

Thurles BSTAI

Accounting

Revision Seminar

Saturday

Session 1

Sole-trader

Presented by
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STRUCTURE OF THE DAY**Session 1**

Question 1 Sole-trader
 120 marks
 30% of the total paper

Break 10 minutes

Session 2

Question 5 Interpretation of Accounts
 100 marks
 25% of the total paper

Break 10 Minutes

Session 3

Question 9 Cash Budgeting
 80 marks
 20% Of the paper

Questions and Answers

| |
|-------------------|
| EXAM PAPER |
|-------------------|

1. The Higher-level paper is marked out of 400
2. 3 Hour paper
3. There are 3 sections

| Section 1 (120 Marks) | Section 2 (100 Marks) | Section 3 (80 Marks) |
|----------------------------------|----------------------------------|---------------------------------|
| Sole-trader | Interpretation of accounts | Costing |
| Company account | Club Accounts | Product Costing |
| Manufacturing account | Service Firms | Job Costing |
| 60 Mark Questions | Cashflow Statement | Stock Valuation |
| Depreciation of Fixed Asset | Tabular Statements | Overhead Apportionment |
| Revaluation of Fixed Assets | Published Accounts | Under / over absorption |
| Creditors Control Accounts | Suspense Accounts | Marginal Costing |
| Debtors Control Accounts | Incomplete Records (A) | Budgeting |
| Farm Accounts | Incomplete Records (B) | Cash Budgets |
| Club Accounts | | Production Budgets |
| Service Firms | | Flexible Budgets |
| Cashflow Statement | | |
| Tabular Statements | | |
| Published Accounts | | |
| Suspense Accounts | | |
| Incomplete Records (A) | | |
| Incomplete Records (B) | | |

4. Mark your answers clearly for the examiner – exam scripts will be scanned online, this will make the correction process easier for them
5. Clearly identify your working – marks will be awarded for workings (in certain questions) if the figure is wrong in your answer

TIMING**Section 1**

| | | |
|------------|-----------|------------|
| Question 1 | 120 marks | 52 minutes |
| Question 2 | 60 marks | 26 minutes |
| Question 3 | 60 marks | 26 minutes |
| Question 4 | 60 marks | 26 minutes |

Answer 1 120-mark question or any 2 60-mark question

Section 2

| | | |
|------------|-----------|------------|
| Question 5 | 100 marks | 44 minutes |
| Question 6 | 100 marks | 44 minutes |
| Question 7 | 100 marks | 44 minutes |

Answer any 2 100-mark question

Section 3

| | | |
|------------|----------|------------|
| Question 8 | 80 marks | 35 minutes |
| Question 9 | 80 marks | 35 minutes |

Answer either Question 8 or 9

| |
|--------------------------------|
| PAST TOPIC - QUESTION 1 |
|--------------------------------|

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|----------------------------|------------|------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Sole-trader | | Yes (a) | Yes | | | Yes | | | Yes | | | | Yes | | Yes | |
| Company | Yes (b) | | | Yes | | | | Yes | | | Yes | | | | | Yes |
| Company & Manufacturing | Yes (a) | Yes (b) | | | Yes | | Yes | | | Yes | | Yes | | Yes | | |

| |
|--------------------------------------|
| SOLETRADER – PAST ADJUSTMENTS |
|--------------------------------------|

| | 2021 | 2020 | 2017 | 2014 | 2010 | 2008 | 2006 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Closing Stock | (i) | (i) | (i) | | (i) | | |
| Sale or Return | (ii) | | | | | | |
| Depreciation Delivery Vans | (iii) | (iii) | (ii) | (ii) | (iii) | (ii) | (ii) |
| Stored Destroyed | (iv) | | | | | | |
| Build a New Store | (iv) | | | | | | |
| Depreciation of buildings | (v) | (v) | (vii) | | | (vii) | |
| Revaluation Reserve | (v) | (v) | (vii) | | | (vii) | |
| Suspense | (vi) | (vi) | (iii) | (iii) | (iv) | (iii) | (iii) |
| Bank | (vii) | (vii) | (vii) | | | | |
| Investment Income Due | (viii) | (viii) | (v) | | | | |
| Mortgage Interest Due | (viii) | (viii) | (v) | (v) | (vi) | | (v) |
| Provision for bad debts | (viii) | (ix) | | | | | (viii) |
| Goods in Transit | | (ii) | (ix) | (i) | | (i) | (i) |
| VAT Warehouse | | (iv) | | | | | (vi) |
| Patents Incorporated | | | (iv) | (vii) | (ii) | (vi) | (iv) |
| Creditors Paid with equipment | | | (vi) | | | | |
| Bad Debt Recovered | | | (vii) | (ix) | (ix) | (ix) | |
| Goods for Private Use | | | (x) | (viii) | | (viii) | |
| Restocking charge | | | | (iv) | (v) | (iv) | |
| Advertising Campaign | | | | | (viii) | | |

PAST SOLE TRADER ADJUSTMENT**Closing Stock**

1. Stock at cost on 31/12/2020 was €72,100. This figure includes damaged stock which cost €12,400 but which now has a net realisable value of 25% of cost. Sole trader 2021
2. Stock at cost on 31/12/2019 was €69,800. This figure includes water damaged stock which cost €10,600 but which now has a net realisable value of 15% of cost. Sole trader 2020
3. Stock on 31/12/2016 at cost €76,500. This figure includes damaged stock which cost €4,500 and now has a net realisable value of €3,000. Sole trader 2017
4. Stock at 31/12/2009 at cost was €75,400. This figure includes damaged stock which cost €8,200 but which now has a net realisable value of €3,400. Sole trader 2010

[Back to table](#)[Workings](#)**Sale or Return**

1. Goods were sent to a customer on a 'Sale or Return' basis on 31/12/2020. These goods were recorded in the books as a credit sale of €28,000 which is a mark-up on cost of 25%. Sole trader 2021

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Depreciation of Delivery Vans

1. Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale. Note: On 31/03/2020 a delivery van which had cost €42,000 30/09/2016 was traded in against a new van which cost €67,000. An allowance of €11,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction. Sole trader 2021

2. Provide for depreciation on delivery vans at the annual rate of 20% per annum on cost from the date of purchase to the date of sale. NOTE: on 31/03/2019 a delivery van which had cost €48,000 on 31/10/2016 was traded in against a new van which cost €64,000. An allowance of €26,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction. Sole trader 2020

3. Provide for depreciation on delivery vans at the annual rate of 15% of cost from date of purchase to date of sale. NOTE: On 31/3/2016 a delivery van which cost €40,000 on 30/09/2012 was traded in against a new van that cost €48,000. An allowance of €18,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction. Sole trader 2017

4. Provide for depreciation on vans at the annual rate of 10% of cost from date of purchase to the date of sale. NOTE: On 31/3/2013 a delivery van which cost €40,000 on 30/9/2010 was traded in against a new van which cost €46,000. An allowance of €16,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase Sole trader 2014

5. Provide for depreciation on vans at the annual rate of 12½% of cost from the date of purchase to the date of sale. NOTE: On 31/03/2009 a van, which cost €24,000 on 30/09/2006, was traded in against a new van which cost €48,000. An allowance of €12,000 was given on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction. Sole trader 2010
6. Provide for depreciation on vans at the annual rate of 15% of cost from date of purchase to date of sale. NOTE: On 31/3/2007 a delivery van which cost €30,000 on 30/9/2004 was traded against a new van which cost €36,000. An allowance of €10,000 was made on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction Sole trader 2008
7. Provide for depreciation on vans at the annual rate of 15% of cost from the date of purchase to the date of sale. NOTE: On 30/4/2005 a delivery van which cost €35,000 on 31/10/2002 was traded against a new van which cost €41,000. An allowance of €15,000 was made on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction. Sole trader 2006

