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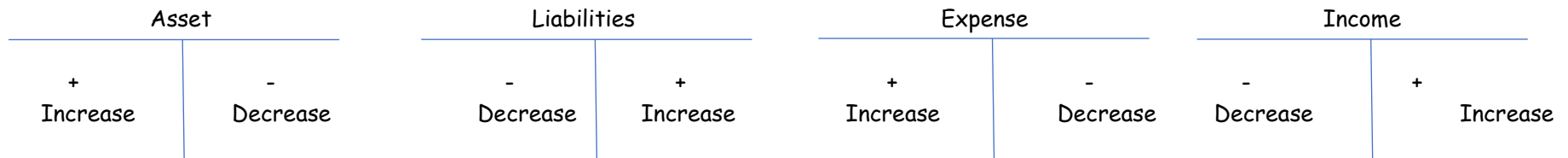
Sole trader

2021

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) - Closing Stock

Step to this adjustment

1. Take the closing stock figure in the question and take away the damage stock
2. Find the NRV and add it to the figure you calculated in 1 above.. This will give you the Closing Stock figure

Accounts to be adjusted

W1 Closing Stock

T & BS CA

Closing Stock

Tutorial Video



Adjustment (ii) - Sale or Return

Sale or Return

This will affect the following accounts

1. Sales will decrease as we have not sold the goods as they can be returned it not sold by the company who bought them
2. Debtors will decrease as they don't owe use the money as we have not sold goods on credit to them
3. Closing stock will increase as the goods can be returned

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

Accounts to be adjusted

W2 Sales

Decrease by cost price.

T

Sale or Return

W3 Debtors

Decrease by cost Price.

BS CA

W1 Closing Stock

Increase by cost price.

T & BS CA

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Adjustment (iii) - Depreciation of Fixed Assets
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 if 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

W4 Value of Fixed Asset

BS FA

W4 Dep of Fixed Asset

BS FA

W4 Dep This year

P & L (s & d)

W4 Profit/Loss

Loss - P & L (s & d)

Profit - Add OI

W5 Purchases

T

Tutorial Video

Depreciation



Purchases

Adjustment (iv) – Damage to storeroom & New storeroom
New Warehouse

The step involved in this include the following

1. Buildings will decrease by the cost of the storeroom as it was damaged
2. Purchase will decrease by the amount of stock damaged in the fire as the company will not be able to get this money back
3. The insurance is money that the company will received so it is a current asset in the balance sheet
4. You also have to calculate if there was a profit or loss made between the loss (storeroom and Stock) and the compensation paid

Accounts to be adjusted

Damage Storeroom

W6 Building	Decrease	BS FA	
W5 Purchases	Decrease	T	
W7 Insurance	Create	BS CA	
W8 Profit/Loss	Create		
	Loss	P & L (A)	
	Profit	Add O I	

Tutorial Video

New Storeroom

The step involved in this include the following

1. Buildings will increase by the labour and material cost given in the question
2. Purchase will decrease by the amount of stock used to build the new storeroom given in the question as the company will not be able to get this money back
3. The salaries and general expense will also decrease by the wage figure given in the question. This is because the employees already work for us so we will not pay them twice.

Accounts to be adjusted

New Storeroom

W6 Building	Increase	BS FA
W5 Purchases	Decrease	T
W9 Salaries	Decrease	P & L (A)

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Adjustment (v) - Depreciation Buildings and Revaluation Reserve
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Dep Buildings

Remember to use the figure that was calculated in the previous adjustment (iv) for Land and Building

1. Use the figure for land and buildings that was calculate in adjustment iv. Remember to take away land because land is not depreciated
2. Use the figure calculated in step 1 and multiply it by the depreciation rate given in the question.
3. This figure will then go in as an expense in the Profit and Loss as an admin expense
The revaluation reserve is made up of the increase in the value of the asset, the accumulate dep and the ep for this year.

Revaluation of Buildings

To calculate the revaluation of buildings figure we have to bring the increase in the value of the buildings to a revaluation reserve account, we also have to bring the acc depreciation paid to the revaluation reserve account and also the dep paid for this year to the revaluation reserve account

1. Find the increase in the value of the buildings - take the new figure given in the question and take away the cost of the buildings in the trial balance - This will go in the Revaluation reserve account
2. Bring the Accumulated Depreciation paid already and add it to the increase in buildings that you have put in the Revaluation Reserve account (step 1)

- Bring the depreciation for this year (previous Adjustment v) and put in into the Accumulated Depreciation account with the figure for Step 1 and Step 2

Accounts to be adjusted

Dep Buildings
Revaluation Reserve

W10 Dep Buildings

P & L (a)

W11 Revaluation Reserve

BS FB

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

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

Tip

- Find out how much the mortgage interest should have been, on the trial balance beside mortgage interest paid add or minus this figure.
- 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)

- Adjust the Creditors - Creditors is a liability so this will decrease as we paid more but it wasn't recorded.
- 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 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.

Accounts to be adjusted

Suspense

W12 Mortgage Interest	Less OI
W13 Mortgage Interest Due	BS CL
W14 Creditors	BS CL
W15 Expense with suspense	P & L (A)

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Adjustment (vii) - Bank Statement
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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. Increase 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)

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)

Question 1

2021

- Adjust the Creditors with the difference that was calculated in step 1. Creditors will decrease as we have paid more to them

Returned Cheque

For this adjustment you will complete the following

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

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.

Accounts to be adjusted

Bank Statement

W16 Debt recovered	Create	P & L (add income)
W17 Bank	Decrease/increase	BS CL
W14 Creditors	Decrease/increase	BS CL

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Adjustment (viii) - Mortgage Interest and Investment Income Due
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NOTE - Mortgage interest has been already calculated as part of adjustment (vi)

Mortgage Interest due

Steps to this adjustment

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

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

Accounts to be adjusted

Mortgage interest (Drawings)
Investment Income

W15 Drawings	Increase	BS FB
W9 Mortgage Interest	Decrease	Less OI
W10 Mortgage Interest Due	Decrease	BS CL
W16 Investment Income		Add OI
W17 Investment Income Due		BS CA

Tutorial VideoMortgage
InterestInvestment
Income**Adjustment (ix) - Provision for bad debts**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

Question 1

2021

- 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

Accounts to be adjusted

Provision for Bad debts

W18 Provision for Bad debts

W18 Increase

Decrease

BS CA

P & L (S &)

Add OI

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PART A - Trading and Profit and Loss account

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PART B - Balance Sheet

Tutorial Video