

# **Solutions manual**

to accompany

# **Financial accounting: Reporting, analysis and decision making**

**6<sup>th</sup> edition**

by

Carlton et al.

**WILEY**

## Chapter 2: The recording process

### Assignment classification table

	<b>Learning objectives</b>	<b>Brief exercises</b>	<b>Exercises</b>	<b>Problems</b>
1.	Analyse the effect of accounting transactions and events on the basic accounting equation.	1	1,2,3,10	1A,2A,3A, 1B,2B,3B
2.	Explain what an account is and how it helps in the recording process.			
3.	Define debits and credits and explain how they are used to record accounting transactions.	2	4,6	4A,5A,6A,7A, 8A, 4B,5B,6B 7B,8B
4.	Identify the basic steps in the recording process.	3		
5.	Explain what a journal is and how it helps in the recording process.	4,7	5,7,9,10	4A,5A,6A,7A,8A, 4B,5B,6B,7B 8B
6.	Explain what a general ledger is and how it helps in the recording process.		10	5A,6A,7A,8A, 5B,6B,7B, 8B
7.	Explain what posting is and how it helps in the recording process.	5	8,10	5A,6A,7A,8A, 5B,6B,7B,8B
8.	Explain the purposes of a trial balance.	6,7	8,9,11,12, 13	5A,6A,7A,8A,9A, 10A,5B,6B,7B, 8B,9B,10B

## Solutions to questions

- 2.1. The system of collecting and processing transactions or data and communicating financial information to interested parties is known as the accounting information system. The first step of the accounting process is to identify transactions and events that are to be recorded. Once identified and measured, the transactions and events are recorded to provide a permanent history of the financial activities of the organisation. Recording begins with a chronological record of transactions and events in an orderly and systematic manner in a journal. The next step is to transfer the journal information to the appropriate accounts in the ledger. (Note further steps in the recording process are discussed in chapter 3.)
- 2.2. Accounting transactions and events of the enterprise are recorded by accountants because they affect the basic equation (assets, liabilities and equity items).
- (a) No, the death of a major shareholder of the company is not an accounting transaction or event. Applying the accounting entity concept from chapter 1 and therefore it does not affect the basic equation.
  - (b) Yes, Supplies purchased on account is an accounting transaction and it is recorded as an increase in an asset, *supplies* and an increase in liabilities, *accounts payable*.
  - (c) No, an employee being fired is not an accounting transaction or event which is recorded. When the employee provides services (works), this is when the event is recorded. Upon ceasing employment, it is only the services which have accrued which need to be accounted for.
  - (d) Yes, paying a cash dividend to shareholders is an accounting transaction which is recorded as a decrease in an asset, *cash* and a decrease in equity, *retained earnings*.
- 2.3.
- (a) Decrease assets, *cash* and decrease in equity, *cleaning expenses*.
  - (b) Increase assets, *equipment* and decrease assets *cash*.
  - (c) Increase assets, *cash* and increase equity, *share capital*
  - (d) Decrease assets, *cash* and decrease liabilities, *accounts payable*.
- 2.4. Charles is incorrect. The double-entry system merely records the dual (two-sided) effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once with a dual effect. In other words, for each transaction, debits must equal credits.
- 2.5. Tanya is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favourable nor unfavourable.

- 2.6. (a) Asset accounts are increased by debits and decreased by credits.  
(b) Liability accounts are decreased by debits and increased by credits.  
(c) The share capital account is decreased by debits and increased by credits.  
(d) Revenue accounts are decreased by debits and increased by credits.  
(e) Expense accounts are increased by debits and decreased by credits.  
(f) Dividend account are increased by debits and decreased by credits.
- 2.7. (a) Equipment — debit balance.  
(b) Cash — debit balance.  
(c) Advertising expense — debit balance.  
(d) Accounts payable — credit balance.  
(e) Service revenue — credit balance.  
(f) Accounts receivable — debit balance.  
(g) Share capital — credit balance.
- 2.8. (a) The entire group of accounts maintained by an entity company, including all the asset, liability, and equity accounts, is referred to collectively as the ledger.  
(b) The chart of accounts is important, particularly for an entity that has a large number of accounts, because it helps organise the accounts, identify their location in the ledger and facilitate the recording process. The amount of detailed information which can be extracted in the form of reports will depend on the chart of accounts.
- 2.9. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove the mathematical equality of debits and credits after all journalised transactions have been posted. A trial balance also facilitates the discovery of errors in journalising and posting. In addition, it is useful in preparing financial statements.
- 2.10. (a) The trial balance would balance. However, this does not mean the transaction has been analysed and recorded correctly. The correct recording would be to debit Cash for \$900 and credit Accounts receivable for \$900. In order to correct the error a journal reversing the initial entry would also need to be made.  
(b) The trial balance would not balance, as the debit side is \$810 greater than the credit side of the postings.

## Solutions to brief exercises

### BE2.1

	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
(a)	+	+	NE
(b)	+	NE	+
(c)	- & +	NE	NE

### BE2.2

		<b>Debit effect</b>	<b>Credit effect</b>	<b>Normal balance</b>
(a)	Accounts payable	Decrease	Increase	Credit
(b)	Advertising expense	Increase	Decrease	Debit
(c)	Service revenue	Decrease	Increase	Credit
(d)	Accounts receivable	Increase	Decrease	Debit
(e)	Retained earnings	Decrease	Increase	Credit
(f)	Dividends	Increase	Decrease	Debit

### BE2.3

		<b>Dudley Advertising Ltd</b>	
		<b>(a) Basic Analysis</b>	<b>(b) Debit-Credit Analysis</b>
Aug	1	The asset Cash is increased \$15,000; Share capital (equity) is increased.	Debits increase assets: debit Cash \$15,000. Credits increase equity: credit Share capital \$15,000
	4	The asset Prepaid insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
	16	The asset Cash is increased; the revenue Service revenue is increased.	Debits increase assets: debit Cash \$9,000. Credits increase revenues: credit Service revenue \$9,000.
	27	The expense Salaries expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries expense \$500. Credits decrease assets: credit Cash \$500.

**BE2.4****Dudley Advertising Ltd**

DATE		Description	Debit	Credit
Aug.	1	Cash	15,000	
		Share capital		15,000
		Being the issue of share for cash		
	4	Prepaid insurance	1,800	
		Cash		1,800
		Being the payment of the insurance premium		
	16	Cash	9,000	
		Service revenue		9,000
		Being the receipt of cash for services		
	27	Salaries expense	500	
		Cash		500
		Being the payment of salaries		

**BE2.5****Gonzales Ltd****Accounts receivable**

5/5	Service revenue*	13,200	12/5	Cash	12,400
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\*Service revenue is the cross-reference. See pp. 167–8 of the text for further explanation.

**Service revenue**

	5/5	Accounts receivable	13,200
	15/5	Cash	12,000

**Cash**

12/5	Accounts receivable	12,400
15/5	Service revenue	12,000

**BE2.6**

**Evans Ltd  
Trial balance  
as at 30 June 2019**

Account name	Debit	Credit
	\$	\$
Cash	6,400	
Accounts receivable	5,600	
Equipment	23,000	
Accounts payable		8,650
Share capital		30,000
Dividends	2,200	
Service revenue		11,500
Salaries expense	9,000	
Rent expense	3,950	
	<u>\$50,150</u>	<u>\$50,150</u>

**BE2.7**

**Timaru Ltd  
Trial balance  
as at 31 December 2019**

Account name	Debit	Credit
	\$	\$
Cash	32,100	
Prepaid insurance	1,500	
Accounts payable		8,700
Revenue received in advance		3,500
Share capital		25,000
Retained earnings		9,000
Dividends	4,500	
Service revenue		34,800
Insurance expense	8,700	
Salaries expense	18,900	
Rent expense	15,300	
	<u>\$81,000</u>	<u>\$81,000</u>

## Solutions to exercises

### E2.1

#### Speedy Lawn Care Pty Ltd

1. Increase in assets and increase in equity.
2. Decrease in assets and decrease in equity.
3. Increase in assets and increase in equity.
4. Increase in assets and increase in equity.
5. Decrease in assets and decrease in equity.
6. Increase in liabilities and decrease in equity.
7. Increase in assets and decrease in assets.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in liabilities.

### E2.2

#### Foxes Ltd

- (a)
1. Shareholders invested \$34,000 cash in the business.
  2. Purchased office equipment for \$10,000, paying \$4,000 in cash and the balance of \$6,000 on account.
  3. Paid \$1,100 cash for supplies.
  4. Recognised \$27,400 in revenue, receiving \$21,800 cash and \$5,600 on account.
  5. Paid \$3,000 cash on accounts payable.
  6. Paid \$1,000 cash dividends to shareholders.
  7. Paid \$2,750 cash for rent.
  8. Collected \$3,200 cash from customers on account.
  9. Paid salaries of \$5,700.
  10. Received invoice for \$1500 electricity used.

(b)	Issued Share capital	\$34,000
	Service revenue	27,400
	Dividends	(1,000)
	Rent expense	(2,750)
	Salaries expense	(5,700)
	Electricity expense	<u>(1,500)</u>
	Increase in Equity	<u>\$50,450</u>

(c)	Service revenue	\$27,400
	Rent expense	(2,750)
	Salaries expense	(5,700)
	Electricity expense	<u>(1,500)</u>
	Profit for the Month	<u>\$17,450</u>

- (d) The profit for the month is part of the increase in equity. The profit is part of the retained earnings which has increased with the \$17,450 profit and decreased by the payment of the dividend of \$1,000 leaving a balance of \$16,450. At month end equity is represented by the Share capital of \$34,000 and the Retained earnings of \$16,450 as per total equity of \$50,450 as per part (b) above.