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Storeroom destroyed and new storeroom built

1. During 2020 a storeroom which cost €75,000 and stock which cost €24,000 were Destroyed by fire. The insurance company has agreed to contribute €90,000 in compensation for the fire damage. No entry had been made in the books in respect of the fire. A new storeroom was built by the business's own employees. The cost of their labour €44,000 had been treated as a business expense and the materials costing €38,000 were taken from existing stock. No entry had been made in the books in respect of the new storeroom. Sole trader 2021

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Depreciation on Buildings and Revaluation reserve

1. Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was €400,000) It was decided to revalue the land and buildings at €1,100,000 on 31/12/2020.
Sole trader 2021
2. Buildings are to be depreciated at the rate of 2% per annum on cost (land at cost was €500,000). It was decided to revalue the land and buildings at €900,000 on 31/12/2019.
Sole trader 2020
3. Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €800,000 on 31/12/2016.
Sole trader 2017
4. Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €720,000 on 31/12/2013
Sole trader 2014
5. Provide for depreciation on buildings at a rate of 3% of cost per annum. It was decided to revalue the buildings at €850,000 on 31/12/2009.
Sole trader 2010
6. Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the Buildings at €800,000 on 31/12/2007
Sole trader 2008
7. Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €1,200,000 on 31/12/2005.
Sole trader 2006

[Back to table](#)[Working](#)**Suspense**

1. The suspense figure arises as a result of the incorrect figure for mortgage interest (Although the correct entry had been made in the bank account) and a payment of €2,900 to creditors entered only in the bank account.
Sole trader 2021

2. The suspense figure arises as a result of the incorrect figure for mortgage interest (Although the correct entry had been entered in the bank account) and a VAT payment of €3,700 entered only in the bank account. Sole trader 2020

3. The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct figure had been entered in the bank account) and a VAT refund of €2,000 entered only in the bank account. Sole trader 2017

4. The suspense arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and €2,000 paid towards PAYE, PRSI and USC entered only in the bank account. Sole trader 2014

5. The suspense arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and from €1,000 paid towards PAYE and PRSI entered only in the bank account. Sole trader 2010

6. The suspense figure arises as a result of the posting of an incorrect figure for Mortgage Interest in the mortgage interest account and discount received €200 entered only in the creditors account. The correct interest was entered in the bank account Sole trader 2008

7. The suspense figure arises as a result of the posting of an incorrect figure for mortgage interest to the mortgage interest account and discount received €700 entered only in the creditors account. The correct interest was entered in the bank account Sole trader 2006

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Bank

1. The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2020 has arrived showing an overdraft of €29,200. A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A credit transfer for €1,800 had been received on 31/12/2020 in respect of a debt of €2,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
2. A cheque for €18,700 issued to a supplier had been entered in the books (cash book and ledger) as €17,800.
3. A cheque for €4,800 issued to a supplier had been returned. This had not been entered in the books.
4. A cheque for advertising €17,200 has not been presented for payment.

Sole trader 2021

2. The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2019 has arrived showing an overdraft of €32,000. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A credit transfer for €1,000 had been received on 31/12/2019 in respect of a debt of €1,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
2. A cheque for €16,500 issued to a supplier had been entered in the books (cash book and ledger) as €15,600.
3. A cheque for €2,500 issued to a supplier had been returned. This had not been entered in the books.
4. A cheque for advertising €14,200 has not been presented for payment

Sole trader 2020

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Investment Income Due

- | | |
|---|------------------|
| 1. Provide for Investment income due | Sole trader 2021 |
| 2. Provide for Investment income due | Sole trader 2020 |
| 3. Provision to be made for investment income due | Sole trader 2017 |

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Mortgage Interest Due

- | | |
|---|------------------|
| 1. Provide for mortgage interest due. (Note: 20% of mortgage interest for the year refers to the private section of the building.) | Sole trader 2021 |
| 2. Provide for mortgage interest due. (Note: 20% of mortgage interest for the year refers to the private section of the building.) | Sole trader 2020 |
| 3. Provision to be made for Mortgage Interest due | Sole trader 2017 |
| 4. Provision to be made for mortgage interest due. 25% of the mortgage interest refers to the private dwelling. | Sole trader 2014 |
| 5. Provision to be made for mortgage interest due. 10% of the mortgage interest for the year refers to the private section of the building. | Sole trader 2010 |
| 6. Provision to be made for mortgage interest due. 20% of the mortgage interest for the year refers to the private section of the building. | Sole trader 2008 |
| 7. Provision to be made for mortgage interest due. | Sole trader 2006 |

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Provision for bad debt

1. Provision for bad debts is to be adjusted to 6% of debtors Sole trader 2021
2. Provision for bad debts is to be adjusted to 4% of debtors. Sole trader 2020
3. Provision for bad debts to be adjusted to 3% of debtors. Sole trader 2006

[Back to table](#)[Working](#)**Goods in Transit**

1. No record has been made in the books for 'goods in transit' on 31/12/2019. The invoice for these goods was received showing the recommended retail selling price of €24,500, which is cost plus 25%. Sole trader 2020
2. No record has been made in the books for 'goods in transit' on 31/12/2016. The invoice for these goods has been received showing the recommended retail selling price of €16,000 which is cost plus 25%. Sole trader 2017
3. Stock at 31/12/2013 at cost was €80,000. No record has been made for 'goods in transit' on 31/12/2013. The invoice for these goods had been received showing the recommended retail selling price of €4,800 which is cost plus 20% Sole trader 2014
4. Stock at 31/12/2007 at cost was €75,000. No record has been made in the books for goods in transit on 31/12/2007. The invoice for these goods had been received showing the recommended retail selling price of €6,000 which is cost plus 25%. Sole trader 2008
5. Stock at 31/12/2005 at cost was €72,500. No record had been made in the books for 'goods in transit' on 31/12/2005. The invoice for these goods had been received showing the recommended retail selling price of €7,000 which is cost plus 25%. Sole trader 2006

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VAT (on a warehouse)

1. A new warehouse was purchased during the year for €90,000 plus VAT @ 13.5%. The amount paid to the vendor was entered in the land and buildings account. No entry was made in the VAT account. Sole trader 2020
2. A new warehouse was purchased during the year for €200,000 plus VAT 12.5%. The amount paid to the vendor was entered in the buildings account. No entry was made in the VAT account Sole trader 2006

[Back to table](#)[Working](#)**Patents (Incorporate Investment Income)**

1. Patent, which incorporates 4 months investment income, is to be written off over a five-year period commencing in 2016. Sole trader 2017
2. Patents, which incorporate 3 months investment income, are to be written off over a five-year period, commencing in 2013. Sole trader 2014
3. Patents, which incorporate three months investment income received, are to be written off over a five-year period commencing in 2009. Sole trader 2010
4. Patents, which incorporate 3 months investment income received, are to be written off over a five-year period, commencing in 2007. Sole trader 2008
5. Patents, which incorporate 3 months investment income, are to be written off over a 5 year period, commencing in 2005. Sole trader 2006

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Creditor paid with Equipment

