

Final Accounts for Sole Traders with Adjustments

Adjustment can be done separately or directly in final accounts if required or according to the need. There are mainly five adjustments in O' level syllabus, those are as follows:

1) Prepaid Expense

(Paid in advance / before time). Prepaid is an asset and recorded in Balance Sheet under current assets).

GENERAL ENTRY

Prepaid Rent/insurance/Salaries)	xxx	
Expense A/c		xxx

2) Accrued Expense

(Amount that we owe/work done but payment is not made yet. Accrued is our liability and recorded in Balance sheet under current liabilities).

GENERAL ENTRY

Insurance/Wages/Maintenance Expense	XXX	
Accrued Insurance/Wages		XXX

3) Depreciation Expense

(Decrease in value of a Non Current asset. Depreciation is our expense and recorded in Income Statement under operating expenses)

GENERAL ENTRY

Income Statement/P&L account	XXX	
Provision for depreciation		XXX

4) Bad & Doubtful Debts

(Bad & Doubtful debts are an expense and recorded in P&L under operating expenses).

GENERAL ENTRIES

Income Statement / P & L Account (Exp)	XXX	
Trade Receivable		XXX

(Above entry is for **bad / Irrecoverable debts**)

Income Statement / P&L Account (Exp)	XXX	
Provision for doubtful debts		XXX

(Above entry is for **increase in doubtful debts**)

Provision for doubtful debt	XXX	
Income Statement / P&L account (Income)		XXX

(Above entry is for **decrease in doubtful debts**)

5) Drawings

(Cash/cheque/Inventory or any other asset taken for personal use by the owner)

GENERAL ENTRY

Drawing	XXX	
Cash/Bank/Purchases		XXX

Advantages of Sole Traders

- You have full control over daily and strategic decision making
- There's far less red tape and regulations than a Limited Company
- Starting your business is quick and easy
- All financial data is kept private
- No annual accounts to prepare as sole traders add income and expenses to their tax return

Disadvantages of Sole Traders

- You have full personal liability for any debts
- It may be difficult to bid and accept larger contracts
- It's difficult to scale a business on your own
- You can't leverage buying power due to your small size
- You have to buy-in knowledge and expertise if you don't have it yourself

ARD Traders
Income Statement for the year ended 31 Dec, 2017

	\$	\$
Sales	XXX	
Less: Return inward / Sales Returns	(XXX)	XXX
Less: COST OF SALES		
Opening Inventory	XXX	
Add: Purchases	XXX	
Add: Carriage Inwards	XX	
Add: Custom duty	XX	
Less: Return outward / Purchases return	(XX)	
Less: Closing Inventory	(XXX)	
Cost of Sales		(XXX)
Gross Profit		XXX
Add: OTHER INCOME		
Discount received	XXX	
Commission received	XXX	
Reduction in Provision for Doubtful Debts	XXX	
Gain on Disposal of NCA	XXX	XXX
Less: EXPENSES		
Salaries and wages	XXX	
Rent expenses	XXX	
Insurance expense	XXX	
Heating and Lighting	XXX	
Sundry expenses	XXX	
Depreciation expense	XXX	
Increase in Provision for Doubtful debts	XXX	
Discount allowed	XXX	
Carriage outward / Carriage on sales	XXX	
Bad debt expense	XXX	
Financial cost (interest expense)	XXX	
Repair and maintenance	XXX	(XXX)
Profit / (Loss) for the year		XX/(XX)

Carriage on purchases / Transportation Inward / freight charges

ARD Traders
Statement of Financial Position as at 31 December 2017

Assets	\$	\$	\$
Non-Current Assets	Cost	Acc Dep	NBV
Land	XXX	-	XX
Building	XXX	(XX)	XX
Equipment	XXX	(XX)	XX
			XXX
Current Assets			
Inventory		XXX	
Trade Receivables / Debtors	XXX		
Less: Provision for doubtful debts	(XXX)	XXX	
Prepaid Expense		XXX	
Accrued Income		XXX	
Bank		XXX	
Cash		XXX	XXX
Total Assets			XXX
Capital and Liabilities			
Opening Capital		XXX	
Add Profit for the year / Less (Loss) for the year		XX/(XX)	
Less: Drawings		(XXX)	XXX
Non Current Liabilities			
10% Bank Loan 2020			XXX
Current Liabilities			
Trade payables / Creditors		XXX	
Bank O/D (Over Draft)		XXX	
Accrued Expenses		XXX	
Prepaid Income		XXX	XXX
Total Capital and Liabilities			XXX

