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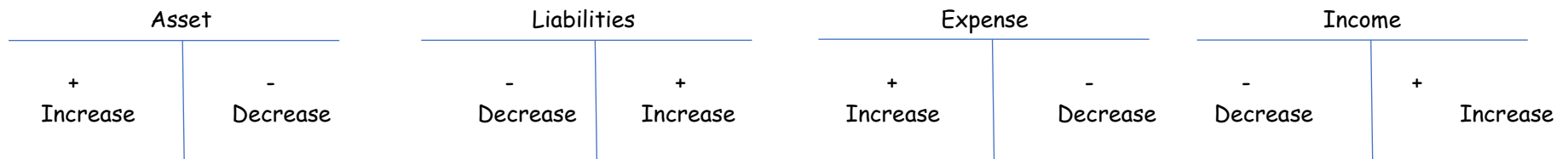
2014

Sole trader

Support Material

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) - Goods in Transit

Step to this adjustment

1. You need to adjust the closing Stock
2. Then you need to adjust the purchase
3. Then you need to adjust creditors

Explanation

1. You need to adjust the closing Stock
 - Adjust the Closing Stock figure for the p & l as these goods should be in our stock room
2. Then you need to adjust the purchase
 - Adjust the Purchases figure for the p & l. as these goods have been bought but in transit
3. Then you need to adjust creditors
 - Adjust the Creditors figure as we owe this money for stock we bought

NOTE

These figures should be adjusted by the cost price and this figure will be needed to be calculated. This can be done by finding the 100% of the goods.

Accounts to be adjusted

Goods in Transit	W1 Closing Stock	Increase	P & L T
	W2 Purchases	Increase	P & L T
	W3 Creditors	Increase	BS CL

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Adjustment (ii) - Depreciation (Delivery Vans)Steps to this adjustment

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

Explanation

1. To calculate the value of the Fixed assets, complete the following
 - Opening Balance (dr) + New Vehicle (dr) Bought - Vehicle Sold (cr)
 - The balancing figure will be on the dr side
2. Calculate the Depreciation for This year
 - add the dep for the van we sold and the van we bought for this year only
 - this figure will go in on the cr side of the acc dep account
3. To calculate the Accumulate Depreciation for the Fixed Asset (Vans) - complete the following
 - Opening Balance (cr) + *This year Dep (cr) - Dep on van sold (dr)
 - Balancing figure will be on the cr side
 - To find this year's dep you will need the following figures
 1. Dep on all the vans (remember to take away the vans total from the van sold)
 2. Dep on the van we sold to date
 3. Dep on the new van we bought

Total * rate * how long you had the vehicle for
4. Calculate is a profit or loss has been made (Disposal Account)
 - Dr the disposal account with the value of the van you just sold, Cr the disposal account with the depreciation for the van just sold and the allowance received.
 - The balance figure will be either a profit or loss. If the balance figure is on the cr side, it is a loss and if the figure is on the dr side it is a profit
 - A loss will go in the P & L as a selling and distribution (S & d) and if it is a Profit it will go in the Add income (OI)
5. Adjust the purchase with the net amount
 - Value of the asset - the allowance given
 - This figure is then taken out of purchases

Question 1

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Accounts to be adjusted

Depreciation of Fixed Assets

W4 Value of Fixed Asset	Increase	BS FA
W4 Dep of Fixed Asset	Increase	BS FA
W4 Dep This year	Increase	P & L (s & d)
W4 Profit/Loss (Disposal)	Loss Profit	P & L (s & d) Add OI
W2 Purchases	Increase	T

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Adjustment (iii) - 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.

Explanation

1. Calculate the mortgage interest (for the year)
 - Mortgage * rate
 - this is the total interest for the year (yearly) - Less OI
2. Calculate how much should have been paid for mortgage interest for the first few months.
 - Look at the Trial balance and see if there has been mortgage interest paid
 - Take the yearly figure and * by the months paid
 - This will give the figure for how much we should have paid
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.
 - Find the expense that includes the suspense and adjust it

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

W5 Mortgage Interest	Increase	Less OI
W6 Mortgage Interest Due	Increase	BS CL
W7 Expense with suspense	De/Increase	P & L (s & d)
W8 PAYE/PRSI	Decrease	BS CL

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Adjustment (iv) - Restocking Charge

Steps to this adjustment

1. Adjust creditors with this restocking charge figure (Please See Note below on how to calculate this figure)
2. Adjust Purchases with this restocking charge figure. (Please See Note below on how to calculate this figure)

Explanation

When we returned the good to our supplier, we didn't receive the full amount back for these goods as the supplier charge use a restock

1. Adjust creditors (increase) with this restocking charge figure
 - This is the figure that we still own to the creditors for restocking the goods that we returned
2. Adjust Purchases (increase) with this restocking charge figure.
 - We need to adjust the purchase as we didn't get the full amount for the stock that we returned

NOTE

These figures should be adjusted by the cost price and this figure will be needed to be calculated. This can be done by finding the 100% of the goods.