1. A creditor who was owed €7,600 accepted office equipment with a book value of €6,500 in full settlement of the debt. The office equipment had cost €11,000. No entry was made in the books in respect of this transaction. Provide for depreciation on office equipment held on 31/12/2016 at the rate of 20% of cost. Sole trader 2017

[Back to table](#)[Working](#)**Bad Debt Recovered**

1. A cheque for €700 had been received on 31/12/2016 in respect of a debt of €1,200 previously written off as bad. The debtor wishes to continue trading with Mullen and has undertaken to pay the remainder within 1 month. No entry was made in the books in respect of this transaction. Sole trader 2017
2. A cheque for €800 had been received on 31/12/2013 in respect of a debt of €800 previously written off as bad. No entry was made in the books to record this transaction. Sole trader 2014
3. A cheque for €400 had been received on 31/12/2009 in respect of a debt of €900 previously written off as bad. The debtor has agreed to pay the remainder within one month. No entry was made in the books to record this transaction. Sole trader 2010
4. A cheque for €600 had been received on 31/12/2007 in respect of a debt of €1,000 previously written off as bad. The debtor has agreed to pay the remainder within 1 month. No entry was made in the books to record this transaction. Sole trader 2008

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Goods taken for Private use

1. Goods taken by Mullen for own use during the year were not recorded. These goods had a retail value of €4,800 which is cost plus 20%. Sole trader 2017
2. Goods withdrawn by the owner for private use during the year, with a retail value of €3,000, which is cost plus 25%, were omitted from the books. Sole trader 2014
3. Goods withdrawn by the owner for private use during the year with a retail value of €2,000 which is cost plus 25% were omitted from the books. Sole trader 2008

[Back to table](#)[Working](#)**Restocking Charge**

1. Goods with a retail selling price of €15,000 were returned to a supplier. The selling price was cost plus 20%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry has been made in respect of the restocking charge. Sole trader 2014
2. Goods with a retail selling price of €8,400 were returned to a supplier. The selling price was cost plus 20%. The supplier issued a credit note showing a restocking charge of 10% of the cost price. No entry has been made in respect of this restocking charge. Sole trader 2010
3. Goods with a retail selling price of €10,000 were returned to a supplier. The selling price was cost plus 25%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry has been made in respect of the restocking charge. Sole trader 2008

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Advertising Campaign

1. The advertising payment is towards a 24 month campaign which began on 01/10/2009

Sole trader 2010

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[Working](#)

SOLETRADER WORKINGS

Closing Stock

Stock at cost on 31/12/2020 was €72,100. This figure includes damaged stock which cost €12,400 but which now has a net realisable value of 25% of cost.

[Sole trader 2021](#)

Steps to adjustment

| | | |
|---------------|----------|--|
| Closing Stock | Decrease | Closing Stock will decrease by the damaged amount figure given in the question |
| | Increase | Closing stock figure will increase by the NRV figure given in the question (This figure might have to be calculated) (P & L T / BS CA |

Explanation

1. The Closing Stock was valued at €72,100 in the question of this, €12,400 was damaged so it is taken away from €72,100 ($€72,100 - €12,400 = €59,700$)
2. It was then realised that of this damaged stock 25% had a value and could be sold ($€12,400 * 25\% = €3,100$) so we add €3,100 onto the figure calculated in 1 above ($€59,700 + €3,100 = €62,800$)

Working 1 – Closing Stock

| | | |
|---------------|--------------------|-------------------------|
| Cost | €72,100 | From the Trial Balance |
| Damaged Stock | <u>(-) €12,400</u> | Taken form the Question |
| | €59,700 | |
| NRV | <u>(+) €3,100</u> | Taken form the Question |
| | €62,800 | P & L / BS CA |

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Question

Stock at cost on 31/12/2019 was €69,800. This figure includes water damaged stock which cost €10,600 but which now has a net realisable value of 15% of cost. [Sole trader 2020](#)

Calculate the closing Stock figure and identify where the figures go

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Sale or Return

Goods were sent to a customer on a ‘Sale or Return’ basis on 31/12/2020. These goods were recorded in the books as a credit sale of €28,000 which is a mark-up on cost of 25%.

[Sole trader 2021](#)

Steps to adjustment

This will affect the following accounts

| | | |
|---------------|----------|---|
| Sales | Decrease | Sales will decrease as we have not sold the goods as they can be returned if not sold by the company who bought them. Decrease by the total cost of the sale (P & L T) |
| Debtors | Decrease | Debtors will decrease as they don't owe use the money as we have not sold goods on credit to them. Decrease by the total cost of the sale (BS CA) |
| Closing stock | Increase | Closing Stock will increase as the goods can be returned and have not been sold. Need to calculate the cost of the stock (100%) (P & L / BS CA) |

Explanation

| | | |
|---------------|----------|---|
| Sales | Decrease | We sold goods on a sale or return basis. That if the customer didn't sell the goods, they could return them. This means that the sales didn't take place so are reduced |
| Debtors | Decrease | If the sales didn't take place, then no goods were sold on credit. This means the debtors figure needs to be reduced |
| Closing Stock | Increase | As the goods were not sold our closing stock figure will increase |

NOTE

Remember to calculate the cost of the goods that were sold (100%). Remember that the business will sell that as cost plus a profit

| | | |
|--------|---------------|-------------------------|
| 125% = | €28,000 | Taken form the Question |
| 1% = | €28,000 / 125 | |
| | = 224 | |
| 100% = | 224 * 100 | |
| | = €22,400 | |

Working 2 – Sales

| | | |
|--------|--------------------|----------------------------|
| Amount | €1,797,300 | Taken form Question |
| S o R | <u>(-) €28,000</u> | Taken form adjustment (ii) |
| | €1,769,300 | (P & L T) |

Working 3 – Debtors

| | | |
|--------|--------------------|----------------------------|
| Amount | €97,300 | Taken from Trial Balance |
| S o R | <u>(-) €28,000</u> | Taken form Adjustment (ii) |
| | €69,300 | (BS CA) |

Working 1 – Closing Stock

| | | |
|--------|--------------------|----------------------------|
| Amount | €62,800 | Taken from Working 1 |
| S o R | <u>(+) €22,400</u> | Taken form Adjustment (ii) |
| | €85,200 | (P & L T / BS CA) |

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Depreciation of Delivery Vans

Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale. Note: On 31/03/2020 a delivery van which had cost €42,000 30/09/2016 was traded in against a new van which cost €67,000. An allowance of €11,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction. [Sole trader 2021](#)

Steps to this adjustment

| | | |
|-----------------|------------------------|--|
| Fixed Assets | Increase | Calculate the Value of the Fixed Assets (Vans) by taken away the value of the van sold (disposal) and adding the value of the van bought (BS TA) |
| Accumulated Dep | Increase / Decrease | Calculate the depreciation on the van that we just sold and reduce the Accumulated Dep account (Disposal). Then calculate the Depreciation for This year and increase the accumulated dep account (P & L) Then balance the account to find the accumulated dep figure for the year (BS TA) |
| Disposal | | Calculate if a profit or loss has been made. If the balance is on the debit side it is a profit and if the balance is on the credit side it is a loss (P & L Profit add OI) (P & L Loss Exp) |
| Purchases | Decrease | Adjust the purchase with the cheques amount / the net amount (Value of the asset – allowance) (P & L T) |

Explanation

| | | |
|--------------|----------|---|
| Fixed Assets | Increase | The van account will decrease (Credit) with the value of the van we sold as we don't have that van anymore. (The corresponding debit will be in the disposal account). We also need to increase (debit) the van account with the van we bought as the value of our vans |
|--------------|----------|---|

have increased. Remember the opening balance will be taken from the trial balance

Accumulated Dep Increase /
Decrease

1. The accumulated dep account is an asset with a credit balance. We will need to reduce this account with the depreciation for the van we just sold (we will need to calculate this figure) (debit). The corresponding credit will go in the disposal account.