Financial Statements for Service Sector

The City School
Income Statement for the year ended 31 Dec 2017

Income		
Fees Income (w)	XXX	
Gain on disposal of Asset	XXX	
Photo Copy Income	XXX	
Income from Canteen	XXX	
Rent from Auditoriums	XXX	XXX
Less: Expenditure		
Staff Salaries	XXX	
Loss on disposal of asset	XXX	
Depreciation of Furniture and Fixtures	XXX	
Interest on loan	XXX	
Administration Expenses	XXX	
Maintenance	XXX	
Utilities	XXX	(XXX)
Profit / (Loss) for the year		XX / (XX)

Fees Income Account

	\$		\$
A Balance b/d	XXX	P Balance b/d	XXX
Income Statement	XXX	Bank / Cash	XXX
		Bad Debts	XXX
P Balance c/d	XXX	A Balance c/d	XXX
	<u>XXX</u>		<u>XXX</u>

Past Paper Questions

Q1. Kirsty, a sole trader, prepared the following trial balance at 30 April 2011.

	\$	\$
Rent	4 000	
General expenses	6 000	
Insurance	3 300	
Salaries	14 000	
Electricity	2 000	
Capital		44 000
Motor expenses	4 900	
Bad debts	200	
Drawings	6 000	
Trade receivables	6 200	
Trade payables		3 800
Cash and cash equivalents	2 600	
Inventory	3 600	
10% Loan		15 000
Loan interest	1 250	
Carriage outwards	700	
Commission received		730
Ordinary goods purchased	56 000	
Revenue		108 000
Purchases returns		2 500
Sales returns	4 800	
Discounts allowed	600	
Discounts received		400
Provision for doubtful debts		520
Equipment	48 000	
Provision for depreciation of equipment		14 400
Motor vehicles	36 000	
Provision for depreciation of motor vehicles		10 800
	<u>200 150</u>	<u>200 150</u>

The following information is also available:

- 1 The closing inventory at 30 April 2011 was valued at \$4200.
- 2 Included in the general expenses is an item of equipment purchased during the year for \$1200. This item has not yet been included in the equipment account.
- 3 A cheque for \$800 received from a credit customer has not yet been entered in the accounts.

- 4 At 30 April 2011:
 - loan interest owing amounted to \$250
 - electricity owing was \$380
 - insurance was prepaid by \$460
- 5 During the year Kirsty had withdrawn, for her personal use, goods costing \$1800. This has not been recorded in the accounts.
- 6 Commission receivable of \$150 was owing to Kirsty at 30 April 2011.
- 7 The provision for doubtful debts is to be provided for a specific debt of \$200, plus 2% of the remaining debtors.
- 8 One half of the 10% loan is repayable during the year ending 30 April 2012, and the balance is repayable after that date.
- 9 Depreciation is to be provided as follows:
 - Equipment 10% per annum on cost.
 - A full year's depreciation is provided on all equipment held at 30 April 2011, regardless of the date of purchase.
 - Motor vehicles 25% by the reducing (diminishing) balance method. There were no additions or disposals during the year.

REQUIRED

- (a) Prepare the income statement (trading and profit and loss account) for Kirsty for the year ended 30 April 2011.
- (b) Prepare the statement of financial position (balance sheet) for Kirsty at 30 April 2011.

Q2. The following trial balance was extracted from the Mighty Wholesale Company's books at 30 April 2010.