**E2.3**

**Foxes Ltd**  
**Statement of profit or loss**  
**for the month ended 31 August 2019**

	\$	\$
Revenues:		
Service revenue		27,400
Expenses:		
Salaries expense	5,700	
Rent expense	2,750	
Electricity expense	<u>1,500</u>	
Total expenses		<u>9,950</u>
Profit		<u>\$17,450</u>

**Foxes Ltd**  
**Statement of financial position**  
**as at 31 August 2019**

	\$	\$
Assets:		
Cash	41,450	
Accounts receivable	2,400	
Supplies	1,100	
Office equipment	<u>10,000</u>	
Total assets		54,950
Liabilities:		
Accounts payable		<u>4,500</u>
<b>Net assets</b>		<u>\$50,450</u>
Equity:		
Share capital		34,000
Retained earnings		<u>16,450</u>
<b>Total equity</b>		<u>\$50,450</u>

**Foxes Ltd**  
**Calculation of Retained earnings**  
**for the month ended 31 August 2019**

	\$
Retained earnings 1 August	0
Add: Profit	<u>17,450</u>
	17,450
Less: Dividends	<u>(1,000)</u>
Retained earnings 31 August	<u>\$16,450</u>

## E2.4

## Expensive Designs Pty Ltd

Transaction	Account debited				Account credited			
	(a) Basic type	(b) Specific account	(c) Effect	(d) Normal balance	(a) Basic type	(b) Specific account	(c) Effect	(d) Normal balance
1	Asset	Cash	Increase	Debit	Equity	Share capital	Increase	Credit
2	Asset	Equipment/ motor vehicles	Increase	Debit	Asset	Cash	Decrease	Debit
3	Asset	Supplies	Increase	Debit	Liability	Accounts payable	Increase	Credit
4	Asset	Accounts receivable	Increase	Debit	Equity	Service revenue	Increase	Credit
5	Equity	Advertising expense	Increase	Debit	Asset	Cash	Decrease	Debit
6	Asset	Cash	Increase	Debit	Asset	Accounts receivable	Decrease	Debit
7	Liability	Accounts payable	Decrease	Credit	Asset	Cash	Decrease	Debit
8	Equity	Dividends	Increase	Debit	Asset	Cash	Decrease	Debit

**E2.5**

**Expensive Designs Pty Ltd  
General journal**

Transaction	Account Titles	Debit	Credit
		\$	\$
1	Cash	10,000	
	Share capital		10,000
	(Issued shares to investors for cash)		
2	Equipment/motor vehicles	5,000	
	Cash		5,000
	(Purchased car for business for cash)		
3	Supplies	500	
	Accounts payable		500
	(Purchased supplies on account)		
4	Accounts receivable	1,800	
	Service revenue		1,800
	(Invoiced customers for services performed)		
5	Advertising expense	200	
	Cash		200
	(Paid advertising expense)		
6	Cash	700	
	Accounts receivable		700
	(Received cash from customers on account)		
7	Accounts payable	300	
	Cash		300
	(Paid amount owing to accounts payable)		
8	Dividends	400	
	Cash		400
	(Paid dividends to shareholders)		

## E2.6

## Bookit Pty Ltd

Transaction	Account debited				Account credited			
	(a) Basic type	(b) Specific account	(c) Effect	(d) Normal balance	(a) Basic type	(b) Specific account	(c) Effect	(d) Normal balance
1	Asset	Cash	Increase	Debit	Equity	Share capital	Increase	Credit
2	Asset	Equipment/ photocopier	Increase	Debit	Liability	Accounts payable	Increase	Credit
3	Asset	Supplies	Increase	Debit	Liability	Accounts payable	Increase	Credit
4	Asset	Accounts receivable	Increase	Debit	Equity	Service revenue	Increase	Credit
5	Equity	Advertising expense	Increase	Debit	Asset	Cash	Decrease	Debit
6	Asset	Cash	Increase	Debit	Asset	Accounts receivable	Decrease	Debit
7	Liability	Accounts payable	Decrease	Credit	Asset	Cash	Decrease	Debit
8	Equity	Rent expense	Increase	Debit	Asset	Cash	Decrease	Debit

**E2.7**

**Bookit Pty Ltd  
General journal**

Transaction	Account titles	Debit	Credit
		\$	\$
1	Cash	10,000	
	Share capital		10,000
	(Issued shares to investors for cash)		
2	Equipment/photocopier	3,000	
	Accounts payable		3,000
	(Purchased photocopier for business on account)		
3	Supplies	400	
	Accounts payable		400
	(Purchased supplies on account)		
4	Accounts receivable	1,800	
	Service revenue		1,800
	(Invoiced customers for services performed)		
5	Advertising expense	300	
	Cash		300
	(Paid advertising expense)		
6	Cash	1,500	
	Accounts receivable		1,500
	(Received cash from customers on account)		
7	Accounts payable	3,400	
	Cash		3,400
	(Paid amount owing to accounts payable)		
8	Rent expense	600	
	Cash		600
	(Paid rent for month)		

## E2.8

## Ink Pad Printers Ltd

(a)

<b>Cash</b>					
1/8	Share capital	17,000	12/8	Office equipment	1,000
10/8	Service revenue	12,400	31/8	Closing balance	29,000
31/8	Accounts receivable	<u>600</u>			
		<u>30,000</u>			<u>30,000</u>
1/9	Opening balance	29,000			
<b>Accounts receivable</b>					
25/8	Service revenue	1,500	31/8	Cash	600
		<u>1,500</u>		Closing balance	<u>900</u>
1/9	Opening balance	900			<u>1,500</u>
<b>Office equipment</b>					
12/8	Cash/bank loan	4,000			
<b>Bank loan</b>					
			12/8	Office equipment	3,000
<b>Share capital</b>					
			1/8	Cash	17,000
<b>Service revenue</b>					
31/8	Closing balance	13,900	10/8	Cash	12,400
		<u>13,900</u>	25/8	Accounts receivable	<u>1,500</u>
			31/8	Balance	<u>13,900</u>

(b)

**Ink Pad Printers Ltd  
Trial balance  
as at 31 August 2020**

Account name	Debit	Credit
	\$	\$
Cash	29,000	
Accounts receivable	900	
Office equipment	4,000	
Bank loan		3,000
Share capital		17,000
Service revenue		<u>13,900</u>
	<u>\$33,900</u>	<u>\$33,900</u>

**E2.9**

**Zebra Tours Ltd**

(a)

**General journal**

<b>Date</b>	<b>Account titles and explanation</b>	<b>Debit</b>	<b>Credit</b>
Apr. 1	Cash Share capital (Sold shares for cash)	10,000	10,000
4	Supplies Accounts payable (Purchased supplies on account)	4,800	4,800
7	Accounts receivable Service revenue (Invoiced customers for services rendered)	2,400	2,400
12	Cash Service revenue (Received cash for services performed)	1,900	1,900
15	Salaries expense Cash (Paid salaries)	750	750
25	Accounts payable Cash (Paid creditors on account)	3,500	3,500
29	Cash Accounts receivable (Received cash from customers on account)	200	200
30	Cash Revenue received in advance (Received cash for services to be performed in the future)	700	700

(b)

**Zebra Tours Ltd**  
**Trial balance**  
**as at 30 April 2019**

<b>Account name</b>	<b>Debit</b>	<b>Credit</b>
	\$	\$
Cash	8,550	
Accounts receivable	2,200	
Supplies	4,800	
Accounts payable		1,300
Revenue received in advance		700
Share capital		10,000
Service revenue		4,300
Salaries expense	750	
	<u>\$16,300</u>	<u>\$16,300</u>



**E2.10**

**Ranch Ltd**

(a)

		<b>Assets</b>		=	<b>Liabilities</b>		+	<b>Equity</b>	
		<b>Cash</b>	+ <b>Equipment</b>	=	<b>Accounts payable</b>	+	<b>Equity</b>		
Sept	1	+ 45,000					+45,000	Issued shares	
	5	- 10,000	+ 25,000		+ 15,000				
		35,000	+ 25,000	=	15,000	+	45,000		
	25	- 7,500			- 7,500				
		27,500	+ 25,000	=	7,500	+	45,000		
	30	- 1,000					- 1,000	Dividends	
		26,500	+ 25,000	=	7,500	+	44,000		
		<div style="border-top: 1px solid black; border-bottom: 1px solid black; display: inline-block; width: 100%;"></div> \$51,500		=	<div style="border-top: 1px solid black; border-bottom: 1px solid black; display: inline-block; width: 100%;"></div> \$51,500				

(b)

**Ranch Ltd  
General journal**

<b>Date</b>	<b>Account titles and explanation</b>	<b>Ref</b>	<b>Debit</b>	<b>Credit</b>
Sept 1	Cash Share capital (Issued shares for cash)	100 300	45,000	45,000
5	Equipment Cash Accounts payable (Purchased equipment part cash, part on account)	120 100 200	25,000	10,000 15,000
25	Accounts payable Cash (Paid amount owed on account)	200 100	7,500	7,500
30	Dividends Cash (Paid cash dividend)	320 100	1,000	1,000

(c)

**Ranch Ltd**

		<b>Cash</b>				<b>100</b>
1/9	Share capital	45,000	5/9	Equipment	10,000	
			25/9	Accounts payable	7,500	
			30/9	Dividend	1,000	
		<b>Equipment</b>				<b>120</b>
5/9	Cash/accounts payable	25,000				
		<b>Accounts payable</b>				<b>200</b>
25/9	Cash	7,500	5/9	Equipment	15,000	
		<b>Share capital</b>				<b>300</b>
			1/9	Cash	45,000	
		<b>Dividends</b>				<b>320</b>
30/9	Cash	1,000				

**E2.11**

**Equipment Repair Pty Ltd**

(a)

<b>Error</b>	<b>(a) In balance</b>	<b>(b) Difference</b>	<b>(c) Column with larger total</b>
1	No	\$600	Debit
2	Yes	–	–
3	Yes	–	–
4	No	300	Credit
5	Yes	–	–
6	No	9	Credit

(b) The trial balance will not detect postings to the correct side of the ledger but the incorrect ledger account, omitted transactions, transactions posted incorrect amounts on both sides of the ledger. That is the trial balance detects when debits do not equal credits.

**E2.12**

**Sushi To Go Ltd  
Trial balance  
as at 31 July 2019**

<b>Account name</b>	<b>Debit</b>	<b>Credit</b>
	\$	\$
Cash (\$193,314 — Debit total without Cash \$163,880)	29,434	
Accounts receivable	27,184	
Prepaid insurance	3,836	
Delivery equipment	118,620	
Bank loan		\$56,800
Accounts payable		14,692
Salaries payable		1,530
Share capital		79,900
Retained earnings		9,172
Dividends	1,300	
Service revenue		31,220
Salaries expense	8,756	
Fuel expense	1,416	
Repair expense	1,822	
Insurance expense	946	
	<u>\$193,314</u>	<u>\$193,314</u>

## E2.13

**Boxer Ltd**  
**Trial balance**  
**as at 31 March 2020**

Account name	Debit	Credit
	\$	\$
Cash	76,526	
Accounts receivable	13,450	
Prepaid insurance	6,345	
Delivery equipment	165,000	
Accounts payable		23,774
Salaries payable		3,460
Bank loan		75,000
Share capital		112,000
Retained earnings (\$303,600 – \$281,823)		21,777
Dividends	2,700	
Service revenue		67,589
Salaries expense	23,700	
Fuel expense	7,890	
Repair expense	3,421	
Insurance expense	4,568	
	<u>\$303,600</u>	<u>\$303,600</u>

## Solutions to Problem set A

### PSA2.1

a)

Let's Go Travel Agency Ltd													
	Cash	+	Accounts receivable	+	Supplies	+	Office equipment	=	Accounts payable	+	Share capital	+	Retained profit
1.	+\$40,000										+\$40,000		
	40,000							=			40,000		
2.	-800												-800 (a)
	39,200							=			40,000	+	(800)
3.	-5,000						+5,000						
	34,200					+	5,000	=			40,000	+	(800)
4.										+600			-600 (b)
	34,200					+	5,000	=	600	+	40,000	+	(1,400)
5.	-1,200						+1,200						
	33,000			+	1,200	+	5,000	=	600	+	40,000	+	(1,400)
6.	+2,000		+16,000	+									+18,000 (c)
	35,000	+	16,000	+	1,200	+	5,000	=	600	+	40,000	+	16,600
7.	-400												-400 (d)
	34,600	+	16,000	+	1,200	+	5,000	=	600	+	40,000	+	16,200
8.	-600									-600			
	34,000	+	16,000	+	1,200	+	5,000	=	0	+	40,000	+	16,200
9.	-2,400												-2,400 (e)
	31,600	+	16,000	+	1,200	+	5,000	=	0	+	40,000	+	13,800
10.	+16,000		-16,000										
	<u>\$47,600</u>	+	<u>\$0</u>	+	<u>\$1,200</u>	+	<u>\$5,000</u>	=	<u>\$0</u>	+	<u>\$40,000</u>	+	<u>\$13,800</u>

Key to Retained earnings column above.