2. We also need to calculate the depreciation on the value of the vans for this year. This will be the expense for the profit and loss (credit)

3. Then we need to balance the account to calculate the accumulated depreciation figure for the balance sheet

4. Remember the opening balance will be taken from the trial balance

Disposal

Calculate if a profit or loss has been made. These will be the double entry from the other accounts. If the balance is on the debit side, it is a profit and if the balance is on the credit side it is a loss

Purchases Decrease

Adjust the purchase with the cheques amount / the net amount (Value of the asset – allowance)

Working 4 - Depreciation

| Vehicles | | | |
|----------|----------------|----------|-----------------|
| Bal | €380,000 | Disposal | €42,000 |
| Bank | <u>€67,000</u> | Bal | <u>€405,000</u> |
| | €447,000 | | €447,000 |

Bal – taken from the Trail Balance

Disposal – Value of car sold in the question

Bank – Value of the car bought in the question

Bal - €405,000 is the balance figure in the account

This is the figure that will go in the BS for Cost of Motor Vehicles

| Accumulated Vehicles | | | |
|----------------------|-----------------|-------|----------------|
| Disposal | €29,400 | Bal | €70,000 |
| Bal | <u>€120,350</u> | P & L | <u>€79,750</u> |
| | €447,000 | | €447,000 |

Bal – taken from the Trail Balance

Disposal – The dep on the vehicle sold (see calculation)

P & L – The dep on all the vehicles the business has this year (see calculation). (S & D)

Bal - €120,350 is the balance figure in the account.

This will go in the BS for Cost of Motor Vehicles

| Disposal | |
|-----------------|-------------------|
| Vehicle €42,000 | Acc Dep €29,400 |
| | Allowance €11,000 |
| | P & L €1,600 |
| <u>€42,000</u> | €42,000 |

Vehicle - Double entry from the Vehicle Account
Acc Dep – Double entry from the Acc Dep Account
Allowance – Taken from the question
P & L (Bal) – The dep on all the vehicles the business has this year (see calculation). (S & D)
NOTE – if the balance is on the dr side it is an income and if the balance figure is on the cr side it is a loss

Depreciation on Vehicle sold

| | | |
|---------------------|----------|-----------------------|
| 31.09.16 – 31.12.16 | 3 | Value x Rate x time |
| 01.01.17 – 31.12.17 | 12 | Value €42,000 |
| 01.01.18 – 31.12.18 | 12 | Rate 20% |
| 01.01.19 – 31.12.19 | 12 | Time 42/12 |
| 01.01.20 – 31.03.20 | <u>3</u> | €42,000 * 20% * 42/12 |
| | 42 | €29,400 |

This year Depreciation

| | | |
|----------------------|-------------|----------------------|
| €338,000 * 20% | €67,600 | (€380,000 - €42,000) |
| €42,000 * 20% * 3/12 | (+) €2,100 | |
| €67,000 * 20% * 9/12 | (+) €10,050 | |
| | €79,750 | |

Working 5 – Purchases

| | | |
|--------|--------------------|---|
| Amount | €1,105,000 | Taken from the Trial Balance |
| Cheque | <u>(-) €56,000</u> | Taken form the question (€67,000 - €11,000) |
| | €1,049,000 | |

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Depreciation t -accounts



Adjust Purchases



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Storeroom destroyed and new storeroom built

During 2020 a storeroom which cost €75,000 and stock which cost €24,000 were Destroyed by fire. The insurance company has agreed to contribute €90,000 in compensation for the fire damage. No entry had been made in the books in respect of the fire. A new storeroom was built by the business's own employees. The cost of their labour €44,000 had been treated as a business expense and the materials costing €38,000 were taken from existing stock. No entry had been made in the books in respect of the new storeroom.

[Sole trader 2021](#)

This adjustment is divided into two parts

1. The storeroom and stock that were destroyed by fire
2. The new storeroom built

Steps to Adjustment

PART 1

| | | |
|-------------------|-----------|---|
| Buildings | Decrease | Buildings will decrease by the value destroyed in the Question (BS TA) |
| Purchases | Decrease | Purchases will decrease by the value destroyed as we can't sell these items (P & L T) |
| Insurance (Compo) | Increase | Create a compensation account for the money to be Received (BSCA) |
| Profit or Loss | Calculate | Add the buildings and purchase together and takeaway the insurance (Profit - Add OI) (Loss - P & L exp (a)) |

Explanation

| | | |
|-------------------|----------|---|
| Buildings | Decrease | As the buildings have been destroyed, they will decrease by the figure in the question |
| Purchases | Decrease | As stock has been destroyed, we will not be able to sell these so we need to decrease purchases and not Closing stock |
| Insurance (Compo) | Increase | We need to create a compensation account for the compensation we will received |

| | | | |
|----------------|-----------|---|---|
| Profit or Loss | Calculate | WE need to find out if we made a profit or loss on this transaction. The majority of the time the business will break even or make a loss (as you can make a profit form insurance) | (Profit - Add OI) (Loss - P & L exp (a)) |
|----------------|-----------|---|---|

PART 2Steps to Adjustment

| | | | |
|-----------|----------|--|-----------------|
| Buildings | Increase | The value of the buildings will increase by adding the wages and materials | (BS TA) |
| Wages | Decrease | The value will decrease as we will not pay our employees Twice | (P & L Exp (a)) |
| Purchases | Decrease | Purchase will decrease with the materials used as we can't sell these | (P & L T) |

Explanation

| | | |
|-----------|----------|---|
| Buildings | Increase | as the company has built a new building using their own materials and employees the buildings will increase by adding wages and materials |
| Wages | Decrease | We used our own employees to build the new buildings – as they are our employee, we don't pay them twice so we need to decrease wages by the figure given in the question |
| Purchases | Decrease | WE also need to reduce purchases as we use the companies' materials to build the buildings so we can't sell these materials in the future |

Working 6 – Damaged Storeroom

| | | |
|----------|--------------------|-------------------------------------|
| Amount | €900,000 | Taken from the Trial Balance |
| Damaged | <u>(-) €75,000</u> | Taken form adjustment (iv) |
| | €825,000 | |
| New room | <u>(+) €82,000</u> | Taken form adjustment (iv) (Part 2) |
| | €907,000 | |

Working 5 – Purchases

| | | |
|----------|--------------------|----------------------------|
| Amount | €1,049,000 | Taken from working 5 |
| Damage | (-) €24,000 | Taken form adjustment (iv) |
| New Room | <u>(-) €38,000</u> | Taken form adjustment (iv) |
| | €987,000 | P & L (T) |

Working 7 – Insurance compensation

| | | |
|---------|-------|----------------------------|
| €90,000 | BS CA | Taken from adjustment (iv) |
|---------|-------|----------------------------|

Working 8 – Profit or Loss

| | | |
|---------------|--------------------|----------------------------|
| Insurance | €90,000 | Taken from adjustment (iv) |
| Damaged Room | (-) €75,000 | Taken from adjustment (iv) |
| Damaged Stock | <u>(-) €24,000</u> | Taken from adjustment (iv) |
| | (€9,000) | P & L Exp (a) Loss |

NOTE Enter the €9,000 in the expense as a plus and not a minus

Working 9 – Wages

| | | |
|---------|--------------------|------------------------------|
| Amount | €135,800 | Taken form the Trial Balance |
| Expense | <u>(-) €44,000</u> | Taken from adjustment (iv) |
| | €179,800 | P & L Exp (a) |

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Depreciation on Buildings and Revaluation reserve

Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was €400,000) It was decided to revalue the land and buildings at €1,100,000 on 31/12/2020.

