

KEY TERMS

Extended trial balance – a worksheet which takes a trial balance, makes all the year-end adjustments and produces a draft statement of financial position and income statement.

Period end adjustments – adjustments made after the initial trial balance is extracted, but before the financial statements are prepared, including depreciation, accruals and prepayments.

SELF TEST QUESTIONS

1. What is an extended trial balance? Paragraph 1.1
2. What are the six main headings on the extended trial balance? 1.2
3. Give four examples of period end adjustments that can be made on the extended trial balance. 2.1
4. How is a double entry in respect of an accrual achieved? Only a single entry is made on the extended trial balance? 2.2
5. How is closing inventory adjusted for on the extended trial balance? 4.2
6. How would you deduce the profit or loss for the period from the extended trial balance? 5.4

PRACTICE QUESTION

ELMDALE

The trial balance of Elmdale at 31.12.X8 is as follows:

| | Dr | Cr |
|--|---------------|---------------|
| | \$ | \$ |
| Capital account | | 7,802 |
| Inventory | 2,700 | |
| Sales | | 21,417 |
| Purchases | 9,856 | |
| Rates | 1,490 | |
| Drawings | 4,206 | |
| Electricity | 379 | |
| Freehold shop | 7,605 | |
| Freehold shop accumulated depreciation | | 500 |
| Receivables | 2,742 | |
| Allowance for receivables | | 300 |
| Payables | | 3,617 |
| Cash at bank | | 1,212 |
| Cash in hand | 66 | |
| Sundry expenses | 2,100 | |
| Wages and salaries | 3,704 | |
| | <u>34,848</u> | <u>34,848</u> |

In addition, Elmdale provides the following information:

- (a) Closing inventory has been valued for accounts purposes at \$3,060.
- (b) Rates includes a payment of \$1,260 made on 10.4.X8 in respect of the year to 31.3.X9.
- (c) An electricity bill amounting to \$132 in respect of the quarter to 28.2.X9 was paid on 7.3.X9.
- (d) The depreciation charge for the year is \$190.
- (e) Irrecoverable debts of \$200 are to be written off and an allowance equal to 5% of the remaining receivables is required.

Prepare an income statement for the year ended 31 December 20X8 and a statement of financial position at that date, using an extended trial balance worksheet.

A blank worksheet is provided below.

| Account | Trial balance | | Adjustments | | Accrued | Prepaid | Income statement | | Statement of financial position | |
|----------------------------|---------------|----|-------------|----|---------|---------|------------------|----|---------------------------------|----|
| | Dr | Cr | Dr | Cr | | | Dr | Cr | Dr | Cr |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Capital account | | | | | | | | | | |
| Inventory | | | | | | | | | | |
| Sales | | | | | | | | | | |
| Purchases | | | | | | | | | | |
| Rates | | | | | | | | | | |
| Drawings | | | | | | | | | | |
| Electricity | | | | | | | | | | |
| Freehold shop | | | | | | | | | | |
| Freehold shop depreciation | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| Allowance for receivables | | | | | | | | | | |
| Payables | | | | | | | | | | |
| Cash at bank | | | | | | | | | | |
| Cash in hand | | | | | | | | | | |
| Sundry expenses | | | | | | | | | | |
| Wages and salaries | | | | | | | | | | |
| Depreciation | | | | | | | | | | |
| Bad debts | | | | | | | | | | |
| Inventory | | | | | | | | | | |
| Accruals/prepayments | | | | | | | | | | |
| Profit/loss for the year | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

For a suggested answer, see the 'Answers' section at the end of the book.

PRACTICE QUESTION

ELMDALE

| Account | Trial balance | | Adjustments | | Accrued | Prepaid | Income statement | | Statement of financial position | |
|----------------------------|---------------|--------|-------------|-------|---------|---------|------------------|--------|---------------------------------|--------|
| | Dr | Cr | \$ | \$ | \$ | \$ | Dr | Cr | Dr | Cr |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Capital account | | 7,802 | | | | | | | | 7,802 |
| Inventory | 2,700 | | | | | | 2,700 | | | |
| Sales | | 21,417 | | | | | | 21,417 | | |
| Purchases | 9,856 | | | | | | 9,856 | | | |
| Rates | 1,490 | | | | | 315 | 1,175 | | | |
| Drawings | 4,206 | | | | | | | | 4,206 | |
| Electricity | 379 | | | | 44 | | 423 | | | |
| Freehold shop | 7,605 | | | | | | | | 7,605 | |
| Freehold shop depreciation | | 500 | | 190 | | | | | | 690 |
| Receivables | 2,742 | | | 200 | | | | | 2,542 | |
| Receivables allowance | | 300 | 173 | | | | | | | 127 |
| Payables | | 3,617 | | | | | | | | 3,617 |
| Cash at bank | | 1,212 | | | | | | | | 1,212 |
| Cash in hand | 66 | | | | | | | | 66 | |
| Sundry expenses | 2,100 | | | | | | 2,100 | | | |
| Wages and salaries | 3,704 | | | | | | 3,704 | | | |
| Depreciation | | | 190 | | | | 190 | | | |
| Irrecoverable debts | | | 200 | 173 | | | 27 | | | |
| Inventory | | | 3,060 | 3,060 | | | | 3,060 | 3,060 | |
| Accruals/prepayments | | | | | | | | | 315 | 44 |
| Profit/loss for the year | | | | | | | 4,302 | | | 4,302 |
| Totals | 34,848 | 34,848 | 3,623 | 3,623 | 44 | 315 | 24,477 | 24,477 | 17,794 | 17,794 |

Working – receivables allowance

| | |
|------------------------------|--------------|
| | \$ |
| Receivables | 2,742 |
| Less: Written off | 200 |
| | <u>2,542</u> |
| Allowance $5\% \times 2,542$ | 127 |
| Opening allowance | 300 |
| | <u>173</u> |
| Reduction in allowance | |