
S. Heighway

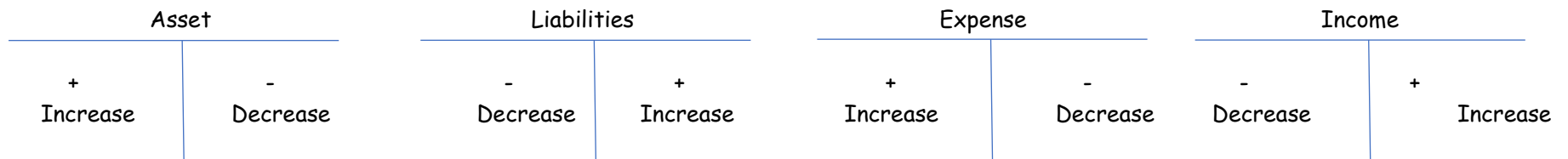
Sole trader

2020

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 StockStep to this adjustment

1. Take the closing stock figure in the question (€69,800)
2. Take away the damage stock (€10,600) ($€69,800 - €10,600 = €59,200$)
3. The NRV is calculate by using €10,600 and multiply it by the percentage given in the question (15%) - $€10,600 * 15\% = €1,590$
4. Now add the €1,590 (calculated in step 3) to €59,200 (calculated in step 2). This will give you the new Closing stock figure - $€59,200 + €1,590 = €60,790$

Accounts to be adjusted

W1 Closing Stock

T & BS CA

Closing Stock

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Adjustment (ii) - Goods in Transit

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)

Accounts to be adjusted

Goods in Transit

W1 Closing Stock	Increase by cost price.	T & BS CA
W2 Purchases	Increase by cost Price.	T
W3 Creditors	Increase by cost price.	BS CL

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Adjustment (iii) - Depreciation of Fixed Assets

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Steps to this adjustment

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

Accounts to be adjusted

Depreciation of Fixed Assets

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

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Adjustment (iv) - VAT

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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

Accounts to be adjusted

W6 VAT

BS CA

W7 Land and Buildings

BS FA

New Warehouse
(VAT)

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Adjustment (v) - Depreciation building and Revaluation Reserve

Steps to this adjustment

NOTE

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

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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)
3. 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

W7 Dep Buildings

P & L (a)

W8 Revaluation Reserve

BS FB

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Adjustment (vi) - Suspense

Step to this adjustment (Mortgage Interest)

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

Tip

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

Step to this adjustment (VAT)

1. Adjust the VAT - VAT 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

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1. On the trial balance beside VAT put -12150 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 - -12150 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

W9 Mortgage Interest	Less OI
W10 Mortgage Interest Due	BS CL
W11 Expense with suspense	P & L (A)
W6 VAT	BS CL

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Adjustment (vii) - Bank Statement

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

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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)
3. 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

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 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

W12 Debt recovered	Create	P & L (add income)
W13 Bank	Decrease/increase	BS CL

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W14 Debtors	Increase	BS CA
W3 Creditors	Decrease/increase	BS CL

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Adjustment (viii) - Mortgage Interest and Investment Income Due

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

Mortgage Interest due

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 for drawings
3. 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

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- 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

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Mortgage
Interest



Investment
Income

Adjustment (ix) - Provision for Bad Debt

Steps to this adjustment

- Use the Debtors figure (remember to use the up-to-date Figure. The debtors might have been adjusted in another adjustment)

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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

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

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Question 1

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