- (a) Rent expense
- (b) Advertising expense
- (c) Service revenue
- (d) Dividends
- (e) Salaries expense

(b) Calculation of profit or loss for the year

Service revenue			\$18,000
Expenses:			
Salaries expense	\$2,400		
Rent expense	800		
Advertising expense	<u>800</u>		<u>3,800</u>
Profit			<u>\$14,200</u>

OR

Increase in retained earnings (\$13,800 – \$0)	\$13,800
Add: Dividends	<u>400</u>
Profit	<u>\$14,200</u>

**PSA2.2**

(a)

**Best Consulting Pty Ltd**

Date	Assets				=	Liabilities		+	Equity								
	Cash	+	Accounts receivable	+		Supplies	+		Office equipment	Bank loan	+	Accounts payable	+	Share capital	+	Retained earnings	
1/5	\$10,000											\$10,000					
2/5	(1,050)				=									(\$1050) Rent expense			
3/5																	
5/5	(75)													(75) Advertising expense			
9/5	1,250													1,250 Service revenue			
12/5	(100)													(100) Telephone			
15/5			\$3,500											3,500 Service revenue			
17/5	(2,000)													(2,000) Salaries expense			
20/5	(250)													(250)			
23/5	2,250		(2,250)														
26/5	2,500													\$2,500			
29/5														\$1,200			
30/5	(125)													1,200			
	<u>\$12,400</u>	+	<u>\$1,250</u>	+		<u>\$250</u>	+	<u>\$1,200</u>	=	<u>\$2,500</u>	+	<u>\$1,200</u>	+	<u>\$10,000</u>	+	<u>\$1,400</u>	(125) Electricity expense

(b)

**Best Consulting Pty Ltd**  
**Statement of profit or loss**  
**for the month ended 31 May 2019**

	\$	\$
Revenues:		
Service revenue		4,750
Expenses:		
Salaries expense	2,000	
Rent expense	1,050	
Electricity expense	125	
Telephone expense	100	
Advertising expense	<u>75</u>	
Total expenses		<u>3,350</u>
Profit		<u>\$1,400</u>

(c)

**Best Consulting Pty Ltd**  
**Statement of financial position**  
**as at 31 May 2019**

	\$	\$
Assets:		
Cash	12,400	
Accounts receivable	1,250	
Supplies	250	
Office equipment	<u>1,200</u>	
Total assets		15,100
Liabilities:		
Accounts payable	1,200	
Bank loan	<u>2,500</u>	
Total liabilities		<u>3,700</u>
<b>Net assets</b>		<u>\$11,400</u>
Equity:		
Share capital	10,000	
Retained earnings	<u>1,400</u>	
<b>Total equity</b>		<u>\$11,400</u>



**PSA2.3**

(a)

<b>Ivan Izo Pty Ltd</b>															
	<b>Assets</b>					=	<b>Liabilities</b>			+	<b>Equity</b>				
	<b>Cash</b>	<b>+</b>	<b>Accounts receivable</b>	<b>+</b>	<b>Supplies</b>		<b>+</b>	<b>Office equipment</b>	<b>Bank loan</b>		<b>+</b>	<b>Accounts payable</b>	<b>+</b>	<b>Share capital</b>	<b>+</b>
Bal.	\$4,000	+	\$1,500	+	\$500	+	\$5,000	=	+	\$4,200	+	\$6,500	+	\$300	
1.	+1,400		-1,400												
	5,400	+	100	+	500	+	5,000	=		4,200	+	6,500	+	300	
2.	-2,700									-2,700					
	2,700	+	100	+	500	+	5,000	=		1,500	+	6,500	+	300	
3.	+3,000		+3,400											+6,400 (a)	
	5,700	+	3,500	+	500	+	5,000	=		1,500	+	6,500	+	6,700	
4.	-400						+1,000			+600					
	5,300	+	3,500	+	500	+	6,000	=		2,100	+	6,500		6,700	
5.	-1,500													-1,500 (b)	
	-900													-900 (c)	
	-350													-350 (d)	
	2,550	+	3,500	+	500	+	6,000	=		2,100	+	6,500	+	3,950	
6.	-550													-550 (e)	
	2,000	+	3,500	+	500	+	6,000	=		2,100	+	6,500	+	3,400	
7.	+2,000								+\$2,000						
	4,000	+	3,500	+	500	+	6,000	=	2,000	+	2,100	+	6,500	+	3,400
8.										+250				-250 (f)	
	<u>\$4,000</u>	+	<u>\$3,500</u>	+	<u>\$500</u>	+	<u>\$6,000</u>	=	<u>\$2,000</u>	+	<u>\$2,350</u>	+	<u>\$6,500</u>	+	<u>\$3,150</u>

Key to Retained earnings column above:

- (a) Service revenue.
- (b) Salaries expense.
- (c) Rent expense.
- (d) Advertising expense.
- (e) Dividends.
- (f) Electricity expense.

(b)

**Ivan Izo Pty Ltd**  
**Statement of profit or loss**  
**for the month ended 31 August 2019**

	\$	\$
Revenues:		
Service revenue		6,400
Expenses:		
Salaries expense	1,500	
Rent expense	900	
Advertising expense	350	
Electricity expense	<u>250</u>	
Total expenses		<u>3,000</u>
Profit		<u>\$3,400</u>

**Ivan Izo Pty Ltd**  
**Statement of financial position**  
**as at 31 August 2019**

	\$	\$
Current assets:		
Cash	4,000	
Accounts receivable	3,500	
Supplies	<u>500</u>	
Total current assets		8,000
Non-current assets:		
Office equipment		<u>6,000</u>
Total assets		14,000
Current liabilities:		
Accounts payable	2,350	
Non-current liabilities:		
Bank loan*	<u>2,000</u>	
Total liabilities		<u>4,350</u>
<b>Net assets</b>		<u>\$9,650</u>
Equity:		
Share capital	6,500	
Retained earnings **	<u>3,150</u>	<u>9,650</u>
<b>Total equity</b>		<u>\$9,650</u>

\* Loan could be current or non-current shown as non-current

\*\*Retained earnings \$300 + Profit \$3,400 – dividend \$550 = \$3,150

## PSA2.4

## Fantasy Miniature Golf and Driving Range Pty Ltd

Date	Account titles and explanation	Post ref	Debit	Credit
Mar. 1	Cash	100	60,000	
	Share capital	300		60,000
	(Issued shares for cash)			
3	Land	130	23,000	
	Buildings	135	9,000	
	Equipment	138	6,000	
	Cash	100		38,000
	(Purchased Lee's Golf Land)			
5	Advertising expense	500	1,600	
	Cash	100		1,600
	(Paid for advertising)			
6	Prepaid insurance	112	1,480	
	Cash	100		1,480
	(Paid for one-year insurance policy)			
10	Equipment	138	1,600	
	Accounts payable	200		1,600
	(Purchased equipment on account)			
18	Cash	100	800	
	Golf revenue	400		800
	(Revenue received in cash)			
19	Cash	100	1,500	
	Golf revenue received in advance			1,500
	(Received cash for voucher books sold)			
25	Dividends	320	500	
	Cash	100		500
	(Payment of cash dividend)			
30	Salaries expense	510	600	
	Cash	100		600
	(Paid salaries expense)			
30	Accounts payable	200	1,600	
	Cash	100		1,600
	(Paid creditor on account)			
31	Cash	100	800	
	Golf revenue	400		800
	(Revenue received in cash)			

## PSA2.5

## Mahon Consultants Pty Ltd

(a)

Date	Account titles and explanation	Post ref	Debit	Credit
Apr. 1	Cash	100	76,500	
	Share capital	300		76,500
	(Issued shares for cash)			
1	No entry — not a transaction.			
2	Rent expense	510	2,850	
	Cash	100		2,850
	(Paid monthly office rent)			
3	Supplies	115	7,650	
	Accounts payable	200		7,650
	(Purchased supplies on account from Speedy Art Supplies)			
10	Accounts receivable	110	4,050	
	Service revenue	400		4,050
	(Invoiced clients for services rendered)			
11	Cash	100	1,650	
	Revenue received in advance	209		1,650
	(Received cash advance for future service)			
20	Cash	100	9,450	
	Service revenue	400		9,450
	(Revenue received in cash)			
30	Salaries expense	500	5,850	
	Cash	100		5,850
	(Paid monthly salary)			
30	Accounts payable	200	3,450	
	Cash	100		3,450
	(Paid Speedy Art Supplies on account)			

(b)

		<b>Cash</b>			<b>100</b>
1/ 4	Share capital	76,500	2/4	Rent expense	2,850
11/4	Revenue received in advance	1,650	30/4	Salaries expense	5,850
20/4	Service revenue	9,450	30/4	Accounts payable	3,450
		<u>86,700</u>	30/4	Closing balance	<u>75,450</u>
1/5	Opening balance	75,450			<u>86,700</u>

		<b>Accounts receivable</b>			<b>110</b>
10/4	Service revenue	4,050			

		<b>Supplies</b>			<b>115</b>
<sup>3</sup> / <sub>4</sub>	Accounts payable	7,650			

		<b>Accounts payable</b>			<b>200</b>
30/4	Cash	3,450	3/4	Supplies	7,650
30/4	Closing balance	<u>4,200</u>			<u>7,650</u>
		<u>7,650</u>	1/5	Opening balance	4,200

		<b>Revenue received in advance</b>			<b>209</b>
			11/4	Cash	1,650

		<b>Share capital</b>			<b>300</b>
			1/4	Cash	76,500

		<b>Service revenue</b>			<b>400</b>
			10/4	Accounts receivable	4,050
			20/4	Cash	<u>9,450</u>
					<u>13,500</u>

		<b>Salaries expense</b>			<b>500</b>
30/4	Cash	5,850			

		<b>Rent expense</b>			<b>510</b>
2/4	Cash	2,850			

(c)

**Mahon Consultants Pty Ltd**  
**Trial balance**  
**as at 30 April 2019**

<b>Account name</b>	<b>Debit</b>	<b>Credit</b>
	\$	\$
Cash	75,450	
Accounts receivable	4,050	
Supplies	7,650	
Accounts payable		4,200
Revenue received in advance		1,650
Share capital		76,500
Service revenue		13,500
Salaries expense	5,850	
Rent expense	2,850	
	<u>95,850</u>	<u>95,850</u>

**PSA2.6**

**Lou Lou's Beauty Centre Pty Ltd**

(a) & (c)