[Sole trader 2021](#)

Step to adjustment

| | | |
|---------------------|----------|--|
| Buildings | Increase | Increase buildings to the new revalued figure from the Adjustment (BS TA) |
| Dep Buildings | Increase | Calculate the depreciation for buildings for this year (P & L exp (a)) |
| Acc Dep | Decrease | The acc for buildings will need to be decreased and put into the revaluation reserve account |
| Revaluation reserve | Increase | Calculate the figure that goes into the revaluation Reserve (BS FB) |

Explanation

| | | |
|---------------------|----------|---|
| Buildings | Increase | The buildings are to be valued at €1,100,000 at the end of the year. This will be the new figure in the balance sheet for buildings |
| Dep Buildings | Increase | Calculate the depreciation for buildings for this year (Before the revaluation). This is the depreciation expense for this year and goes in the P & L exp |
| Acc Dep | Decrease | The depreciation for the buildings so far goes into the revaluation reserve account |
| Revaluation reserve | Increase | The revaluation reserve is made up of 3 figures 1. The increase in the value of the buildings, 2. The acc dep so far and 3. The dep for this year. |

Working 10 – Building Depreciation

NOTE – as the buildings are revalued at the end of the year, you must calculate the depreciation for this year. Also remember you don't calculate depreciation on land

Sole trader

Adjustments

| | | |
|------------|-----------------|---------------------|
| Amount | €907,000 | From Working 6 |
| Land Value | <u>€400,000</u> | From Adjustment (v) |
| | €507,000 | |

€507,000 * 2%

€10,140 P & L Exp (a)

This figure will be also used to calculate the Revaluation Reserve

Working 11 – Revaluation Reserve

| | | | |
|----------|-----------------|-------|--|
| Amount | €1,100,000 | BS TA | Taken form Adjustment (v) |
| Value | <u>€907,000</u> | | Taken form working 6 |
| Increase | €193,000 | | This figure will be used to calculate the Revaluation Reserve |

The Revaluation reserve is made up of 3 figures

| | | |
|-----------------------|----------|--|
| Increase in the Value | x | Need to calculate this (see above) |
| Dep 01.01.xx | x | Taken form the Trial Balance |
| Dep 31.12.xx | <u>x</u> | working 10 (Only if revalued at the end of the year) |
| | x | BS FB |

| | | |
|-----------------------|----------------|------------------------------------|
| Increase in the Value | €193,000 | Need to calculate this (see above) |
| Dep 01.01.xx | €105,000 | Taken form the Trial Balance |
| Dep 31.12.xx | <u>€10,140</u> | Working 10 |
| | €308,140 | BS FB |

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Question

Buildings are to be depreciated at the rate of 2% per annum on cost (land at cost was €500,000). It was decided to revalue the land and buildings at €900,000 on 31/12/2019.

[Sole trader 2020](#)

Calculate the Depreciation figure for the P & L and the Revaluation Reserve figure to go into the Balance Sheet – (NOTE the Buildings figure is €782,850 from a previous adjustment)

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Suspense

The suspense figure arises as a result of the incorrect figure for mortgage interest (Although the correct entry had been made in the bank account) and a payment of €2,900 to creditors entered only in the bank account.

[Sole trader 2021](#)

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 (Creditors)

1. Adjust the Creditors – Creditors 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 is now less and DR and Cr must equal)

Tip

1. On the trial balance beside Creditors put -2900 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 - -2900 to balance the Dr and Cr sides

You now know if you have to add or takeaway the figures in the expense with suspense.

Working 12 – Mortgage Interest

Note – Watch out for the mortgage use the figure in the trial balance and take away the figure for the mortgage that was bought during the year

| | | | |
|---------------------|----------------|------------------------------|---------|
| Amount | €230,000 | Taken from the trial balance | |
| Additional | <u>€50,000</u> | Taken from the trial balance | |
| | €280,000 | | |
| €230,000 * 5% | | €11,500 | |
| €50,000 * 5% * 9/12 | | <u>€1,875</u> | |
| | | €13,375 | Less OI |
| | | | |
| Paid | €2,375 | Taken from the Trial Balance | |
| Should paid | <u>€2,875</u> | €11,500 * 3/12 | €2,875 |
| Underpayment | €500 | | |

Increase Mortgage interest paid by €500 too €2,875, Decrease Advertising Suspense) by €500

Working 13 – Mortgage Interest Due

| | | |
|--------|-----------------|----------------|
| Amount | €13,375 | See working 12 |
| Paid | <u>(€2,875)</u> | See working 12 |
| | €10,500 | BS CL |

Working 14 – Creditors

Creditors will decrease by €2,900

| | | |
|--------|-----------------|------------------------------|
| Amount | €68,600 | Taken from the Trial Balance |
| Paid | <u>(€2,900)</u> | Taken from adjustment (vi) |
| | €65,700 | BS CL |

Remember to take reduce advertising as well (Cr side is lower than dr side)

Working 15 – Advertising (Suspense)

| | | |
|-----------|-----------------|------------------------------|
| Amount | €36,000 | Taken form the Trial Balance |
| Mortgage | (€500) | Taken from adjustment (vi) |
| Creditors | <u>(€2,900)</u> | Taken from adjustment (vi) |
| | €32,600 | BS P & L exp (a) |

TUTORIAL VIDEO**Question**

The suspense figure arises as a result of the incorrect figure for mortgage interest (Although the correct entry had been entered in the bank account) and a VAT payment of €3,700 entered only in the bank account.

[Sole trader 2020](#)

Calculate the mortgage interest, mortgage interest due, VAT and the correct suspense figure (The VAT figure is 9,050 Dr taken form a previous adjustment)

| |
|--|
| |
|--|

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| |
|-------------|
| Bank |
|-------------|

The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2020 has arrived showing an overdraft of €29,200.

A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A credit transfer for €1,800 had been received on 31/12/2020 in respect of a debt of €2,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
2. A cheque for €18,700 issued to a supplier had been entered in the books (cash book and ledger) as €17,800.
3. A cheque for €4,800 issued to a supplier had been returned. This had not been entered in the books.
4. A cheque for advertising €17,200 has not been presented for payment.

