 = 4,783$

W6: Error (Note 8):

Electricity & Gas = $9,742 + 600 = 10,342$. Other expenses = $12,462 - 600 = 11,862$

Income Statement for Arnold Smith for the year ended 30th June 2022

	£	£
Revenue		163,081
Inventory at 1 st July 2021	2,974	
Purchases (W2)	74,884	
Inventory at 30 th June 2022 (W5)	4,783	
Cost of sales	<hr/>	73,075
Gross Profit		<hr/> 90,006
Other Income: Discount received	205	
Irrecoverable debts recovered	176	
Decrease in provision for doubtful debts (W3)	136	
	<hr/>	517
		<hr/> 90,523
Expenses:		
Salaries and wages (W1)	53,518	
Electricity and Gas (w6)	10,342	
Insurance (W1)	9,683	
Other expenses (W6)	11,862	
Discount allowed	358	
Irrecoverable debt written off	274	
Depreciation: Land and Buildings (W4)	1,400	
Vehicles (W4)	4,588	
	<hr/>	92,025
Loss for the year		<hr/> 1,502 <hr/>

Statement of Financial Position for Arnold Smith as at 30th June 2022

Non-Current Assets:	£	£	£
	Cost	Accumulated depreciation	Net Book Value
Land and Buildings	140,000	35,000	105,000
Vehicles	56,000	37,648	18,352
			<hr/> 123,352
Current Assets:			
Inventory (W5)		4,783	
Trade Receivables (W3)		12,216	
Bank		6,892	
Other receivables (W1)		292	
		<hr/>	24,183
Total Assets			<hr/> 147,535 <hr/>
Capital:			
Capital at 1 st July 2021			172,096
Loss for the year			1,502
Drawings (W2)			35,400
Capital at 30 th June 2022			<hr/> 135,194
Current Liabilities:			
Trade payables		11,517	
Other payables (W1)		824	
		<hr/>	12,341
Total Capital and Liabilities			<hr/> 147,535 <hr/>