		<b>Cash</b>			<b>100</b>
1/10	Opening balance	32,800	15/10	Salaries expense	3,600
5/10	Accounts receivable	2,400	20/10	Accounts payable	5,200
			29/10	Dividend	800
			31/10	Electricity expense	1,600
			31/10	Closing balance	<u>24,000</u>
		<u>35,200</u>			<u>35,200</u>
1/11	Opening balance	24,000			

		<b>Accounts receivable</b>		<b>115</b>	
1/10	Opening balance	7,600	5/10	Cash	2,400
10/10	Service revenue	<u>12,800</u>	31/10	Closing balance	<u>18,000</u>
		<u>20,400</u>			<u>20,400</u>
1/11	Opening balance	18,000			

		<b>Supplies</b>	<b>120</b>
1/10	Opening balance	5,600	

		<b>Equipment</b>	<b>130</b>
1/10	Opening balance	30,800	

		<b>Accounts payable</b>		<b>200</b>	
20/10	Cash	5,200	1/10	Opening balance	18,800
31/10	Closing balance	<u>13,600</u>			<u>18,800</u>
		<u>18,800</u>	1/11	Opening balance	13,600

		<b>Revenue received in advance</b>		<b>210</b>	
17/10	Service revenue	1,200	1/10	Opening balance	1,600
31/10	Closing balance	<u>400</u>			<u>1,600</u>
		<u>1,600</u>	1/11	Opening balance	400

		<b>Share capital</b>	<b>300</b>		
			1/10	Opening balance	56,400

		<b>Dividends</b>	<b>310</b>
29/10	Cash	800	

		<b>Service revenue</b>		<b>400</b>	
			10/10	Accounts receivable	12,800
			17/10	Revenue received in advance	<u>1,200</u>
					<u>14,000</u>

		<b>Salaries expense</b>		<b>500</b>	
15/10	Cash	3,600			
		<b>Electricity expense</b>		<b>510</b>	
31/10	Cash	1,600			



(b)

<b>Date</b>	<b>Account titles and explanation</b>	<b>Post ref</b>	<b>Debit</b>	<b>Credit</b>
Oct 5	Cash	100	2,400	
	Accounts receivable	115		2,400
	(Received cash from customers on account)			
10	Accounts receivable	115	12,800	
	Service revenue	400		12,800
	(Invoiced customers for services performed)			
15	Salaries expense	500	3,600	
	Cash	100		3,600
	(Paid employee salaries)			
17	Revenue received in advance	210	1,200	
	Service revenue	400		1,200
	(Performed services for customers who paid in advance)			
20	Accounts payable	200	5,200	
	Cash	100		5,200
	(Paid creditors on account)			
29	Dividends	310	800	
	Cash	100		800
	(Payment of cash dividend)			
31	Electricity expense	510	1,600	
	Cash	100		1,600
	(Paid electricity)			

(d)

**Lou Lou's Beauty Centre Pty Ltd**  
**Trial balance**  
**as at 31 October 2019**

No.	Account name	Debit	Credit
		\$	\$
100	Cash	24,000	
115	Accounts receivable	18,000	
120	Supplies	5,600	
130	Equipment	30,800	
200	Accounts payable		13,600
210	Revenue received in advance		400
300	Share capital		56,400
310	Dividends	800	
400	Service revenue		14,000
500	Salaries expense	3,600	
510	Electricity expense	1,600	
		<u>\$84,400</u>	<u>\$84,400</u>

**PSA2.7**

**Western Laundry Services Pty Ltd**

(a) & (c)

		<b>Cash</b>			<b>100</b>
1/5	Opening balance	4,250	12/5	Salaries expense	600
2/5	Accounts receivable	450	18/5	Accounts payable	800
			25/5	Dividend	250
			31/5	Electricity expense	350
		<u>4,700</u>	31/5	Closing balance	<u>2,700</u>
1/11	Opening balance	2,700			<u>4,700</u>
		<b>Accounts receivable</b>			<b>115</b>
1/5	Opening balance	1,100	2/5	Cash	450
8/5	Service revenue	<u>1,750</u>	31/5	Closing balance	<u>2,400</u>
		<u>2,850</u>			<u>2,850</u>
1/11	Opening balance	4,800			
		<b>Supplies</b>			<b>120</b>
1/5	Opening balance	850			
		<b>Equipment</b>			<b>130</b>
1/5	Opening balance	4,000			
		<b>Accounts payable</b>			<b>200</b>
18/5	Cash	800	1/5	Opening balance	2,500
31/5	Closing balance	<u>1,700</u>			<u>2,500</u>
		<u>2,500</u>	1/11	Opening balance	1,700
		<b>Revenue received in advance</b>			<b>210</b>
15/5	Service revenue	300	1/5	Opening balance	350
31/5	Closing balance	<u>50</u>			<u>350</u>
		<u>350</u>	1/11	Opening balance	50
		<b>Share capital</b>			<b>300</b>
			1/5	Opening balance	7,350
		<b>Dividends</b>			<b>310</b>
25/5	Cash	250			
		<b>Service revenue</b>			<b>400</b>
			8/5	Accounts receivable	1,750
			15/5	Revenue received in advance	<u>300</u>
					<u>2,050</u>

		<b>Salaries expense</b>	<b>500</b>
12/5	Cash	600	

  

		<b>Electricity expense</b>	<b>510</b>
31/5	Cash	350	

(b)

<b>Date</b>	<b>Account titles and explanation</b>	<b>Post Ref</b>	<b>Debit</b>	<b>Credit</b>
May 2	Cash	100	450	
	Accounts receivable	115		450
	(Received cash from customers on account)			
8	Accounts receivable	115	1,750	
	Service revenue	400		1,750
	(Invoiced customers for services performed)			
12	Salaries expense	500	600	
	Cash	100		600
	(Paid employee salaries)			
15	Revenue received in advance	210	300	
	Service revenue	400		300
	(Performed services for customers who paid in advance)			
18	Accounts payable	200	800	
	Cash	100		800
	(Paid creditors on account)			
25	Dividends	310	250	
	Cash	100		250
	(Payment of cash dividend)			
31	Electricity expense	510	350	
	Cash	100		350
	(Paid electricity)			

(d)

**Western Laundry Services Pty Ltd**  
**Trial balance**  
**as at 31 May 2019**

No.	Account name	Debit	Credit
		\$	\$
100	Cash	2,700	
115	Accounts receivable	2,400	
120	Supplies	850	
130	Equipment	4,000	
200	Accounts payable		1,700
210	Revenue received in advance		50
300	Share capital		7,350
310	Dividends	250	
400	Service revenue		2,050
500	Salaries expense	600	
510	Electricity expense	350	
		<u>\$11,150</u>	<u>\$11,150</u>

**PSA2.8**

**The Drive-in Movie Palace Ltd**

(a) & (c)

		<b>Cash</b>		<b>100</b>	
1/3	Opening balance	19,100	2/3	Film rental expense	8,000
9/3	Admission revenue	11,600	10/3	Accounts payable	14,200
20/3	Admission revenue	10,300	12/3	Advertising	3,900
31/3	Coffee cart revenue	1,110	20/3	Film rental expense	5,000
31/3	Admission revenue	21,600	31/3	Salaries expense	6,900
			31/3	Closing balance	<u>25,710</u>
		<u>63,710</u>			<u>63,710</u>
¼	Opening balance	25,710			

		<b>Accounts receivable</b>		<b>105</b>	
31/3	Coffee cart revenue	1,110			

		<b>Equipment</b>		<b>110</b>	
1/3	Opening balance	19,100			

		<b>Land</b>		<b>120</b>	
1/3	Opening balance	45,100			

		<b>Buildings</b>		<b>130</b>	
1/3	Opening balance	21,100			

		<b>Accounts payable</b>		<b>200</b>	
10/3	Cash	14,200	1/3	Opening balance	15,100
31/3	Closing balance	<u>8,000</u>	2/3	Film rental expense	<u>7,100</u>
		<u>22,200</u>	1/4	Opening balance	8,000
					<u>22,200</u>

		<b>Share capital</b>		<b>300</b>	
			1/3	Opening balance	89,300

		<b>Admission revenue</b>		<b>400</b>	
			9/3	Cash	11,600
			20/3	Cash	10,300
			31/3	Cash	<u>21,600</u>
					<u>43,500</u>

		<b>Coffee cart revenue</b>		<b>410</b>	
			31/3	Cash/Accounts receivable	2,220

		<b>Advertising expense</b>		<b>500</b>	
12/3	Cash	3,900			

<b>Film rental expense</b>			<b>510</b>
2/3	Accounts payable/Cash	15,100	
20/3	Cash	<u>5,000</u>	
		<u>20,100</u>	
<b>Salaries expense</b>			<b>520</b>
31/3	Cash	6,900	



(b)

<b>Date</b>	<b>Account titles and explanation</b>	<b>Post ref</b>	<b>Debit</b>	<b>Credit</b>
Mar. 2	Film rental expense	510	15,100	
	Accounts payable	200		7,100
	Cash	100		8,000
	(Rented films for cash and on account)			
3	No entry.			
9	Cash	100	11,600	
	Admission revenue	400		11,600
	(Received cash for admissions)			
10	Accounts payable (\$7,100 + \$7,100)	200	14,200	
	Cash	100		14,200
	(Paid creditors on account)			
11	No entry.			
12	Advertising expense	500	3,900	
	Cash	100		3,900
	(Paid advertising expenses)			
20	Cash	100	10,300	
	Admission revenue	400		10,300
	(Received cash for admissions)			
20	Film rental expense	510	5,000	
	Cash	100		5,000
	(Paid film rental)			
31	Salaries expense	520	6,900	
	Cash	100		6,900
	(Paid salaries expense)			
31	Cash	100	1,110	
	Accounts receivable	105	1,110	
	Coffee cart revenue	410		2,220
	(Received cash and balance on account for coffee cart revenue)			
31	Cash	100	21,600	
	Admission revenue	400		21,600
	(Received cash for admissions)			

(d)

**The Drive-in Movie Palace Ltd**  
**Trial balance**  
**as at 31 March 2019**

No.	Account name	Debit	Credit
		\$	\$
100	Cash	25,710	
105	Accounts receivable	1,110	
110	Equipment	19,100	
120	Land	45,100	
130	Buildings	21,100	
200	Accounts payable		8,000
300	Share capital		89,300
400	Admission revenue		43,500
410	Coffee cart revenue		2,220
500	Advertising expense	3,900	
510	Film rental expense	20,100	
520	Salaries expense	6,900	
		<u>\$143,020</u>	<u>\$143,020</u>

**PSA2.9**

(a)

**Queenstown Ltd  
Trial balance  
as at 30 June 2020**

Account name	Debit	Credit
	\$	\$
Cash (\$17940 + \$900)	18,840	
Accounts receivable (\$21093 – \$900)	20,193	
Supplies (\$5700 – \$500)	5,200	
Equipment (\$18,900 + \$500)	19,400	
Accounts payable (\$16896 – \$2163 – \$2136)		12,587
Revenue received in advance		8,100
Share capital		60,000
Dividends (\$5700 + \$3300)	9,000	
Service revenue (\$15180 + \$5,616)		20,796
Salaries expense (\$21300 + \$4500 – \$3300)	22,500	
Office expense	6,360	
	<u>\$101,493</u>	<u>\$101,493</u>

(b)

Explanation: The first number in the brackets is the balance as per the initial trial balance given in the question. The subsequent numbers are the corrections.