[Sole trader 2021](#)

1. Bad Debt Recovered

For this adjustment you will complete the following

1. Create a bad debt recovered account with the total amount of money received – this will be added to the add income section
2. Decrease the bank with the amount of money received (Remember to take into consideration if the bank it a bank overdraft (Liability) or an Asset
3. Increase the debtors with the amount that is left to pay Step 1 – Step 2)

Working 16 – Bad debt recovered

| | | |
|--------|----------------------------|------------------------------|
| €2,500 | P & L Add Operating Income | Taken Form Adjustment (viii) |
|--------|----------------------------|------------------------------|

Working 17 – Bank Overdraft

Part 1

| | | |
|-----------|----------|------------------------------|
| Bank | €52,100 | Taken form Trial Balance |
| Bad Debts | (€1,800) | Taken Form Adjustment (viii) |
| | €50,300 | |

Working 3 – DebtorsAdjustment (ii)

| | | |
|--------------------|-------------|----------------------------|
| Amount | €97,300 | Taken from Trial Balance |
| S o R | (€28,000) | Taken form Adjustment (ii) |
| | €69,300 | |
| Bad debt Recovered | <u>€700</u> | |
| | €70,000 | BS CA |

2. Incorrect Recording of cheque

For this adjustment you will complete the following

1. Find the difference between what was recorded and should have been recorded
2. Adjust the bank with this difference – so the bank will decrease because we paid more so there is less money in the bank account (Remember to take into consideration if the bank is an overdraft or an asset)
3. Adjust the Creditors with the difference that was calculated in step 1. Creditors will decrease as we have paid more to them

| | | |
|----------|-----------|------------------------|
| Cheque | €16,500 | From adjustment (viii) |
| Recorded | (€15,600) | From adjustment (viii) |
| Error | €900 | Under recorded by €500 |

Working 17 – Bank OverdraftPart 2

| | | |
|--------|-------------|--|
| Bank | €50,300 | Taken form Trial Balance |
| Cheque | <u>€900</u> | Taken Form Adjustment (viii) See above |
| | €51,200 | |

Working 14 - Creditors

| | | |
|--------|---------|--|
| Amount | €65,700 | Taken from working 14 |
| Paid | (€900) | Taken from adjustment (viii) See above |
| | €64,800 | |

3. Returned Cheque

For this adjustment you will complete the following

1. Increase the bank with the figure for the cheque (Remember to take into consideration if the bank is an overdraft or an asset)
2. Increase Creditors with the figure for the cheque as we have not paid our creditors and the debt still has to be paid

Working 17 – Bank Overdraft

Part 3

| | | |
|--------|----------|--|
| Bank | €51,200 | Taken form Working 17 |
| Cheque | (€4,800) | Taken Form Adjustment (viii) See above |
| | €46,400 | BS CL |

Working 14 - Creditors

| | | |
|-----------------|---------------|--|
| Amount | €64,800 | Taken from working 14 |
| Unpaid Creditor | <u>€4,800</u> | Taken from adjustment (viii) See above |
| | €69,600 | BS CL |

NOTE

If a cheque has not yet been present for payment, we don't do anything with it. This is because no money has left our account. We wrote the cheque, gave it to someone but they still have the cheque and not cashed it yet. This means no money has left our account, so we don't have to do any adjustment.

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Question

The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2019 has arrived showing an overdraft of €32,000. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A credit transfer for €1,000 had been received on 31/12/2019 in respect of a debt of €1,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
2. A cheque for €16,500 issued to a supplier had been entered in the books (cash book and ledger) as €15,600.
3. A cheque for €2,500 issued to a supplier had been returned. This had not been entered in the books.
4. A cheque for advertising €14,200 has not been presented for payment [Sole trader 2020](#)

Using the above information calculate the following figures and identify where they go

Bad debt Recovered

Bank Overdraft

Debtors

Creditors if the amount is €103,900

| | |
|--|--|
| | |
|--|--|

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| |
|------------------------------|
| Investment Income Due |
|------------------------------|

Provide for Investment income due[Sole trader 2021](#)Investment Income Due

Steps to this adjustment

1. Calculate how much the Investment income has been paid for the year. This will be added to your operating income
2. Check to see if we received any investment income. This will be in the trial balance
3. Take the investment income for the year (step 1) and the income we have receive (Step 2) and taken them away from each other (step 1 – step 2). This will give you the investment income due figure that goes in the BS CA

Working 15 – Investment Income

Investment €210,000 taken from the trial balance

Rate 3% taken from the trial balance

Invested The €210,000 was invested on the 01/08/2020 (so we will not receive a full year return but 5/12) taken from the trial balance

€210,000 x 3% x 5/12

= €2,625 Yearly figure – add to operating profit / income

Working 16 – Investment Income Due

Now check the trial balance to see how much investment income we have received and take it away from the yearly amount calculated in working 15

| | | |
|--------------------------|---------------|------------------------------|
| Yearly investment income | €2,625 | See working 15 |
| Received | <u>€2,200</u> | Taken from the Trial Balance |
| | €425 | BS CA |

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Question

Provide for Investment income due

[Sole trader 2020](#)

Calculate the investment income and the investment income due figure as say where do they do

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| |
|------------------------------|
| Mortgage Interest Due |
|------------------------------|

Provide for mortgage interest due. (Note: 20% of mortgage interest for the year refers to the private section of the building.)

[Sole trader 2021](#)

NOTE – Mortgage interest has been already calculated as part of Working 12 and working 13 (Suspense)

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) by the interest in drawings
3. Adjust the drawing figure (increase)

Working 12 – Mortgage Interest

Note – Watch out for the mortgage use the figure in the trial balance and take away the figure for the mortgage that was bought during the year

| | | | |
|---------------------|----------------|------------------------------|---------|
| Amount | €230,000 | Taken from the trial balance | |
| Additional | <u>€50,000</u> | Taken from the trial balance | |
| | €280,000 | | |
| €230,000 * 5% | | €11,500 | |
| €50,000 * 5% * 9/12 | | <u>€1,875</u> | |
| | | €13,375 | Less OI |
| €11,500 * 3/12 | €2,875 | | |

Working 13 – Mortgage Interest Due

| | | |
|--------|-----------------|----------------|
| Amount | €13,375 | See working 12 |
| Paid | <u>(€2,875)</u> | See working 12 |
| | €10,500 | BS CL |

Question

Provide for mortgage interest due. (Note: 20% of mortgage interest for the year refers to the private section of the building.)

[Sole trader 2020](#)

Calculate the Mortgage interest figure, Mortgage Interest Due figure and adjust the drawing figure with the mortgage interest due amount

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| |
|-------------------------------|
| Provision for bad debt |
|-------------------------------|

Provision for bad debts is to be adjusted to 6% of debtors[Sole trader 2021](#)Steps to this adjustment

1. Use the Debtors figure (remember to use the up-to-date figure. The debtors might have been adjusted in another adjustment)
2. Multiply the debtor's figure by the rate in the question. This will give you the new provision for Bad debts that goes in the BS as a CA
3. You then need to find out if this provision is an increase or a decrease
 - a. Increase – this is an extra expense for the company, so it goes in the P & L as a S & D Expense). It is money we are not going to get from debtors so the business will have to pay the expense
 - b. Decrease – This is extra income we didn't think we were going to get. More debtors are going to pay so it will be added to the operating income

Working 18 – Provision for Bad debts

| | | |
|---------|---------|---|
| Debtors | €70,000 | BS CA Working 3 (Part of the bank adjustment) |
|---------|---------|---|

| | | |
|-------------------|----|--|
| Rate of Provision | 6% | |
|-------------------|----|--|

€70,000 * 6%

| | | |
|----------|---------------|-----------------------------------|
| = €4,200 | New Provision | Taken away from Debtors in the BS |
|----------|---------------|-----------------------------------|

| | | |
|---------------|--------|--------------------------|
| Old Provision | €3,500 | Taken from trial balance |
|---------------|--------|--------------------------|

| | | |
|---------------|---------------|----------------|
| New Provision | <u>€4,200</u> | see working 18 |
|---------------|---------------|----------------|

| | | |
|--|------|---------------------------|
| | €700 | Increase in the provision |
|--|------|---------------------------|

As this is an increase in the provision the increase (€700) will go in as a Selling and Distribution expense)

TUTORIAL VIDEO[Back to table](#)**Question**

Provision for bad debts is to be adjusted to 4% of debtors.

