
Nora O'Connell

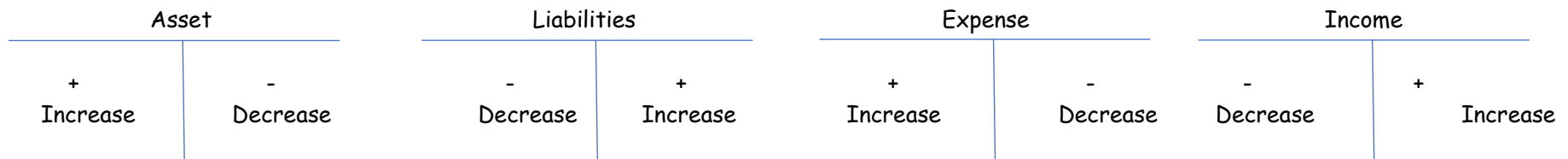
Sole trader

2010

Past Exam Paper

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 (BS)
 - 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 (BS)
 - 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 (P & L)
 - 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 (P & L)



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) - Damaged Stock

Step to this adjustment

1. You need to adjust the closing stock figure by taking the damage stock away and then adding on the net realisable figure.

Accounts to be adjusted

W1 Closing Stock

T & BS CA

Damage Stock

Adjustment (ii) - Investment Income and Patents

Steps to this adjustment

1. Calculate how much the Investment income has been paid (Incorporate in patents)
2. Calculate investment income due.
3. Take investment income out of patents (Add on) to find the patents figure and find out how much is to be written off.
4. Recalculate the patents figure.

Accounts to be adjusted

W2 Investment Income

Add OI

Investment Income
Patents

W3 Investment Income Due

BS CA

W4 Patents Written Off

P & L (a)

W5 Patents

(BS IA)

Adjustment (iii) - Depreciation Fixed Asset

Steps to this adjustment

1. Calculate the Value of the Fixed Assets (Vans)
2. Calculate the Accumulate Depreciation for the Fixed Asset (Vans)
3. Calculate the Depreciation for This year
4. Calculate is a profit or loss has been made,
5. Adjust the purchase with the net amount (Value of the asset - allowance)

Accounts to be adjusted

Depreciation of Fixed Assets

W6 Value of Fixed Asset	BS FA
W6 Dep of Fixed Asset	BS FA
W6 Dep This year	P & L (s & d)
W6 Profit/Loss	Loss - P & L (s & d)
	Profit - Add OI
W7 Purchases	T

Adjustment (iv) - Suspense
Step to this adjustment (Mortgage Interest)

1. Calculate the mortgage interest (for the year)
2. Calculate how much should have been paid for mortgage interest for the first few months.
3. Calculate the Mortgage interest due. (No 1 - No 2 above)
4. Adjust the expense that has the suspense included in it in the trial balance.

Tip

1. Find out how much the mortgage interest should have been, on the trial balance beside mortgage interest paid add or minus this figure.
2. This will increase the DR side (Remember the DR and CR must equal) so in the expense that has the suspense (on the Trial balance) you will do the opposite to balance the DR and Credit side

Step to this adjustment (PAYE/PRSI)

1. Adjust the PAYE/PRSI - PAYE/PRIS is a liability so this will decrease as we paid more but it wasn't recorded.
2. Adjust the expense that has the suspense included in it in the trial balance. (This will be decreased as the CR side in now less and DR and Cr must equal

Tip

1. On the trial balance beside PAYE/PRSI put -2000 this means CR is now less (Remember the DR and CR must equal)
2. Now adjust the expense that has the suspense to balance the DR and CR side - -2000 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

W8 Mortgage Interest	Less OI
W9 Mortgage Interest Due	BS CL
W10 Expense with suspense	P & L (s & d)
W11 PAYE/PRSI	BS CL

Adjustment (v) - Restocking charge

Steps to this adjustment

1. Calculate cost of the goods 8,400 = 120% need to find 100%. This is the cost figure.
2. This cost price (or 100%) is then used to calculate the restocking charge (cost price * 10%)
3. Adjust creditors (increase) with this restocking charge figure.
4. Adjust Purchases (increase) with this restocking charge figure.

Accounts to be adjusted

Restocking Charge

W12 Creditors	Increase	BS CL
W7 Purchases	Increase	T

Adjustment (vi) - Mortgage Interest
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NOTE - Mortgage interest has been already calculated as part of adjustment (iv)

Steps to this adjustment

1. Using the mortgage interest figure for the year (OI figure) find the percentage that is for drawings.
2. Adjust the Mortgage interest figure (decrease)
3. Adjust the drawing figure (increase)

Accounts to be adjusted

Mortgage interest for drawings

W13 Drawings	Increase	BS FB
W8 Mortgage Interest	Decrease	Less OI

Adjustment (vii)

Steps to this adjustment

1. Using the cost figure for Building find the depreciation for this year (using the rate in the question)
2. If you revalue an asset you need to set up a revaluation reserve (to hold the value until the asset is sold)

The revaluation reserve is made up of the increase in the value of the asset, the accumulated dep and the dep for this year.

Accounts to be adjusted

Dep Buildings
Revaluation Reserve

W14 Dep Buildings P & L (a)

W15 Revaluation Reserve BS FB

Adjustment (viii)

Steps to this adjustment

1. Calculate how much is for this year for the P & L ($2,400 * 3/24$)
2. Calculate how much is prepaid for next year for the Balance sheet ($2,400 * 21/24$)
3. Adjust the Advertising figure from the Trial Balance

Accounts to be adjusted

Advertising Prepaid

W16 Advertising P & L (s & d)

W16 Advertising BS CA T

Adjustment (ix) - Bad debts Recovered

Steps to this adjustment

1. Adjust the bank with the figure received in the question. Remember if the bank is on the CR side it is a bank overdraft - liability (so it will reduce the bank figure). If the bank is on the DR side, it is bank - an asset (so it will increase the bank figure)
2. Adjust debtors with the amount that is owed (total debts - figure received)
3. Create a Bad debt recovered (total debt) add to OI.

Accounts to be adjusted

Bad Debt recovered

W17 Bank	increase/decrease	BS CA/CL
W18 Debtors	Increase	BS CA
W19 Bad Debts Rec.	Increase	Add OI