Note that Cash should start in the debit and Revenue received in advance should start in the credit.

Brief explanation of each error:

1. \$4320 – \$3420 = \$900. Need to decrease Accounts receivable by \$900 and increase cash by \$900 to correctly record the collection of \$4320 on account.
2. Calculator should not be included in Supplies so decrease Supplies by \$500. Calculators should be included in Equipment, so increase Equipment by \$500.
3. Rental Revenue needs to be adjusted upwards by \$5616 (\$6240 – \$624).
4. Increase Salaries expenses by \$4500.
5. A payment on account should be debit to Accounts payable. The amount of \$2163 was incorrectly credited. To correct this entry, the balance of Accounts payable must be reduced by \$2163. To correctly record the payment of \$2136 on account, Accounts payable is reduced further by \$2136.
6. Need to reduce Salaries expense by \$3300 and increase Dividends by \$3300.

**PSA2.10**

(a)

**Helpful Services Ltd**  
**Trial balance**  
**as at 30 June 2019**

Account name	Debit	Credit
	\$	\$
Cash (\$5680 + \$360)	6,040	
Accounts receivable (\$6462 – \$360)	6,102	
Supplies (\$1600 – \$680)	920	
Equipment (\$6,000 + \$680)	6,680	
Accounts payable (\$5332 – \$520 – \$412)		4,400
Revenue received in advance		2,400
Share capital		18,000
Dividends (\$1600 + \$800)	2,400	
Service revenue (\$4760 + \$1602)		6,362
Salaries expense (\$6800 + \$1200 – \$800)	7,200	
Office expense	1,820	
	<u>\$31,162</u>	<u>\$31,162</u>

(b)

Explanation: The first number in the brackets is the balance as per the initial trial balance in question. The subsequent numbers are the corrections.

Note that Cash should start in the debit and Revenue received in advance should start in the credit.

Brief explanation of each error:

1.  $\$1500 - \$1140 = \$360$ . Need to decrease Accounts receivable by \$360 and increase cash by \$360 to correctly record the collection of \$1500 on account.
2. Calculator should not be included in Supplies so decrease Supplies by \$680. Calculators should be included in Equipment, so increase Equipment by \$680.
3. Service revenue needs to be adjusted upwards by \$1602 ( $\$1780 - \$178$ ).
4. Increase Salaries expenses by \$1200.
5. A payment on account should be debit to Accounts payable. The amount of \$520 was incorrectly credited. To correct this entry, the balance of Accounts payable must be reduced by \$520. To correctly record the payment of \$206 on account, Accounts payable is reduced further by \$412.
6. Need to reduce Salaries expense by 800 and increase Dividends by \$800.

Key to Retained earnings column:  
 a) Rent expense  
 b) Advertising Expense  
 c) Service revenue  
 d) Dividends  
 e) Salaries expense  
 f) Electricity expense  
 g) Service revenue.

## Solutions to Problem set B

### PSB2.1

### CRAZY BOB'S REPAIR SHOP LTD

(a)	Cash	+	Accounts receivable	+	Supplies	+	Office equip	=	Accounts payable	+	Share capital	+	Retained earnings
(1)	+ 16,000										+ 16,000		
	<u>16,000</u>										<u>16,000</u>		
(2)	- (5,000)						+ 5,000						
	<u>11,000</u>						<u>5,000</u>				<u>16,000</u>		
(3)	- (400)												- (400) (a)
	<u>10,600</u>												<u>(400)</u>
(4)	- (500)					500							
	<u>10,100</u>					<u>500</u>							
(5)									+ 550				- (550) (b)
	<u>10,100</u>					<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>(950)</u>
(6)	+ 4,100												+ 4,100 (c)
	<u>14,200</u>					<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>3,150</u>
(7)	- (500)												(500) (d)
	<u>13,700</u>					<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>2,650</u>
(8)	- (1,200)												(1,200) (e)
	<u>12,500</u>					<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>1,450</u>
(9)	- (140)												(140) (f)
	<u>12,360</u>					<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>1,310</u>
(10)			+ 400										+ 400 (g)
	<u>12,360</u>		<u>400</u>			<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>1,710</u>
(11)	+ 120		- (120)										
	<u>12,480</u>		<u>(120)</u>			<u>500</u>	<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>1,590</u>

(a)	Cash	+	Accounts receivable	+	Supplies	+	Office equip	=	Accounts payable	+	Share capital	+	Retained earnings
	<u>12,480</u>		<u>280</u>		<u>500</u>		<u>5,000</u>		<u>550</u>		<u>16,000</u>		<u>1,710</u>

(b) Service revenue	.....	\$4,500
Expenses		
Salaries expense	..... \$1,200	
Rent expense	..... 400	
Advertising expense	..... 550	
Electricity expense	..... <u>140</u>	<u>2,290</u>
Profit	.....	<u>\$2,210</u>
Increase in retained earnings (\$1,710 – \$0)	.....	\$1,710
Add: Dividends	.....	<u>500</u>
Profit	.....	<u>\$2,210</u>

## PSB2.2

## ROGERS DELIVERIES LTD

Key to Retained earnings column:

- a) Rent expense
- b) Service revenue
- c) Dividend
- d) Petrol expense
- e) Service revenue
- f) Electricity expense
- g) Salary expense.

(a) Date	Assets				=	Liabilities		Shareholders' equity					
	Cash	+	Accounts receivable	+		Supplies	+	Delivery van	Accounts payable	+	Share capital	+	Retained earnings
01/06	+ 30,000									30,000			
	<u>30,000</u>									<u>30,000</u>			
02/06	- (4,000)						+ 20,000	+ 16,000					
	<u>26,000</u>						<u>20,000</u>	<u>16,000</u>				<u>30,000</u>	
03/06	- (1,000)											- (1,000) a	
	<u>25,000</u>						<u>20,000</u>	<u>16,000</u>				<u>30,000</u>	<u>(1,000)</u>
05/06			+ 2,000									+ 2,000 b	
	<u>25,000</u>		<u>2,000</u>				<u>20,000</u>	<u>16,000</u>				<u>30,000</u>	<u>1,000</u>
09/06	- (400)											- (400) c	
	<u>24,600</u>		<u>2,000</u>				<u>20,000</u>	<u>16,000</u>				<u>30,000</u>	<u>600</u>
12/06					+ 300			+ 300					
	<u>24,600</u>		<u>2,000</u>		<u>300</u>		<u>20,000</u>	<u>16,300</u>				<u>30,000</u>	<u>600</u>
15/06	+ 1,500		- (1,500)										
	<u>26,100</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>16,300</u>				<u>30,000</u>	<u>600</u>
17/06								+ 200				- (200) d	
	<u>26,100</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>16,500</u>				<u>30,000</u>	<u>400</u>
20/06	+ 3,000											+ 3,000 e	
	<u>29,100</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>16,500</u>				<u>30,000</u>	<u>3,400</u>
23/06	- (1,000)							- (1,000)					
	<u>28,100</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>15,500</u>				<u>30,000</u>	<u>3,400</u>



(a) Date	Assets				=	Liabilities	Shareholders' equity	Retained earnings				
	Cash	+	Accounts receivable	+		Supplies	+			Delivery van	Accounts payable	+
26/06	(500)							(500)	f			
	<u>27,600</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>15,500</u>		<u>30,000</u>	<u>2,900</u>	
29/06	(200)							(200)				
	<u>27,400</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>15,300</u>		<u>30,000</u>	<u>2,900</u>	
30/06	(1,000)							(1,000)	g			
	<u>26,400</u>		<u>500</u>		<u>300</u>		<u>20,000</u>	<u>15,300</u>		<u>30,000</u>	<u>1,900</u>	

(b)

**ROGER DELIVERIES LTD**  
**Statement of profit or loss**  
**for the Month Ended 30 June 2019**

	\$	\$
Revenues:		
Service revenue		5,000
Expenses:		
Salaries expense	1000	
Rent expense	1000	
Electricity expense	500	
Petrol expense	<u>200</u>	
Total expenses		<u>2,700</u>
Profit		<u><u>\$2,300</u></u>

(c)

**ROGER DELIVERIES LTD**  
**Statement of financial position**  
**as at 30 June 2019**

	\$	\$
Assets:		
Cash	26,400	
Accounts receivable	500	
Supplies	300	
Delivery Van	<u>20,000</u>	
Total assets		47,200
Liabilities:		
Accounts payable	<u>15,300</u>	
Total liabilities		<u>15,300</u>
<b>Net assets</b>		<u><b>\$31,900</b></u>
Equity:		
Share capital	30,000	
Retained earnings*	<u>1,900</u>	
<b>Total equity</b>		<u><b>\$31,900</b></u>

\*Retained earnings = Profit \$2300 less dividends \$400 = \$1900

PSB2.3

HEALTHY PAWS LTD

(a)	Assets				=	Liabilities		Equity	
	Cash	+ Accounts receivable	+ Supplies	+ Office equipment		Accounts payable	+ Bank loan	+ Share capital	+ Retained earnings
O/B	9,000	1,700	600	6,000	3,600		13,000	700	
1	– (3,100)				– (3,100)				
	<u>5,900</u>	<u>1,700</u>	<u>600</u>	<u>6,000</u>	<u>500</u>		<u>13,000</u>	<u>700</u>	
2	+ 1,300	(1,300)							
	<u>7,200</u>	<u>400</u>	<u>600</u>	<u>6,000</u>	<u>500</u>		<u>13,000</u>	<u>700</u>	
3	– (800)			+ 4,100	+ 3,300				
	<u>6,400</u>	<u>400</u>	<u>600</u>	<u>10,100</u>	<u>3,800</u>		<u>13,000</u>	<u>700</u>	
4	+ 2,500	+ 6,400						+ 8,900	(a)
	<u>8,900</u>	<u>6,800</u>	<u>600</u>	<u>10,100</u>	<u>3,800</u>		<u>13,000</u>	<u>9,600</u>	
5	– (600)							– (600)	(b)
	<u>8,300</u>	<u>6,800</u>	<u>600</u>	<u>10,100</u>	<u>3,800</u>		<u>13,000</u>	<u>9,000</u>	
6	(700)							(700)	(c)
	(900)							(900)	(d)
	(300)							(300)	(e)
	<u>6,400</u>	<u>6,800</u>	<u>600</u>	<u>10,100</u>	<u>3,800</u>		<u>13,000</u>	<u>7,100</u>	
7					+ 170			– (170)	(f)
	<u>6,400</u>	<u>6,800</u>	<u>600</u>	<u>10,100</u>	<u>3,970</u>		<u>13,000</u>	<u>6,930</u>	
8	+ 7,000					+ 7,000			
	<u>13,400</u>	<u>6,800</u>	<u>600</u>	<u>10,100</u>	<u>3,970</u>	<u>7,000</u>	<u>13,000</u>	<u>6,930</u>	

Key to Retained earnings column on previous page.

