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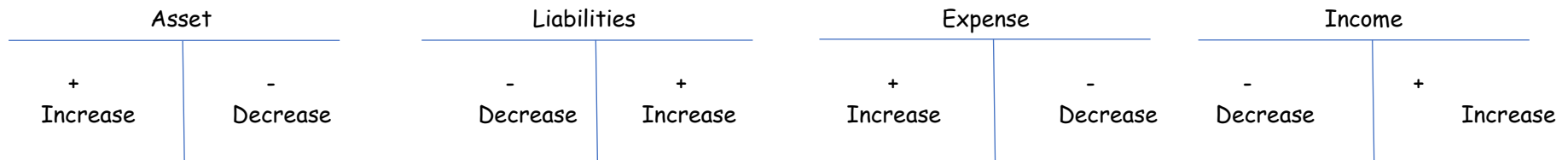
Sole trader

2023

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 (using the cost and percentage figure) 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

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Adjustment (ii) - Good in Transit

Goods in Transit

This will affect the following accounts

1. Purchases will increase as we have bought more goods
2. Creditors will increase as we owe more money due to purchasing more goods
3. Closing stock will increase we have purchased more goods

If the goods were in transit due to sales the accounts would be

1. Sales
2. Debtors
3. Closing Stock

Note in this question they have mentioned VAT so you will have to adjust the VAT account as well

4. VAT will decrease (dr) as the business can claim back the VAT. This will be the difference between the full price (the figure in the question) and the 100% figure that is calculated for closing stock

NOTE

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

Accounts to be adjusted

Goods in Transit

W2 Purchase	Increase by cost price.	T
W3 Creditors	Decrease by full figure.	BS CL
W1 Closing Stock	Increase by cost price.	T & BS CA
W4 VAT	Decrease by Vat figure	CL

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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

W5 Value of Fixed Asset	BS FA
W5 Dep of Fixed Asset	BS FA
W5 Dep This year	P & L (s & d)
W5 Profit/Loss	Loss - P & L (s & d)
	Profit - Add OI
W2 Purchases	T

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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 (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 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

W6 Mortgage Interest	Less OI
W7 Mortgage Interest Due	BS CL
W8 Salaries	P & L (a)
W3 Creditors	BS CL
W9 Drawings	BS FB

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Adjustment (v) - Patents & Investment Income

Steps to this adjustment

- | | |
|--------------------------|--|
| 1. Investment Income | Calculate how much the Investment income has been paid
(Incorporate in patents) |
| 2. Investment Income Due | Calculate investment income due. |
| 3. Patents | Take investment income out of patents (Add on) |
| 4. Patents written off | Find the patents to be written off |

Explanation

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

1. Calculate how much the Investment income has been paid (Incorporate in patents)
 - Find the investment figure * rate * how long we had it
 - This is the yearly amount that goes is added onto the Operating income (OI)
2. Calculate investment income due.
 - Find out how many months have been incorporated
 - Figure from step 1 * how many months incorporated
 - This will give you the figure for how much we have received for investment income
 - Take the figure form part 2 away from the figure calculated in part 1
3. Take investment income out of patents (Add on) to find the patents figure and find out how much is to be written off.
 - Take the figure for investment that was incorporated in patents and add this to the 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

Accounts to be adjusted

Investment Income
Patents

W10 Investment Income	Increase	Add OI
W11 Investment Income Due	Decrease	BS CA
W12 Patents	Increase	(BS IA)
W13 Patents Written off	Increase	P & L (a)

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Adjustment (vi) - Good taken for personal use

Steps to this adjustment

1. Purchases Purchase will need to be decrease by the cost price as the company can't resell these goods
2. Drawings Drawings will have to be increased as the owner has taken goods out of the business

Accounts to be adjusted

Goods for Personal Use

W2 Purchases	Decrease	P & L (T)
W9 Drawings	Increase	BS FB

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Adjustment (vii) - Depreciation Buildings and Revaluation Reserve

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)
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

W14 Dep Buildings	P & L (a)
W15 Revaluation Reserve	BS FB

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Adjustment (viii) - 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
3. Increase the debtors with the amount that is left to pay Step 1 - Step 2)

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
W18 Debtors	Decrease/increase	BS CL

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Adjustment (ix) - Mortgage Interest and Investment Income Due

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

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 in drawings
3. Adjust the drawing figure (increase)

NOTE - Investment Income has been already calculated as part of adjustment (v)

Investment Income Due

Steps to this adjustment

3. Calculate how much the Investment income has been paid for the year. This will be added to your operating income
4. Check to see if we received any investment income. This will be in the trial balance
5. 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)	W6 Mortgage Interest	Decrease	Less OI
	W17 Mortgage Interest Due	Decrease	BS CL
Investment Income	W9 Drawings	Increase	BS FB
	W10 Investment Income		Add OI
	W11 Investment Income Due		BS CA

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Mortgage
Interest

Investment
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
 - 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

W19	Provision for Bad debts	BS CA
W19	Increase	P & L (S &)
	Decrease	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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