1. Calculate cost of the goods 15,000 = 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%)

Accounts to be adjusted

Restocking Charge

W3 Creditors	Increase	BS CL
W2 Purchases	Increase	T

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Adjustment (v) - Mortgage Interest Due (Drawings)

Steps to this adjustment

1. Adjust Mortgage interest due
2. Adjust drawings figure

Explanation

1. Adjust Mortgage interest due
 - This figure has been calculated already as part of adjustment
 - So remember to decrease it with the figure that is for drawings
2. Adjust drawings figure
 - You need to find the amount of interest due that is for drawing and increase the drawing figure

Accounts to be adjusted

Mortgage Interest Due (Drawings)

W3 Mortgage Interest / Due	Decrease	BS CL
W9 Drawings	Increase	BS FB

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Adjustment (vi) - Patents & Investment Income

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.

Explanation

Some one has recorded investment income (which is an income) with the patents (which is an asset)

1. Calculate how much the Investment income has been paid (Incorporate in patents)

Question 1

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- Find the investment figure * rate * how long we had it
 - This is the yearly amount that goes is added onto the Operating income (OI)
2. Calculate investment income due.
 - Find out how many months have been incorporated
 - Figure from step 1 * how many months incorporated
 - This will give you the figure for how much we have received for investment income
 - Take the figure form part 2 away from the figure calculated in part 1
 3. Take investment income out of patents (Add on) to find the patents figure and find out how much is to be written off.
 - Take the figure for investment that was incorporated in patents and add this to the patens figure to take it out of it (Remember the investment income is an income and will go on the cr side and the double entry will be to dr the patents account which is and asset account - this is why you add it on and NOT take it away
 4. Recalculate the patents figure by taken the written off figures away from the parents figure

Accounts to be adjusted

Investment Income
Patents

W10 Investment Income	Increase	Add OI
W10 Investment Income Due	Decrease	BS CA
W11 Patents Written Off	Increase	P & L (a)
W11 Patents	Increase	(BS IA)

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Adjustment (vii) - Depreciation of Buildings & Revaluation
Steps to this adjustment

1. Find the depreciation for building for this year for the profit and loss
2. Find the Accumulate depreciation for buildings for this year and previous years for the balance sheet

Question 1

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3. Calculate the Revaluation reserve figure for the Balance sheet

Explanation

1. Find the depreciation for building for this year for the profit and loss
 - Using the cost figure for Building find the depreciation for this year (using the rate in the question)
2. Find the Accumulate depreciation for buildings for this year and previous years for the balance sheet
 - Use the figure calculated above for the balance sheet
 - NOTE - if the buildings have been revalued at the end of the year there will not no depreciation for the balance sheet
3. Calculate the Revaluation reserve figure for the Balance sheet
 - 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 accumulate dep and the dep for this year.

Accounts to be adjusted

Depreciation Buildings
Revaluation Reserve

W12 Dep Buildings	Increase	P & L (a)
W13 Revaluation Reserve	Increase	BS FB

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Adjustment (viii) - Drawings
Steps to this adjustment

1. Adjust the Purchases figure for the p & l. as these goods have left the business and we will not be able to get the money back
2. Adjust the drawings as they have taken extra

NOTE

Question 1

2014

These figures should be adjusted by the cost price and this figure will be needed to be calculated. This can be done by finding the 100% of the goods.

Explanation

1. The purchases figure will decrease because they have been taken form the business so we will not be able to sell them to get the money back
2. Drawing will increase at they have taken something form the business

Accounts to be adjusted

Drawings

W2 Purchases

Decrease

P & L T

W8 Drawings

Increase

BS FB

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Adjustment (ix) - Bad debt recovered
Steps to this adjustment

1. Calculate the total amount of the bad debt. this will be an Income in the P & L
2. Recalculate the bank figure this is the figure that will go in the BS
3. Recalculate the debtor's figure this figure will go in the BS

Explanation

1. Calculate the total amount of the bad debt. this will be and Income in the P & L
 - This figure will usually be given in the question and is an income because it is extra money, we thought we wouldn't get back but now we are
2. Recalculate the bank figure this is the figure that will go in the BS
 - Take the cheque figure in the question and either reduce or increase the bank
 - If the bank is on the cr side, it is an overdraft as it is a liability (Reduce the bank)
 - If the bank is on the dr side, it is an asset (Increase the bank)
3. Recalculate the debtor's figure this figure will go in the BS (This will be left out of this question as the full debt has been paid and the debtor doesn't owe us any money)

Accounts to be adjusted

W14 Bad Debt Recovered

Increase P & L (s & d)

Bad Debt Recovered

W15 Bank

De/Increase BS CA

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Extra Notes

