

# Sole proprietorship

## *Goods and VAT Closing: depreciation and provision*

The sole proprietorship "Neo Perle" is a business of toys, video games in mountain resort. Its particularity is that it makes home deliveries especially during the holiday season. To make her deliveries, the company owns a car and also a snowmobile. The latter is also used for excursions, which allows him to have an ancillary activity and to use his snowmobile as much as possible. Moreover, the distribution of usage is one quarter for the main activity and three quarters for the ancillary activity.

The inventory management of toys and video games is based on the perpetual inventory system. The gross margin is 30% of the selling price. The VAT is booked on a net basis, the rate of 7.7%.

Here is the balances at the beginning of the last quarter:

	<b>Debit</b>	<b>Credit</b>
Cash	50'030.00	
Trade receivables	13'590.00	
Allowance for doubtful debt		600.00
VAT refund on goods		
VAT refund on investements and other expenses		
Stock / Purchase of goods	34'900.00	
Commercial furniture	120'400.00	
Accumulated depreciation on furniture		34'500.00
Delivery vehicle	95'000.00	
Accumulated depreciation on vehicle		27'000.00
Commercial building	389'250.00	
Accumulated depreciation on commercial building		
Other fixed assets	1'000.00	
Commercial debt		14'900.00
VAT Due		
Various payables		32'890.00
Mortgage at BCVs 3 1/2 %		250'000.00
Mortgage at BCVs current account (20'000.-)		1'290.00
Private	24'200.00	
Equity/capital		250'000.00
Sales of goods		440'000.00
Revenue on deliveries		8'500.00
Self sales		340.00
COGS	210'000.00	
Bad debt	300.00	
Interests & fees		
Salaries & Social charges	86'000.00	
Representative expenses		
Advertising	1'200.00	
Other operating expenses	35'000.00	
Depreciation		
Expenses & revenue snowmobile		1'250.00
Expenses & revenue building		
Extraordinary expenses & revenue	400.00	

*For further information:*

- *The commercial building is financed by a mortgage at BCVs. Annuity (financial amortization) is due every quarter for an amount of 1'000.—; the fixed rate is 3.5% per annum;*
- *The delivery vehicle account is composed with a new car purchased at the beginning of the year for fr. 50'000.— and a snowmobile that is in its fourth year, purchased almost 4 years ago for 45'000.—. The vehicles are depreciated consistently with the maximum rates of the IFD, using to the indirect method (using accumulated depreciation account).*

### **Few journal entries of the last quarter :**

*(unless otherwise stated, prices are inclusive of VAT and rounded to the nearest franc if applicable)*

1. Purchase on credit of toys for fr. 17'232.—. The delivery costs, provided by a carrier, are for fr. 200.— and are paid directly to the carrier.
2. Turnover/sales cashed in during the last quarter for fr 40'926.—.
3. We pay fr. 10'000.— to our suppliers. In addition, they grant us a year end rebate in cash of fr. 500.—.
4. Credit advice received from the bank for fr. 4'900.— following payments from customers after deducting 2% discount.
5. Cash received of toys delivered at home for fr. 8'900.—.
6. The owner takes toys from the stock at purchase cost to give to his friends as Christmas gifts. The selling price is fr. 819.—.
7. Payment through the bank of the electricity bill already booked for fr. 2'690.—.
8. Booking of an advertising invoice of fr. 3'228.—.
9. Payment with petty cash of a meal with customers for fr. 1'077.—.
10. Payment of non-booked invoice of the snowmobile maintenance for fr. 3'231.—. The garage informs us that the scooter is almost useless and that there will be a lot of work on the next maintenance. He makes us an offer to take over the snowmobile for fr. 15'000.— VAT not included.
11. We received the invoice from the garage for the fuel used by the snowmobile for an amount of fr. 5'385.—.
12. Cash collection/received for the different excursions done with the snowmobile for an amount of fr. 9'636.—.
13. Payment of various subscriptions to toy's magazines for fr. 820.—.
14. Write off of a receivable for Fr. 1'939.—.
15. An excursion customer asks us for a special agreement on the receivable we have open fr. 2'582.—. He pays us two-thirds and we write off the balance.

16. On December 1st, we decide to change our snowmobile. The garage therefore takes back the old one for the agreed value of fr. 15'000.—, excluding VAT. We are buying a new one for fr. 40'000.—excluding VAT. Payment is made as follows:
- By compensation ;
  - Delivery of goods for Fr. 2,000.— ;
  - By a bank transfer for Fr. 10,000.—;
  - The balance remains due.
17. Payment of the mortgage annuity using the mortgage current account.

**Closing journal entries as of 31<sup>st</sup> of December:**

18. During toys inventory, they realize that some waste and stolen toys need to be considered and booked. Purchase cost of the toys for fr. 850.—
19. Allowance for doubtful debts should be equal to 5% of the trade receivables. Please book the difference, round up to the nearest hundred francs.
20. The building, which until now has been depreciated using the direct method (without accumulated depreciation account), will change methodology using indirect method. We own our commercial premises for exactly ten years. Depreciation has always been calculated using the straight line method with the rates found in the IFD notice. We also own the land. Make the necessary corrections and book the tenth annual depreciation.
21. Depreciate other assets based on the IFD notice:

Fixed assets	Depreciation method	Depreciation amount
Commercial furniture	Declining	
Delivery vehicles	Straight line	

**Work to be done :**

- Book the above entries ;
- It is not necessary to close the accounts, neither prepare the income statement and balance sheet.

# 1. Standard depreciation rates as a percentage of the book value

Assets	% of book value
Residential buildings of real estate companies and staff residences	
– on buildings alone 1)	2%
– on buildings and land together 2)	1.50%
Commercial buildings, office and bank buildings, department stores, cinema buildings	
– on buildings alone 1)	4%
– on buildings and land together 2)	3%
Buildings of the catering and hotel industry	
– on buildings alone 1)	6%
– on buildings and land together 2)	4%
Factory buildings, storage buildings and commercial buildings (especially workshop and silo buildings)	
– on buildings alone 1)	8%
– on buildings and land together 2)	7%
If a building is required for different business purposes (e.g. workshop and office), the individual rates are to be considered appropriately	
High-bay warehouses and similar facilities	15%
Movable construction on foreign ground	20%
Railway sidings	20%
Water pipes for industrial purposes	20%
Tanks (incl. cistern wagons), containers	20%
Business furniture, workshop and storage facilities with furniture character	25%
Means of transport of all kinds without motor vehicles, especially trailers	30%
Equipment and machines for production purposes	30%
Motor vehicles of all kinds	40%
Machines that are mainly used in shift operation or that work under special conditions, such as heavy stone working machines, road construction machines	40%
Machines that are exposed to a high degree of damaging chemical influences	40%
Office machines	40%
Data processing equipment (hardware and software)	40%
Intangible assets serving the business purpose, such as patents, company, publishing, concession, license and other rights of use; goodwill	40%
Automatic control systems	40%
Safety devices, electronic measuring and testing equipment	40%
Tools, work utensils, machine tools, equipment, containers, scaffolding material, pallets, etc.	45%
Hotel and catering utensils and hotel and catering linen	45%
<b>Note</b>	
For depreciation on the acquisition value (straight-line amortization), the above rates must be reduced by 50%.	