- (a) Service revenue
- (b) Dividends
- (c) Salaries expense
- (d) Rent expense
- (e) Advertising expense
- (f) Electricity expense

(b)

**Healthy Paws Ltd**  
**Statement of profit or loss**  
**for the Month Ended 30 September 2019**

	\$	\$
Revenues:		
Service revenue		8,900
Expenses:		
Rent expense	900	
Salaries expense	700	
Advertising expense	300	
Electricity expense	<u>170</u>	
Total expenses		<u>2,070</u>
Profit		<u>\$6,830</u>

**Healthy Paws Ltd**  
**Calculation of Retained earnings**  
**for the Month Ended 30 September 2018**

	\$
Retained earnings 1 September	700
Add: Profit	<u>6,830</u>
	7,530
Less: Dividends	<u>(600)</u>
Retained earnings 30 September	<u>\$6,930</u>

**Healthy Paws Ltd**  
**Statement of financial position**  
**as at 30 September 2019**

	\$	\$
Current assets:		
Cash	13,400	
Accounts receivable	6,800	
Supplies	<u>600</u>	
Total current assets		20,800
Non-current assets:		
Office equipment		<u>10,100</u>
Total assets		<u>30,900</u>
Current liabilities:		
Accounts payable	3,970	
Non-current liabilities:		
Bank loan*	<u>7,000</u>	
Total liabilities		<u>10,970</u>
<b>Net assets</b>		<u><b>\$19,930</b></u>
Equity:		
Share capital	13,000	
Retained earnings	<u>6,930</u>	
<b>Total equity</b>		<u><b>\$19,930</b></u>

## PSB2.4

## Just for Fun Park

Date	Account titles and explanation	Debit	Credit
Apr. 1	Cash Share capital (Issued shares for cash)	90,000	90,000
4	Land Cash (Purchased land for cash)	45,000	45,000
8	Advertising expense Accounts payable (Incurred advertising expense on account)	2,700	2,700
11	Salaries expense Cash (Paid salaries)	2,550	2,550
12	No entry.		
13	Prepaid insurance Cash (Paid for one-year insurance policy)	4,500	4,500
17	Dividends Cash (Payment of cash dividend)	900	900
20	Cash Admission revenue (Received cash for services rendered)	8,550	8,550
25	Cash Revenue received in advance (Received advance for future services)	3,750	3,750
30	Cash Admission revenue (Received cash for services provided)	11,850	11,850
30	Accounts payable Cash (Paid creditor on account)	1,050	1,050

**PSB2.5**

(a) Accurate Accountants

<b>Date</b>	<b>Account titles and explanation</b>	<b>Ref</b>	<b>Debit \$</b>	<b>Credit \$</b>
May 1	Cash	100	156,000	
	Share capital (Issued shares for cash)	300		1562,000
2	No entry — not a transaction.			
3	Supplies	115	3,600	
	Accounts payable (Purchased supplies on account)	200		3,600
7	Rent expense	510	2,700	
	Cash (Paid office rent)	100		2,700
11	Accounts receivable	110	3,300	
	Service revenue (Billed client for services provided)	400		3,300
12	Cash	100	13,500	
	Revenue received in advance (Received an advance for future services)	210		13,500
17	Cash	100	3,600	
	Service revenue (Received cash for revenue earned)	400		3,600
31	Salaries expense	500	3,000	
	Cash (Paid salaries)	100		3,000
31	Accounts payable (\$1,200 X 40%)	200	1,440	
	Cash (Paid creditor on account)	100		1,440

## (b) Accurate Accountants' general ledger

		<b>Cash</b>				<b>100</b>
1-May	Share capital	156,000	7-May	Rent expense	2,700	
12-May	Revenue received in advance	13,500	31-May	Salaries expense	3,000	
17-May	Service revenue	3,600	31-May	Accounts payable	1,440	
			31-May	Closing balance	165,960	
		173,100			173,100	
1-Jun	Opening balance	165,960				
		<b>Accounts receivable</b>				<b>110</b>
11-May	Service revenue	3,300				
		<b>Supplies</b>				<b>115</b>
3-May	Accounts payable	3,600				
		<b>Accounts payable</b>				<b>200</b>
31-May	Cash	1,440	3-May	Supplies	3,600	
31-May	Closing balance	2,160				
		3,600			3,600	
			1-June	Opening balance	2,160	
		<b>Revenue received in advance</b>				<b>210</b>
			12-May	Cash	13,500	
		<b>Share capital</b>				<b>300</b>
			1-May	Cash	156,000	
		<b>Service revenue</b>				<b>400</b>
31-May	Closing balance	6,900	11-May	Accounts receivable	3,300	
		6,900	17-May	Cash	3,600	
					6,900	
			1-June	Opening balance	6,900	
		<b>Salaries expense</b>				<b>500</b>
31-May	Cash	3,000				
		<b>Rent expense</b>				<b>510</b>
7-May	Cash	2,700				



(c)

**Accurate Accountants  
Trial balance  
as at 31 May 2019**

No.	Account name	Debit	Credit
		\$	\$
100	Cash	165,960	
110	Accounts receivable	3,300	
115	Supplies	3,600	
200	Accounts payable		2,160
210	Revenue received in advance		13,500
300	Share capital		156,000
400	Service revenue		6,900
500	Salaries expense	3,000	
510	Rent expense	<u>2,700</u>	
		<u>\$178,560</u>	<u>\$178,560</u>

(d)

**Accurate Accountants  
Statement of profit or loss  
for the month ended 31 May 2019**

	\$	\$
Revenues:		
Service revenue		6,900
Expenses:		
Salaries expense	3,000	
Rent expense	<u>2,700</u>	
Total expenses		<u>5,700</u>
Profit		<u>\$ 1,200</u>

**Accurate Accountants**  
**Statement of financial position**  
**as at 31 May 2019**

	\$	\$
Current assets:		
Cash	165,960	
Accounts receivable	3,300	
Supplies	<u>3,600</u>	
Total assets		172,860
Current liabilities:		
Accounts payable	2,160	
Rent revenue received in advance	<u>13,500</u>	
Total liabilities		<u>15,660</u>
<b>Net assets</b>		<b><u>\$157,200</u></b>
Equity:		
Share capital	156,000	
Retained earnings	<u>1,200</u>	
<b>Total equity</b>		<b><u>\$157,200</u></b>

**PSB2.6****Wellington Dry Cleaners**

(a) and (c)

<b>100</b>		<b>Cash</b>	
1-Jul Opening balance	25,064	9-Jul Salaries expense	4,200
8-Jul Accounts receivable	9,872	14-Jul Accounts payable	21,500
11-Jul Dry cleaning revenue	9,850	30-Jul Various expenses	10,380
		31-Jul Dividends	1,000
		31-Jul Closing balance	7,706
	<u>44,786</u>		<u>44,786</u>
1-Aug Opening balance	7,706		

<b>110</b>		<b>Accounts receivable</b>	
1-Jul Opening balance	21,072	8-Jul Cash	8,872
22-Jul Dry cleaning revenue	9,400	31-Jul Closing balance	20,600
	<u>30,472</u>		<u>30,472</u>
1-Aug Opening balance	20,600		

<b>120</b>		<b>Supplies</b>	
1-Jul Opening balance	9,688		
17-Jul Accounts payable	1,108	31-Jul Closing balance	10,796
	<u>10,796</u>		<u>10,796</u>
1-Aug Opening balance	10,796		

<b>130</b>		<b>Equipment</b>	
1-Jul Opening balance	51,900		

<b>200</b>		<b>Accounts payable</b>	
14-Jul Cash	21,500	1-Jul Opening balance	31,756
31-Jul Closing balance	11,364	17-Jul Supplies	1,108
	<u>32,864</u>		<u>32,864</u>
		1-Aug Opening balance	11,364

<b>210</b>		<b>Revenue received in advance</b>	
		1-Jul Opening balance	3,460

<b>300</b>		<b>Share capital</b>	
		1-Jul Opening balance	72,508

<b>310</b>		<b>Dividends</b>	
31-Jul Cash	1,000		

<b>400</b>		<b>Dry cleaning revenue</b>	
31-Jul Closing balance	19,250	11-Jul Cash	9,850
	<u>19,250</u>	22-Jul Accounts receivable	<u>9,400</u>
			<u>19,250</u>
		1-Aug Opening balance	19,250
<b>500</b>		<b>Repair expense</b>	
30-Jul Cash	984		
<b>510</b>		<b>Salaries expense</b>	
9-Jul Cash	4,200		
30-Jul Cash	<u>6,228</u>	31-Jul Closing balance	<u>10,428</u>
	<u>10,428</u>		<u>10,428</u>
1-Aug Opening balance	10,428		
<b>520</b>		<b>Electricity expense</b>	
30-Jul Cash	3,168		

(b)

<b>Date</b>	<b>Account titles and explanation</b>	<b>Debit</b>	<b>Credit</b>
July 8	Cash Accounts receivable (Received cash on account)	9,872	9,872
9	Salaries expense Cash (Paid salaries)	4,200	4,200
11	Cash Dry cleaning revenue (Received cash for services provided)	9,850	9,850
14	Accounts payable Cash (Paid creditors)	21,500	21,500
17	Supplies Accounts payable (Purchased supplies on account)	1,108	1,108
22	Accounts receivable Dry cleaning revenue (Billed for services provided)	9,400	9,400
30	Salaries expense Electricity expense Repair expense Cash (Paid for various expenses)	6,228 3,168 984	10,380
31	Dividends Cash (Payment of cash dividend)	1,000	1,000

(d)

**Wellington Dry Cleaners**  
**Trial balance**  
**as at 31 July, 2019**

No.	Account name	Debit \$	Credit \$
100	Cash	7,706	
110	Accounts receivable	20,600	
120	Supplies	10,796	
130	Equipment	51,900	
200	Accounts payable		11,365
210	Revenue received in advance		3,460
300	Share capital		72,508
310	Dividends	1,000	
400	Dry cleaning revenue		19,250
500	Repairs Expense	984	
510	Salaries expense	10,428	
520	Electricity expense	3,168	
		<u>\$106,582</u>	<u>\$106,582</u>

(e)

**Wellington Dry Cleaners**  
**Statement of profit or loss**  
**for the month ended 31 July 2019**

	\$	\$
Revenues:		
Service revenue		19,250
Expenses:		
Salaries expense	10,428	
Repairs expense	984	
Electricity expense	<u>3,168</u>	
Total expenses		<u>14,580</u>
Profit		<u>\$4,670</u>

**Wellington Dry Cleaners**  
**Statement of financial position**  
**as at 31 July 2019**

	\$	\$
Current assets:		
Cash	7,706	
Accounts receivable	20,600	
Supplies	<u>10,796</u>	
Total current assets		39,102
Non-current assets:		
Equipment		<u>51,900</u>
Total assets		<u>91,002</u>
Current liabilities:		
Accounts payable	11,364	
Revenue received in advance	<u>3,460</u>	
Total liabilities		<u>14,824</u>
<b>Net assets</b>		<u><b>\$76,178</b></u>
Equity:		
Share capital	72,508	
Retained earnings *	<u>3,670</u>	
<b>Total equity</b>		<u><b>\$76,178</b></u>