[Sole trader 2020](#)

Calculate the provision for bad debts figure and if it is an increase or decrease in the provision (Debtors figure is €98,000)

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| |
|-------------------------|
| Goods in Transit |
|-------------------------|

No record has been made in the books for 'goods in transit' on 31/12/2019. The invoice for these goods was received showing the recommended retail selling price of €24,500, which is cost plus 25%.

[Sole trader 2020](#)

Step to this adjustment

1. You need to find the costs price - €24,500 is 125% need to find cost price (100%)
2. Then you need to adjust the closing Stock (with the figure calculated in step 1)
3. Then you need to adjust the purchase (with the figure calculated in step 1)
4. Then you need to adjust creditors (with the figure calculated in step 1)

$$\begin{aligned}
 125\% &= €24,500 \\
 1\% &= €24,500 / 125 \\
 &= €196 \\
 100\% &= €196 * 100 \\
 &= €19,600
 \end{aligned}$$

Working 1 – Closing Stock

| | | |
|--------|----------------|-------------------|
| Amount | €60,790 | See working 1 |
| GIT | <u>€19,600</u> | See Working above |
| | €80,390 | P & L T |

Closing stock will increase as there are more goods being transported to the business

Working 2 – Purchases

| | | |
|--------|----------------|------------------------------|
| Amount | €1,080,000 | Taken from the trial balance |
| GIT | <u>€19,600</u> | See Working above |
| | €1,099,600 | P & L T |

Purchases will increase as we have purchased more goods and they are being delivered to the business

Working 3 – Creditors

| | | |
|--------|----------------|------------------------------|
| Amount | €84,300 | Taken from the trial balance |
| GIT | <u>€19,600</u> | See Working above |
| | €103,900 | BS CL |

Creditors will increase as we have purchased more goods on credit. So, we owe them

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Question

No record has been made in the books for 'goods in transit' on 31/12/2016. The invoice for these goods has been received showing the recommended retail selling price of €16,000 which is cost plus 25%.

[Sole trader 2017](#)

Calculate the Closing stock, purchases, and creditors figure and identify where they go. (Use the following figures Closing stock is €75,000, Purchases is €506,500 and creditors is €70,400)

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| |
|-----------------------------|
| VAT (on a warehouse) |
|-----------------------------|

A new warehouse was purchased during the year for €90,000 plus VAT @ 13.5%. The amount paid to the vendor was entered in the land and buildings account. No entry was made in the VAT account.

[Sole trader 2020](#)

Steps to this adjustment

1. Calculate the amount of VAT that was paid on the asset
2. Because this is a purchase the company can claim back this VAT so we reduce the VAT liability that is in the Trial Balance
3. We also need to reduce the Land and Buildings account by the same amount as it should not be in this account

€90,000 * 13.5%

Taken from the question

= €12,150

Reduce the VAT Liability and the buildings with this figure

Working 6 – VAT Liability

| | | |
|--------|----------------|--|
| Amount | €3,100 | Taken from the trial balance (Cr Side so we owe this amount) |
| VAT | <u>€12,150</u> | See working above – we can claim this amount back |
| | €9,050 | We are owed this amount BS CA |

Working 7 – Buildings

| | | |
|--------|----------------|--------------------------|
| Amount | €795,000 | As per the Trial balance |
| VAT | <u>€12,150</u> | See Working above |
| | €782,850 | |

We reduce the buildings because the VAT should not be in this account

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Question

A new warehouse was purchased during the year for €200,000 plus VAT 12.5%. The amount paid to the vendor was entered in the buildings account. No entry was made in the VAT account

[Sole trader 2006](#)

Calculate the VAT figure to be used to adjust the VAT liability and the buildings account

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Patents (Incorporate Investment Income)

Patent, which incorporates 4 months investment income, is to be written off over a five-year period commencing in 2016.

[Sole trader 2017](#)

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

Someone 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) - 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 from 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 patents 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 an 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 patents figure

Working – Investment Income

| | |
|------------|---|
| Investment | €200,000 (Taken from the trial balance) |
| Invested | 01/05/2016 (only received 8 months investment this year) (Taken from the trial balance) |
| Rate | 3% (Taken from the trial balance) |

$$\begin{aligned} & \text{€200,000} * 3\% * 8/12 \\ & = \text{€4,000} \quad \text{Add Operating Profit / Income} \end{aligned}$$

Working – Investment Income Due

Of this €4, 000 - 4 months have been incorporated in the patents figure (see Trial balance).

We need to find out how much this is as we have received it

| | | | |
|--------------|--------|---------------|-------------------|
| €4,000 * 4/8 | Yearly | €4,000 | See working above |
| = €2,000 | Paid | <u>€2,000</u> | See this working |
| | | €2,000 | Due BS CA |

Note - 4 months is how much is incorporated, 8 month is how long we have invested the money for so far this year

Working – Patents

Remember Patents is an asset (Dr), Investment Income is an Income (Cr). To take the income out we need to add it onto the Patents (Dr Patents Cr Income)

| | | |
|-------------|----------------|------------------------------|
| Amount | €68,000 | Taken form the trial balance |
| Income | <u>€2,000</u> | See working above |
| | €70,000 | |
| Written off | <u>€14,000</u> | See next working |
| | €56,000 | BS IA |

Working – Patents Written Off

| | |
|-------------------|-------------------------|
| €70,000 / 5 years | |
| = €14,000 | P & L Exp (A) |
| €70,000 | Patents working |
| 5 years | Taken form the question |

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Question

Patents, which incorporate 3 months investment income, are to be written off over a five-year period, commencing in 2013.

[Sole trader 2014](#)

Calculate the Investment Income, Investment Income Due, Patents and the Patents Written off figure

| |
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Creditor paid with Equipment

A creditor who was owed €7,600 accepted office equipment with a book value of €6,500 in full settlement of the debt. The office equipment had cost €11,000. No entry was made in the books in respect of this transaction. Provide for depreciation on office equipment held on 31/12/2016 at the rate of 20% of cost. [Sole trader 2017](#)

Steps to this adjustment

1. Calculate how much the creditors will decrease by
2. Calculate how much to reduce the equipment by
3. Calculate the new accumulated depreciation figure for the BS
4. Calculate in the disposal account if there was a profit or loss on the equipment

Explanation

1. Creditors – reduce by the amount they are owed (Dr the Creditors Account)
2. Equipment – Reduce by the cost of the equipment (Cr the Equipment Account and Dr the Disposal Account) (remember the opening balance of the equipment on the Dr side)
3. Accumulated Depreciation – Reduce the Accumulated Depreciation account by the dep for the Equipment that was just sold (Dr Accumulated Depreciation and Cr Disposal Account) use the cost figure for equipment and take away the value of it now – this will give you the depreciation paid figure (Remember to include the opening balance for Accumulated Depreciation on the Cr Side)
4. Disposal - Dr with the cost of equipment figure - Cr with the Accumulated Depreciation Figure - Cr With the payment to creditors - Then balance the account (if the balance is a Cr it is a loss – Admin Expense if the balance is a Dr it is a profit – Add to Operating Income)

