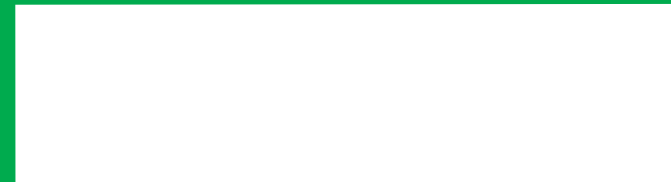




Calculating capital for sole trader accounts



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What is a Sole Trader?

- Usually small businesses
- The owners could be working on their own
- They could employ other people

- The simplest and most common type of business



Sole Traders

- Sole traders and their owners are one legal entity
- But two economic entities; we keep their accounts separate
- The company belongs to the owner who is responsible for its assets and liabilities
- The company may be registered for VAT but the owner cannot claim back VAT for personal purchases or costs



Capital Invested

Debit			Bank		Credit
Date	Details	£	Date	Details	£
01 Jan	Capital	10,000			

Debit			Capital		Credit
Date	Details	£	Date	Details	£
			01 Jan	Bank	10,000



Capital Invested

Debit			Bank			Credit		
Date	Details	£	Date	Details	£			
01 Jan	Capital	10,000						

Debit			Capital			Credit		
Date	Details	£	Date	Details	£			
			01 Jan	Bank	10,000			
			01 Jan	Motor Vehicles	5,000			

Debit			Motor Vehicles			Credit		
Date	Details	£	Date	Details	£			
01 Jan	Capital	5,000						





The Accounting Equation

- $\text{Assets} - \text{Liabilities} = \text{Capital}$
- $(£10,000 + £5,000) - 0 = £15,000$
- $(£10,000 + £5,000 + £500) - £500 = £15,000$

- $\text{Profit} = \text{Revenue} - \text{Expenses}$
- Add profit to Capital



Poll 1

Jonas has £4,500 in the bank, inventories worth £2,569, Receivables of £560, Payables of £700 and a loan for £1,400. His capital is:

- a. £4,409
- b. £5,529
- c. £6,929
- d. £9,729



Poll 1 Answer

Jonas has £4,500 in the bank, inventories worth £2,569, Receivables of £560, Payables of £700 and a loan for £1,400. His capital is:

- a. £4,409
- b. £5,529
- c. £6,929
- d. £9,729

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Capital Employed

Two main elements

- Resources invested by the owner into the business
- Resources left in the business by the owner



Profit

Debit			Capital		Credit
Date	Details	£	Date	Details	£
			01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000

Revenue: £40,520

Expenses: £27,270

Profit: £13,250



Profit

Debit			Capital		Credit
Date	Details	£	Date	Details	£
			01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000
			31 Dec	Profit	13,250

Revenue: £40,520

Expenses: £27,270

Profit: £13,250



Profit

Debit			Capital		Credit
Date	Details	£	Date	Details	£
			01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000



Profit

Debit		Capital		Credit	
Date	Details	£	Date	Details	£
31 Dec	Loss	4,000	01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000



Profit

Debit			Capital		Credit
Date	Details	£	Date	Details	£
			01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000
			31 Dec	Profit	13,250



Drawings

Debit		Drawings		Credit	
Date	Details	£	Date	Details	£
1 Dec	Bal b/d				



Drawings

Debit		Drawings		Credit	
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500			



Drawings

Debit		Drawings		Credit	
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500			
31 Dec	Bank	500			



Buying goods

Debit			Bank			Credit		
Date	Details	£	Date	Details	£			
			15 Dec	Purchases	840			

Debit			Purchases			Credit		
Date	Details	£	Date	Details	£			
15 Dec	Bank	700						

Debit			VAT			Credit		
Date	Details	£	Date	Details	£			
15 Dec	Bank	140						



Drawing goods

Debit			Drawings		Credit
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500			
31 Dec	Bank	500			

Debit			Purchases		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	700			

Debit			VAT		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	140			





Drawing goods

Debit			Drawings		Credit
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500			
31 Dec	Bank	500			

Debit			Purchases		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	700	31 Dec	Drawings	200

Debit			VAT		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	140	31 Dec	Drawings	40



Drawing goods

Debit			Drawings		Credit
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500			
31 Dec	Bank	500			
31 Dec	Purchases	240			

Debit			Purchases		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	700	31 Dec	Drawings	200

Debit			VAT		Credit
Date	Details	£	Date	Details	£
15 Dec	Bank	140	31 Dec	Drawings	40



Poll 2

Adewale Babatunde runs his own business developing web sites for local businesses. He recently purchased additional on-line storage space for his clients and allocated 5% for his own personal, non business use. What do you think the double entry should be to record this? Adewale is VAT registered.

- a. We don't need to account for them, it is his business
- b. We will Dr Drawings and Cr Payables (which includes the VAT)
- c. We will Dr Drawings and Cr Purchases
- d. We will Dr Drawings and Cr Purchases and VAT



Drawing goods

Debit			Drawings		Credit
Date	Details	£	Date	Details	£
1 Dec	Bal b/d	5,500	31 Dec	Capital	6,240
31 Dec	Bank	500			
31 Dec	Purchases	240			
		6,240			6,240

Debit			Capital		Credit
Date	Details	£	Date	Details	£
31 Dec	Drawings	6,240	01 Jan	Bank	10,000
			01 Jan	Motor Vehicles	5,000
			31 Dec	Profit	13,250



Closing Capital

Debit			Capital		Credit
Date	Details	£	Date	Details	£
31 Dec	Drawings	6,240	01 Jan	Bank	10,000
31 Dec	Balance c/d	22,010	01 Jan	Motor Vehicles	5,000
			31 Dec	Profit	13,250
		28,250			28,250



Statement of Financial Position (SFP)

Two main parts

- Assets – liabilities calculates net assets
- Financed by: The capital

- $\text{Assets} - \text{Liabilities} = \text{Capital}$
- $\text{Net assets} = \text{Capital}$



Statement of Financial Position (SFP)

Financed by:

Opening Capital	15,000
Profit	13,250
Less Drawings	<u>(6,240)</u>
Closing Capital	<u>22,010</u>



Statement of Financial Position (SFP)

Jonas has £4,500 in the bank, inventories worth £2,569, Receivables of £560, Payables of £700 and a loan for £1,400. His capital is:

£5,529



Poll 3

Jonas's closing capital is £5,529, his drawings were £2,000 and his opening capital was £6128. What was his profit?

- a. £1,401
- b. £3,529
- c. £4,128
- d. £7,529



Statement of Financial Position (SFP)

Jonas's closing capital is £5,529, his drawings were £2,000 and his opening capital was £6128. What was his profit?

Financed by:

Opening Capital	6,128
Profit	?
Less Drawings	<u>(2,000)</u>
Closing Capital	<u>5,529</u>



Statement of Financial Position (SFP)

Jonas's closing capital is £5,529, his drawings were £2,000 and his opening capital was £6128. What was his profit?

Financed by:

Opening Capital	6,128
Profit	1,401
Less Drawings	<u>(2,000)</u>
Closing Capital	<u>5,529</u>



Conclusion

- Sole traders must keep their personal and business accounting records separate
- Capital takes the form of cash and goods invested and retained profits (or losses)
- Drawings take the form of cash and goods and VAT must not be reclaimed from HMRC on any goods drawn
- We can calculate capital by using the accounting equation
- We can use our knowledge of accounts to calculate missing figures where records are incomplete.



Thank you

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