	Dr \$000	Cr \$000
Revenue (Sales)		1600
Ordinary goods purchased (Purchases)	946	
Property (Buildings) at cost	1490	
Warehouse fittings at cost	348	
Inventory (Stock) at 1 May 2009	124	
Capital		1400
12% loan repayable 2015		100
Wages	160	
Provisions for depreciation at 1 May 2009:		
Property (Buildings)		320
Warehouse fittings		197
Trade receivables (Debtors)	360	
Trade payables (Creditors)		92
Cash and cash equivalents (Bank)	48	
Distribution expenses	43	
Business rates	50	
Insurance	30	
Advertising	79	
Drawings	25	
Loan interest	6	
	<u>3709</u>	<u>3709</u>

Additional information:

- 1 Inventory (stock) at 30 April 2010 cost \$230 000. This includes inventory (stock) costing \$20 000 which has a net realisable value of \$9000.
- 2 Warehouse fittings were sold during the year. The proceeds of \$10 000 were debited to the bank account and credited to the property (buildings) at cost account. No other entry has been made regarding this transaction. The fittings sold had cost \$52 000 and the total depreciation charged to them by 1 May 2009 amounted to \$41 000. No depreciation is charged in the year of disposal.
- 3 Depreciation is to be provided for as follows:

Property (buildings)	2% on cost
Warehouse fittings	25% reducing (diminishing) balance
- 4 Other payables (accruals) at 30 April 2010 are:

Wages	\$12 000
Distribution expenses	\$5 000
Loan interest	? (The loan was taken out in 2005)
- 5 Other receivable (prepayment) at 30 April 2010 is:

Insurance	\$2000
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REQUIRED

(a) Prepare the income statement (trading and profit and loss account) for the year ended 30 April 2010.

(b) Prepare the balance sheet at 30 April 2010.

Q3. The following balances were extracted from the books of Patricia Chin on 31 March 2013.

	\$
Premises	67 000
Fixtures and fittings (cost)	20 000
Motor vehicle (cost)	18 000
<u>Provisions for depreciation:</u>	
Premises	2 680
Fixtures and fittings	9 600
Motor vehicle	11 520
Revenue	119 140
Purchases	60 200
Purchases returns	2 900
Inventory at 1 April 2012	5 430
Wages	20 960
General expenses	9 100
Insurance	12 600
Motor vehicle expenses	5 670
Discount allowed	1 428
Discount received	884
Trade receivables	7 546
Trade payables	4 920
Provision for doubtful debts	800
Bank overdraft	2 330
7% Bank loan (repayable 30 June 2018)	30 000
Capital	56 000
Drawings	12 840

Additional information

1 Inventory at 31 March 2013 was valued at \$4200.

2 Insurance relates to a period of fourteen months to 31 May 2013.

3 A motor vehicle repair bill \$225 was owing at 31 March 2013.

4 Bad debts of \$246 are to be written off.

5 During the year Patricia took \$800 from the bank for personal use. No record of this was made in the books.

6 A purchase of fixtures and fittings during the year, \$2000, had been recorded in the general expenses account.

7 - Premises are depreciated at 2% per annum on cost.

- Fixtures and fittings are depreciated at 8% per annum on cost.
- Motor vehicles are depreciated at 20% per annum using the diminishing (reducing) balance method.

8 The provision for doubtful debts is to be maintained at 6% of trade receivables.

REQUIRED

(a) Prepare the income statement for the year ended 31 March 2013.

(b) Prepare the balance sheet (statement of financial position) at 31 March 2013.

Q4. Marie Delaney is a trader. The following balances were extracted from her books on 30 April 2007.

	\$
Purchases	106 300
Carriage on purchases	2 450
Sales	197 600
Wages and salaries	33 600
Motor expenses	14 700
Rent and rates paid	22 620
Bank interest and charges	310
Interest paid on loan from Keiley	375
Discounts received	680
Sundry expenses	9 600
Loan from Keiley at 1 May 2006	10 000
Debtors	16 550
Creditors	7 975
Stock at 1 May 2006	8 620
Fixtures and equipment at cost	8 440
Motor vehicles at cost	12 400
Provision for depreciation of motor vehicles	4 960
Bank overdraft	8 450
Capital	21 475
Drawings	15 175

Additional information:

1 Stock at 30 April 2007 was valued at \$9920.

2 At 30 April 2007:

- Wages and salaries, \$3280, were accrued.
- Rent, \$1620, was prepaid.