Working 4 - Depreciation

| Equipment | | | |
|-----------|-----------------|----------|----------------|
| Bal | €25,000 | Disposal | €11,000 |
| | <u> </u> | Bal | <u>€14,000</u> |
| | €25,000 | | €25,000 |

| Accumulated Equipment | | | |
|-----------------------|---------------|-------|---------------|
| Disposal | €4,500 | Bal | €10,000 |
| Bal | <u>€8,300</u> | P & L | <u>€2,800</u> |
| | €12,800 | | €12,100 |

| Disposal | | | |
|-----------|---------------|----------|---------------|
| Equipment | €11,000 | Acc Dep | €4,500 |
| P & L | <u>€1,100</u> | Creditor | <u>€7,600</u> |
| | €12,100 | | €12,100 |

Bal – taken form the Trail Balance

Disposal – Equipment sold in the question

Bal - €14,000 is the balance figure in the account
This is the figure that will go in the BS for Cost of Equipment

Bal – taken from trial balance (25,000 – 15,00)

Disposal – taken from the question (11,000 – 6,500)

P & L – This year's dep (4,000 * 20%) (P & L)

Bal - €120,350 is the balance figure in the account.
This will go in the BS for Cost of Motor Vehicles

Equipment - Double entry from the Equipment Account

Acc Dep – Double entry from the Acc Dep Account

Creditor – This is the amount of money we paid the creditor

P & L – This is the balance on the transaction. if the balance is on the dr side it is a profit and if it is on the cr side it is a loss

Working – Creditors

| | | |
|-----------|---------------|------------------------------|
| Amount | €78,000 | Taken from the trial balance |
| Equipment | <u>€7,600</u> | Taken from the question |
| | €70,400 | |

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Bad Debt Recovered

A cheque for €700 had been received on 31/12/2016 in respect of a debt of €1,200 previously written off as bad. The debtor wishes to continue trading with Mullen and has undertaken to pay the remainder within 1 month. No entry was made in the books in respect of this transaction.

[Sole trader 2017](#)

Steps to this adjustment

1. Calculate the total amount of the bad debt. this will be and Expense 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 Expense in the P & L - This figure will usually be given in the question
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

Working – Bank

| | | |
|--------|-------------|------------------------------|
| Amount | €70,300 | Taken from the trial balance |
| Cheque | <u>€800</u> | Taken from the question |
| | €69,600 | BS CL |

Bank will reduce because it is a bank overdraft, and the cheque will reduce the overdraft

Working – Debtor

| | | |
|----------|-------------|---|
| Amount | €70,500 | Taken form the trial balance |
| Bad Debt | <u>€500</u> | Taken from the question (€1,200 - €700) |
| | €71,000 | |

The debtor's figure will increase as the business is owed more money from debtors (€1,200 - €700)

Working – Bad Debt Recovered

Created a bad debt recovered for the full debt that we didn't think we would get - €1,200.

This is extra income and goes in the P & L added in the operating profit / income

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Question

A cheque for €800 had been received on 31/12/2013 in respect of a debt of €800 previously written off as bad. No entry was made in the books to record this transaction.

[Sole trader 2014](#)

Calculate the bank figure, bad debts recovered figure (no debtors as the full debt is paid)

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Goods taken for Private use

Goods taken by Mullen for own use during the year were not recorded. These goods had a retail value of €4,800 which is cost plus 20%.

[Sole trader 2017](#)

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

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

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. –

$$\begin{aligned}
 120\% &= \text{€}4,800 \\
 1\% &= \text{€}4,800 / 120 \\
 &= 40 \\
 100\% &= 40 * 100 \\
 &= \text{€}4,000
 \end{aligned}$$

€4,000 is the cost price and used to adjust the two accounts above

Working – Purchases

| | | |
|----------|-------------------|------------------------|
| Amount | €519,300 | (Previous Adjustments) |
| Drawings | <u>(-) €4,000</u> | See above calculation |
| | €515,300 | P & L T |

Working – Drawings

| | | |
|-----------|---------------|------------------------------|
| Amount | €15,600 | Taken form the trial balance |
| Purchases | <u>€4,000</u> | See above calculation |
| | €19,600 | BS FB |

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Question

Goods withdrawn by the owner for private use during the year, with a retail value of €3,000, which is cost plus 25%, were omitted from the books.

[Sole trader 2014](#)

Calculate the figure and adjust the purchases and drawing figure. The purchases figure is €505,650 and drawing is €44,025

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Restocking Charge

Goods with a retail selling price of €15,000 were returned to a supplier. The selling price was cost plus 20%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry has been made in respect of the restocking charge.

[Sole trader 2014](#)

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.

$$\begin{aligned}
 120\% &= \text{€}15,000 \\
 1\% &= \text{€}15,000 / 120 \\
 &= \text{€}125 \\
 100\% &= \text{€}125 * 100 \\
 &= \text{€}12,500
 \end{aligned}$$

The cost of the goods returned was €12,500. We didn't receive all of this money back as there was a restock charge of 10% on this €12,500

$$\text{Restocking charge} \quad \text{€}12,500 * 10\% = \text{€}1,250$$

This is the restocking charge and is used to adjust the creditors (increase as we still owe this) and the purchases

Working – Purchases

| | | |
|------------|---------------|------------------------------|
| Amount | €504,400 | Taken from other Adjustments |
| Restocking | <u>€1,250</u> | See working above |
| | €505,650 | P & L T |

Working - Creditors

| | | |
|------------|---------------|------------------------------|
| Amount | €114,000 | Taken from other adjustments |
| Restocking | <u>€1,250</u> | See Working above |
| | €115,250 | BS CL |

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Question

Goods with a retail selling price of €8,400 were returned to a supplier. The selling price was cost plus 20%. The supplier issued a credit note showing a restocking charge of 10% of the cost price. No entry has been made in respect of this restocking charge.

[Sole trader 2010](#)

Calculate the restocking charge and adjust the Purchases and Creditors accounts. The purchases figure is €429,200

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Advertising Campaign

The advertising payment is towards a 24-month campaign which began on 01/10/2009

[Sole trader 2010](#)

Steps to this adjustment

1. Need to find out how much of the advertising campaign is the expense for this year (P & L S & D)
2. Need to find out how much of the advertising campaign is the prepaid amount for next year (BS CA)

Explanation

The business has an advertising campaign running for 24 months but it starts on the 01/10/2009

1. To calculate the expense for this year we need to find out how many months are for this year – (Oct, Nov and Dec – 3 months). So, we need to multiple €2,400 (taken from the trial balance) by $3/24$
2. To calculate the prepaid amount, we taken the figure calculated in the step above away from €2,400

Working – Advertising

| | | |
|--------------------|-----------|------------------------------|
| Advertising amount | €2,400 | Taken from the trial balance |
| Length of campaign | 24 months | Taken from the adjustment |

€2,400 * 3 / 24

€300 P & L S & D

€2,100 BS CA

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Additional Resources

Click on the link below to get access to the question, workings, and marking scheme

| | | |
|------|----------------|---|
| 2021 | A. Kenny | https://tinyurl.com/3d4c9ftc |
| 2020 | S. Seighway | https://tinyurl.com/38efwjvs |
| 2017 | M. Mullen | https://tinyurl.com/mud8su2t |
| 2014 | Mike McMahon | https://tinyurl.com/5s55cpdv |
| 2010 | Nora O'Connell | https://tinyurl.com/3u7nrwcr |
| 2008 | Orla Doran | https://tinyurl.com/456nyv4j |
| 2006 | K. Kelly | https://tinyurl.com/2s3dpptv |