\*retained earnings profit \$4,670 less dividend \$1000 = \$3,670

**PSB2.7**

(a) Busy Bookkeepers Pty Ltd

<b>Date</b>	<b>Account titles and explanation</b>	<b>Ref</b>	<b>Debit \$</b>	<b>Credit \$</b>
Jan. 2	Cash	100	88,000	
	Share capital (Issued shares for cash)	300		88,000
3	No entry — not a transaction.			
4	Supplies	115	1,600	
	Accounts payable (Purchased supplies on account)	200		1,600
7	Rent expense	510	2,400	
	Cash (Paid office rent)	100		2,400
11	Accounts receivable	110	3,800	
	Service revenue (Billed client for services provided)	400		3,800
12	Cash	100	3,000	
	Revenue received in advance (Received an advance for future services)	210		3,000
17	Cash	100	1,700	
	Service revenue (Received cash for revenue earned)	400		1,700
31	Salaries expense	500	2,000	
	Cash (Paid salaries)	100		2,000
31	Accounts payable (\$1,600 x 40%)	200	640	
	Cash (Paid creditor on account)	100		640



(b) Busy Bookkeepers Pty Ltd

		<b>Cash</b>		<b>100</b>	
2-Jan	Share capital	88,000	7-Jan	Rent expense	2,400
12-Jan	Revenue received in advance	3,000	31-Jan	Salaries expense	2,000
17-Jan	Service revenue	1,700	31-Jan	Accounts payable	640
			31-Jan	Closing balance	87,660
		92,700			92,700
1-Feb	Opening balance	87,660			

		<b>Accounts receivable</b>		<b>110</b>	
11-Jan	Service revenue	3,800			

		<b>Supplies</b>		<b>115</b>	
4-Jan	Accounts payable	1,600			

		<b>Accounts payable</b>		<b>200</b>	
31-Jan	Cash	640	4-Jan	Supplies	1,600
31-Jan	Closing balance	960			
		1,600			1,600
			1-Feb	Opening balance	960

		<b>Revenue received in advance</b>		<b>210</b>	
			12-Jan	Cash	3,000

		<b>Share capital</b>		<b>300</b>	
			2-Jan	Cash	88,000

		<b>Service revenue</b>		<b>400</b>	
31-Jan	Closing balance	5,500	11-Jan	Accounts receivable	3,800
		5,500	17-Jan	Cash	1,700
					5,500
			1-Feb	Opening balance	5,500

		<b>Salaries expense</b>		<b>500</b>	
31-Jan	Cash	2,000			

		<b>Rent expense</b>		<b>510</b>	
7-Jan	Cash	2,400			

(c)

**Busy Bookkeepers Pty Ltd**  
**Trial balance**  
**as at 31 January 2019**

No.	Account name	Debit	Credit
		\$	\$
100	Cash	87,660	
110	Accounts receivable	3,800	
115	Supplies	1,600	
200	Accounts payable		960
210	Revenue received in advance		3,000
300	Share capital		88,000
400	Service revenue		5,500
500	Salaries expense	2,000	
510	Rent expense	<u>2,400</u>	
		<u>\$97,460</u>	<u>\$97,460</u>

(d)

**Busy Bookkeepers Pty Ltd**  
**Statement of profit or loss**  
**for the month ended 31 January 2019**

	\$	\$
Revenues:		
Service revenue		5,500
Expenses:		
Salaries expense	2,000	
Rent expense	<u>2,400</u>	
Total expenses		<u>4,400</u>
Profit		<u>\$1,100</u>

**Busy Bookkeepers Pty Ltd**  
**Statement of financial position**  
**as at 31 January 2019**

	\$	\$
Current assets:		
Cash	87,660	
Accounts receivable	3,800	
Supplies	<u>1,600</u>	
Total assets		93,060
Current liabilities:		
Accounts payable	960	
Revenue received in advance	<u>3,000</u>	
Total liabilities		<u>3,960</u>
<b>Net assets</b>		<u><b>\$89,100</b></u>
Equity:		
Share capital	88,000	
Retained earnings	<u>1,100</u>	
<b>Total equity</b>		<u><b>\$89,100</b></u>

**PSB2.8****Lights Out Theatre Ltd**

(a) and (c)

<b>100</b>		<b>Cash</b>	
1-Apr Opening balance	6,000	2-Apr Film rental expense	800
9-Apr Admission revenue	3,800	10-Apr Accounts payable	1,000
25-Apr Admission revenue	3,200	10-Apr Mortgage payable	2,000
30-Apr Candy bar revenue	85	12-Apr Advertising expense	300
		29-Apr Salaries expense	1,600
		30-Apr Prepaid rentals	700
		Closing balance	6,685
	<u>13,085</u>		<u>13,085</u>
Opening balance	6,685		
<b>105</b>		<b>Accounts receivable</b>	
30-Apr Candy bar revenue	85		
<b>107</b>		<b>Prepaid rentals</b>	
30-Apr Cash	700		
<b>120</b>		<b>Land</b>	
1-Apr Opening balance	10,000		
<b>130</b>		<b>Buildings</b>	
1-Apr Opening balance	8,000		
<b>140</b>		<b>Equipment</b>	
1-Apr Opening balance	6,000		
<b>200</b>		<b>Accounts payable</b>	
10-Apr Cash	1,000	1-Apr Opening balance	2,000
30-Apr Closing balance	1,500	20-Apr Film rental expense	500
	<u>2,500</u>		<u>2,500</u>
		1-May Opening balance	1,500
<b>210</b>		<b>Mortgage payable</b>	
10-Apr Cash	2,000	1-Apr Opening balance	8,000
30-Apr Closing balance	6,000		<u>8,000</u>
	<u>8,000</u>	Opening balance	6,000
<b>300</b>		<b>Share capital</b>	
		Opening balance	20,000

<b>400</b>		<b>Admission revenue</b>	
Closing balance	7,000	9-Apr Cash	3,800
	<u>7,000</u>	25-Apr Cash	<u>3,200</u>
			<u>7,000</u>
		1-May Opening balance	7,000
<b>410</b>		<b>Candy bar revenue</b>	
30-Apr Closing balance	170	30-Apr Cash	85
	<u>170</u>	30-Apr Accounts receivable	<u>85</u>
			<u>170</u>
		1-May Opening balance	170
<b>510</b>		<b>Advertising expense</b>	
12-Apr Cash	300		
<b>520</b>		<b>Film rental expense</b>	
2-Apr Cash	800		
20-Apr Accounts payable	<u>500</u>	30-Apr Closing balance	<u>1,300</u>
	<u>1,300</u>		<u>1,300</u>
1-May Opening balance	1,300		
<b>530</b>		<b>Salaries expense</b>	
29-Apr Cash	1,600		

(b)

<b>Date</b>	<b>Account titles and explanation</b>	<b>Debit</b>	<b>Credit</b>
Apr. 2	Film rental expense Cash (Paid film rental)	800	800
3	No entry — not a transaction.		
9	Cash Admission revenue (Received cash for admissions)	3,800	3,800
10	Mortgage payable Accounts payable Cash (Made payments on mortgage and accounts payable)	2,000 1,000	3,000
11	No entry — not a transaction.		
12	Advertising expense Cash (Paid advertising expenses)	300	300
20	Film rental expense Accounts payable (Rented film on account)	500	500
25	Cash Admission revenue (Received cash for admissions)	3,200	3,200
29	Salaries expense Cash (Paid salaries expense)	1,600	1,600
30	Cash Accounts receivable Candy bar revenue (17% X \$1,000) (Received cash and balance on account for concession revenue)	85 85	170
30	Prepaid rentals Cash (Paid cash for future film rental)	700	700

(d)

**Lights Out Theatre Ltd**  
**Trial balance**  
**as at 30 April 2019**

No.	Account name	Debit	Credit
100	Cash .....	\$ 6,685	
105	Accounts receivable.....	85	
107	Prepaid rentals .....	700	
120	Land .....	10,000	
130	Buildings .....	8,000	
140	Equipment .....	6,000	
200	Accounts payable .....		\$ 1,500
210	Mortgage payable .....		6,000
300	Share capital.....		20,000
400	Admission revenue .....		7,000
410	Candy bar revenue .....		170
510	Advertising expense .....	300	
520	Film rental expense .....	1,300	
530	Salaries expense .....	1,600	
		<u>\$34,670</u>	<u>\$34,670</u>

(e)

**Lights Out Theatre Ltd**  
**Statement of profit or loss**  
**for the month ended 30 April 2019**

Revenues		
Admission revenue	7000	
Candy bar revenue	<u>170</u>	
Total revenue		7170
Expenses		
Advertising expense	300	
Film rental expense	1300	
Salaries expense	<u>1600</u>	
Total expenses		<u>3,200</u>
Profit		<u>\$3,970</u>

**Lights Out Theatre Ltd**  
**Statement of financial position**  
**as at 30 April 2019**

Assets:		
	\$	\$
Current assets		
Cash	6,685	
Account receivable	85	
Prepaid rentals	<u>700</u>	
Total current assets		7,470
Non-current assets		
Land	10,000	
Buildings	8,000	
Equipment	<u>6,000</u>	
Total non-current assets		<u>24,000</u>
Total assets		31,470
Liabilities:		
Current liabilities		
Accounts payable	1,500	
Non-current liabilities		
Mortgage payable	<u>6,000</u>	
Total liabilities		<u>7,500</u>
<b>Net assets</b>		<u>\$23,970</u>
Equity		
Share capital	20,000	
Retained earnings	<u>3,970</u>	
<b>Total equity</b>		<u>\$23,970</u>



**PSB2.9**

New Trial balance as follows.

**Theatre Adelaide Ltd  
Trial balance  
as at 31 May 2019**

<b>Account names</b>	<b>Debit \$</b>	<b>Credit \$</b>
Cash (\$5,850 + \$420 – \$225) .....	6,045	
Accounts receivable (\$2,750 – \$180 – \$210) .....	2,360	
Prepaid insurance (\$700 + \$100) .....	800	
Supplies (\$0 + \$420) .....	420	
Equipment (\$8,000 – \$420) .....	7,580	
Accounts payable (\$4,500 – \$100 + \$420 – \$210) .....		4,610
Rates and taxes payable .....		560
Share capital (\$5,700 + \$700) .....		6,400
Retained earnings .....		6,000
Dividends (\$0 + \$700) .....	700	
Service revenue (\$6,690 + \$270) .....		6,960
Salaries expense (\$4,200 + \$200) .....	4,400	
Advertising expense (\$1,100 + \$225) .....	1,325	
Rates and Taxes Expense (\$800 + \$100) .....	900	
	<u>\$24,530</u>	<u>\$24,530</u>

The following explanations assume normal balances (i.e. an increase in a debit account = debit the relevant amount):

- 1 Prepaid insurance, Rates and taxes expense each increase by \$100; Accounts payable decreases by \$100
- 2 Accounts receivable decreases by  $$(2750 - 2570) = 180$ ; Service revenue increases by  $$(6960 - 6690) = 270$
- 3 Salaries expense increases by \$200
- 4 Dividends increases by \$700, Share capital increases by \$700
- 5 Equipment decreases by \$420; Supplies increases by \$420; Cash increases by \$420; Accounts payable increases by \$420
- 6 Cash decreases by  $$(250 - 25) = 225$ ; Advertising expense increases by \$225
- 7 Accounts payable decreases by \$210; Account receivable decreases by \$210

Note also: Accounts receivable, Rates and taxes payable, Service revenue and Advertising expense were listed on the incorrect sides for their normal balances.

