Provision for Discount on Debtors, Managers Commission and Interest on Capital

All items of adjustments that require incorporation in the accounts, need to be adjusted at the right place so that the correct value of items can be deciphered. Without such incorporation, it will be difficult to judge the right amount of profit or loss earned and incurred during a period and the value of assets and liabilities that should appear in the accounts. Let us take a look at the items of Provision for Discount on Debtors, Managers Commission and Interest on Capital that impact the accounts of a firm.

In accounting terms, provision for discount on debtors shows the reserve amount for adjusting loss due to discount allowed to debtors. In order to receive payment faster from their customers, businessman provides a discount to those customers who pay before maturity of the debt.

So, at the end of the year, we make provision for next year losses due to discount allowed. Thus, this provision will be known as provision for discount on debtors. The provision is made on the basis of past experience with customers. If the Debtors of the current period settle their accounts promptly in the succeeding period, a discount will have to be allowed by the firm.

The amount of discount is an expected loss and a provision has to be made for it in the Final Accounts relating to the current year. Thus, the discount that might be allowed on debts whose debts fall in the succeeding year is estimated.

It is shown on the debit side of Profit and Loss Account and as the deduction from Debtors in Balance Sheet. But always note that the amount of Provision is calculated only after deducting the amount of additional Bad Debts. Entry related to such an event is recorded as follows:

Profit and loss A/c	Dr	xxx	
To Provision for discount on debtors A/c			xxx

Adjustments Related to Manager’s Commission

Companies often may have to offer a fixed percentage of their net profit to managers in the form of commission. This is done to motivate and encourage them to generate more revenue for the company. Accounting treatment related to such an event is as follows:

Manager’s commission is **shown as a payable** since it is calculated at the very end:

Manager’s Commission A/c	Dr	xxx	
To outstanding Commission A/c			xxx

While paying off the commission:

Outstanding commission A/c	Dr	xxx	
To bank A/c			xxx

For transferring the expense to revenue statement:

Profit and Loss A/c	Dr	xxx	
To Manager's Commission A/c			xxx

Adjustments Related to Interest on Capital

In order to deduce a true picture of the business' profit earning capability, it is a common trend to charge interest on capital. Journal entry for interest on capital includes two accounts, **Capital Account** & **Interest on Capital Account.**

Interest on capital is an expense for the firm and therefore, it is added to the capital of the proprietor thus, increasing his total capital in the business. Further, it is not paid in cash or by the bank. Related accounting entry for recording such interest is as follows:

Interest on capital A/c	Dr	xxx	
To Capital A/c			xxx

Solved Example for You

Question: Record the following events through a journal entry:

Provide 10% interest on capital at the end of the year to X when his contribution to the business is 1, 00,000.

Answer:

Interest on capital A/c	Dr	10000	
To Capital A/c			10000