3 Depreciation is to be charged on fixtures and equipment at 25%.

4 Motor vehicles are to be depreciated using the diminishing (reducing) balance method at 40% per annum.

5 Marie Delaney pays back the loan at the rate of \$2000 per annum on 1 May each year. The balance of Marie Delaney's loan account at 30 April 2006 was \$12 000 and the amount in the list of balances above includes the repayment for 1 May 2006. Interest is paid quarterly at the rate of 5% per annum on the outstanding balance at 1 May each year, after the annual repayment has been made.

REQUIRED

- (a) Prepare the trading and profit and loss accounts for the year ended 30 April 2007.
 (b) Prepare the balance sheet at 30 April 2007.

Q5. Franco is in business as a sole trader. The following balances were extracted from his books on 31 January 2014.

	\$
Land and buildings (cost)	150 000
Fixtures and fittings (cost)	30 000
Computer equipment (cost)	70 000
Provisions for depreciation:	
Land and buildings	20 000
Fixtures and fittings	13 500
Computer equipment	34 000
Disposal account	500 Cr
8% Bank loan (repayable 30 April 2020)	100 000
Bank	17 430 Dr
Trade receivables	45 000
Trade payables	37 650
Provision for doubtful debts	1 400
Revenue	362 500
Purchases	172 400
Returns inwards	7 200
Returns outwards	8 800
Inventory at 1 February 2013	17 970
Distribution expenses	16 300
Insurance	5 900
Light and heat	7 850
Wages and salaries	69 500
Marketing expenses	31 000
General expenses	9 200
Commission received	11 400
Drawings	20 000
Capital	80 000

Additional information at 31 January 2014

1 Inventory was valued at \$15 600.

2 Wages and salaries includes \$15 000 drawings by Franco.

3 Marketing expenses, \$6750, were prepaid.

4 No interest had been paid on the bank loan.

5 Computer equipment costing \$8000 was purchased by cheque on 25 January 2014. No entries had been made in the books.

6 Depreciation policy is as follows:

(i) The buildings are depreciated at the rate of 2% per annum using the straight line method. Land and buildings consists of land, cost \$50 000, and buildings, cost \$100 000. No depreciation is charged on the land.

(ii) Fixtures and fittings at the rate of 15% per annum using the straight line method.

(iii) Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

7 Trade receivables, \$3000, were considered irrecoverable. A provision for doubtful debts of 5% is to be maintained.

REQUIRED

(a) Prepare the income statement for the year ended 31 January 2014.

(b) Prepare the statement of financial position at 31 January 2014.

Q6. Amah Retto's ledger accounts for the year ended 30 April 2008 showed the following balances:

	\$
Premises at cost	250 000
Machinery at cost	52 000
Provision for depreciation on machinery at 1 May 2007	15 600
Provision for doubtful debts at 1 May 2007	500
Sales	243 000
Purchases	184 000
Sales returns	2 040
Purchases returns	1 980
Carriage inwards	350
Carriage outwards	800
Rent received	2 420
Discount allowed	1 800
Discount received	1 300
Electricity	2 100
General expenses	9 340
Stock at 1 May 2007	13 500
Debtors	9 000
Creditors	11 460
Bank (Credit)	8 260
Cash	990
Drawings	18 600
Long-term loan at 11 % per annum	60 000
Capital	?

Additional information at 30 April 2008

- 1 Stock was valued at \$15 100.
- 2 No interest had been paid or provided for on the loan, which had been taken out on 1 November 2007.
- 3 Amah Retto's tenant had paid only eleven months' rent; one month's rent was due and unpaid.
- 4 Electricity prepaid amounted to \$40.
- 5 General expenses accrued amounted to \$50.
- 6 Debts of \$200 were to be written off.

Depreciation was to be provided on machinery at 40 % using the reducing (diminishing) balance method.

Doubtful debts provision was to be 3 % of debtors at the end of the year.

REQUIRED

- (a) Prepare Amah Retto's trading and profit and loss account for the year ended 30 April 2008.
- (b) Prepare Amah Retto's balance sheet at 30 April 2008.