**PSB2.10**

New Trial balance as follows.

**Glasgow Pty Ltd  
Trial balance  
as at 31 December 2019**

<b>Account names</b>	<b>Debit \$</b>	<b>Credit \$</b>
Cash (\$7,804 – \$720).....	7,084	
Accounts receivable (\$5,752 + \$360) .....	10,456	
Supplies (\$1,820 – \$220) .....	3,200	
Equipment (\$7,780 + \$220).....	10,000	
Accounts payable (\$5,399 – \$490-\$409).....		9,000
Revenue received in advance .....		3,200
Share capital .....		18,000
Dividends (\$1200 + \$1200) .....	2,400	
Service revenue (\$19,808 + \$1152) .....		20,960
Salaries expense (\$12,600 + \$1800 – \$1200).....	13,200	
Office expense .....	4,820	
	\$51,160	\$51,160

Explanation: The first number in the brackets is the balance as per the initial trial balance in the question. The subsequent numbers are the corrections.

Note that Cash should start in the debit and Revenue received in advance should start in the credit.

Brief explanation of each error:

1.  $\$1680 - \$960 = \$720$ . Need to decrease Accounts receivable by \$720 and increase cash by \$720 to correctly record the collection of \$960 on account.
2. Printer should not be included in Supplies so decrease Supplies by \$440. Printers should be included in Equipment, so increase Equipment by \$440.
3. Service revenue needs to be adjusted upwards by \$1152 ( $\$1280 - \$128$ ).
4. Increase Salaries expenses by \$1800.
5. A payment on account should be debit to Accounts payable. The amount of \$980 was incorrectly credited. To correct this entry, the balance of Accounts payable must be reduced by \$980. To correctly record the payment of \$818 on account, Accounts payable is reduced further by \$818.
6. Need to reduce Salaries expense by \$1200 and increase Dividends by \$1200.

## Building business skills

### Financial reporting and analysis

#### BBS2.1

#### Financial reporting problem: Giorgina's Pizza Enterprises Ltd

(a)

Account	1. Increase side	2. Decrease side	3. Normal balance
Issued capital	Right	Left	Credit
Trade and other payables (Accounts payable)	Right	Left	Credit
Trade and other receivables (Accounts receivable)	Left	Right	Debit
Marketing expenses	Left	Right	Debit
Inventories	Left	Right	Debit
Property, plant and equipment (net book value)	Left	Right	Debit
Sales revenue	Right	Left	Credit

- (b)
1. Cash is increased.
  2. Cash is decreased.
  3. Cash is decreased.

- (c)
1. Cash is decreased.
  2. Cash is decreased or Bank loan is increased.

**BBS2.2****Comparative analysis problem: Giorgina's Pizza Enterprises Ltd****Giorgina's Pizza Enterprises Ltd vs. Freedom Foods Group Limited**

(a)

<b>Giorgina's Pizza Enterprises Ltd</b>		<b>Freedom Foods Group Limited</b>	
1. Cash	Debit	1. Inventories	Debit
2. Goodwill	Debit	2. Current Tax Liabilities	Credit
3. Borrowings	Credit	3. Provisions	Credit
4. Retained earnings	Credit	4. Issued capital	Credit
5. Sales revenue	Credit	5. Administrative Expenses	Debit

(b) The following other accounts are ordinarily involved:

1. Decrease in accounts receivable: Cash is increased (debited).
2. Bank loan is increased: Cash is increased (debited).
3. Increase in equipment: Bank loan is increased (credited) and/or Cash is decreased (credited).
4. Sales revenue is increased: Cash and/or Accounts receivable are increased (debited).

## BBS2.3

### Interpreting financial statements

#### **NOTE TO INSTRUCTOR:**

Students are required to select their own company. Part of the requirements is to provide the web address of the company selected and where in the financial statements they located the information.

Below is where the information is often located. The solution will depend on company selected.

- (a) What company did you select? Please also *provide web address* and date you accessed the website.
  - (b) *The solution here only provides where the information is usually located but it may be in numerous locations in the annual report.*
1. **Principal activities** — in Directors' report
  2. **The number of controlled entities/subsidiaries and the countries in which they operate** — Notes to the financial statements towards the end after Contingency Note
  3. **The percentage ownership in the company of the 20 largest shareholders** — In Notes to the financial statements towards the end.
  4. **The number of Directors** — Directors' report
  5. **The accounting policy for Depreciation** — Accounting policy note in Notes to the financial statements
  6. **The amount of Income tax expense and the profit for the year** — Statement of profit and loss.
  7. **Name of its auditors** — Auditors' report
  8. **List the business segments** — Notes to the financial statements
  9. **The amount of Current assets** — Statement of financial position
  10. **The amount of Net cash flows from operating activities** — Statement of cash flows
  11. **The amount of Dividends paid** — In dividend note in Notes to the financial statements
  12. **Describe any related party transactions** — Notes to the financial statements

## Critical thinking

### BBS2.4

#### Group Decision case

#### Supreme Riding School Pty Ltd

(a) Note to instructor the entries below are the journal which should have been entered not a correcting journal entry.

May	1	Correct.		
	2	No entry should be recorded		
	5	Cash	5,000	
		<b>Lesson Revenue</b>		5,000
	7	Cash	5,000	
		<b>Revenue received in advance</b>		<b>5,000</b>
	9	Hay and Feed Expense	2,000	
		<b>Hay and Feed Supplies</b>	<b>8,000</b>	
		<b>Accounts payable</b>		<b>10,000</b>
	14	<b>Office Equipment</b>	<b>2,500</b>	
		Cash		2,500
	15	<b>Dividends</b>	6,000	
		Cash		6,000
	20	Cash	<b>13,500</b>	
		Riding Revenue		13,500
	31	Veterinary Expense	6,750	
		<b>Accounts payable</b>		6,750

(b) The error in the entries of May 14 and May 20 would prevent the trial balance from balancing.

(c)	Profit as reported		\$15,100
	Add: May 2, Salaries expense	\$10,000	
	May 5, Lesson fees	5,000	
	May 9, Hay and Feed Expense*	8,000	
	May 15, Salaries expense (Dividends declared and paid)	<u>6,000</u>	<u>29,000</u>
			44,100
	Less: May 7, Boarding revenue received in advance		<u>(5,000)</u>
	Correct Profit		<u>\$39,100</u>

\* Student may treat the entire transaction as supplies as accrual accounting is in next chapter. If so increase the profit by \$2,000 more to \$ 41,100

(d)	Cash as reported.....	\$ 20,650
	Add: 9/5, Purchase on account.....	<u>10,000</u>
	.....	30,650
	Less: 20/5, Transposition error .....	<u>(18,000)</u>
		<u>\$12,650</u>

**BBS2.5****Communication activity****Fancy Flowers Limited**

To: Assistant Accountant — Fancy Flowers Limited  
 From: Accounting Student  
 Re: Steps in Recording Process

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In the first transaction, invoices totalling \$8,500 were sent to customers for services provided. Therefore, the asset Accounts receivable is increased \$8,500 and the revenue Service revenue is increased \$8,500. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts receivable	8,500	
Service revenue		8,500
(Invoice customer for services provided)		

The \$8,500 amount is then posted to the debit side of the general ledger account Accounts receivable and to the credit side of the general ledger account Service revenue.

In the second transaction, \$3,200 was paid in salaries to employees. Therefore, the expense Salaries expense is increased \$3,200 and the asset Cash is decreased \$3,200. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries expense	3,200	
Cash		3,200
(Salaries paid)		

The \$3,200 amount is then posted to the debit side of the general ledger account Salaries expense and to the credit side of the general ledger account Cash.



## **BBS2.6**

### **Communication activity**

#### **John Jones**

To: John Jones Assistant Accountant — ABC Accounting Practice  
From: Accounting Student  
Re: Purposes of a Trial balance

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A trial balance is a list of the accounts in the general ledger and their balances at a given time. The trial balance is usually prepared at the end of an accounting period, for example monthly and the accounts are listed in the order they appear in the general ledger. The debit balances are listed in one column and the credit balances in the other and the totals of the two columns must be equal.

The purpose of the trial balance is primarily to check the mathematical equality after the postings have been completed. This is necessary particularly in a manual accounting system. In today's accounting environment the transactions are often processed with the use of computers so the programs are written as such that the debits will equal the credits. However, the use of computers does not ensure the transactions have been processed correctly, nor if the trial balance balances does it ensure the transactions have been processed and posted correctly.

The types of errors the trial balance detects is where the debits do not equal the credits such as omitting one side of the posting or transposing a figure when the entry was posted. The trial balance will not specifically identify if the posting was to the correct side of the ledger, say a debit to an assets account when the item should have been expensed, nor will it identify an omitted transaction, a journal entry posted twice, incorrect amounts are posted to both sides or errors where co-incidentally offset one another so the debits still equal the credits. However, the listing of the balances would facilitate in the identification of posting errors, where you as the accountant use your knowledge of the expected balances. For example, you would not expect Accounts receivable to have a credit balance or the miscellaneous expense account to have a large balance. So despite the limitation the trial balance is a useful screen in identifying recording errors.

The trial balance is also useful in providing an overview of the account balances for review and preparation of the financial statements.

## BBS2.7

### Ethics case

- (a) The word ethics comes from the Greek word *ethicos* meaning related to custom or habit. The second edition of the Macquarie concise dictionary (page 320) defines ethical as '1. pertaining to or dealing with morals or the principles of morality; pertaining to right and wrong conduct 2. in accordance with the rules or standards for right conduct or practice, esp. the standards of a profession'.
- (b) The student answer could include: ethical behaviour is acting morally, acting in a way that is right or appropriate, acting in a way that people should behave, acting according to rules or agreed and acceptable ways of behaving, acting for the good or benefit of others rather than harm etc.
- (c) Criteria that an accountant was behaving ethically could include:  
*acts credibly and honestly* — e.g. Provides credible information/advice and acts honestly  
*abides by the professional rules/standards*  
*fair cost for service provided*  
*safeguard the interests of clients and the public*  
*integrity* — honest and sincere approach to their work  
*objectivity* — fair and not prejudice or bias — treat all clients equally  
*Reliability* — can be relied upon to get the job done
- (d) Personal and financial costs of unethical behaviour include:  
feeling of shame, remorse or guilt for acting unethically  
if caught — being disgraced, discredited  
if caught — damaged reputation and loss of current and future employment  
if caught — jail sentence or fine or be excluded from the profession and unable to practice as a professional  
cause harm to others — e.g. financial loss
- (e) Students' own experiences ...