

SOLUTIONS TO END OF CHAPTER QUESTIONS

CHAPTER 4

► RECALL AND REVIEW

► Question 4.1

Question 4.1

- (a) Increase in expenses, Decrease in assets (Debit power expense, Credit cash)
- (b) Increase in assets, Increase in equity (Debit non-current assets, Credit capital account)
- (c) Increase in assets, Increase in liabilities (Debit non-current assets, Credit trade payables)
- (d) No impact (Increase in one asset, Decrease in the other) (Debit inventory, Credit cash)
- (e) No impact (Increase in one asset, Decrease in the other) (Debit cash, Credit trade receivables)
- (f) Decrease in liabilities, Decrease in assets (Debit trade payables, Credit cash)

► Question 4.2

Extended version of the accounting equation:

Assets (current assets + non-current assets) + Expenses = Liabilities (current liabilities + non-current liabilities) + equity + income

£41,200 (current assets) + non-current assets + £12,800 (expenses) = £20,000 (current liabilities) + £34,000 (non-current liabilities) + £65,300 (equity) + £34,700 (income)

Non-current assets = £100,000

►► DEVELOP YOUR UNDERSTANDING

►► Question 4.3

In this answer, Dr is an abbreviation for debit and Cr is an abbreviation for credit.

1. Cash sales of £35,225.

The cash asset will increase and sales will increase:

Double entry: Dr bank (or cash) £35,225 (increase asset), Cr sales £35,225 (increase income).

2. Credit sales of £125,750.

The trade receivables asset will increase (no cash has yet been received from these sales) and sales will increase:

Double entry: Dr trade receivables £125,750 (increase asset), Cr sales £125,750 (increase income).

- 3.** Received goods from suppliers on credit. The goods received had a cost of £62,894.
Goods received from suppliers are an expense, so cost of sales will increase. The goods have been purchased on credit: as more is owed to trade payables, trade payables will increase:
Double entry: Dr cost of sales £62,894 (increase expenses), Cr trade payables £62,894 (increase liabilities).
- 4.** Insurance premium of £6,000 paid from the bank account.
Insurance is an expense for a business, so the insurance expense will increase. The payment for the insurance has been made from the bank account, so the cash in the bank will reduce with the bank asset decreasing by the amount taken out to pay the insurance:
Double entry: Dr insurance £6,000 (increase expense), Cr bank £6,000 (decrease asset).
- 5.** Cash received from credit customers of £140,362.
Cash has flowed into the organization so the asset in the bank will increase. Cash received from credit customers will not increase sales: the sales are recognized at the time the credit sale is made to the customer (see entry number 2 and Chapter 3 Determining the amount of income or expense) and so the cash received from customers will reduce the trade receivables asset as less money is owed by trade receivables for goods and services supplied:
Double entry: Dr bank £140,362 (increase asset), Cr trade receivables £140,362 (decrease asset).
- 6.** Cash paid to suppliers for purchases made on credit of £55,574
Cash has flowed out of the organization as money has been paid out to suppliers. Therefore, the bank asset will decrease as there is now less cash in the bank as a result of the payments made. Cash paid to trade payables (suppliers) will not increase purchases or cost of sales: the purchases/cost of sales are recognized at the time the goods are supplied on credit by the supplier (see entry number 3 and Chapter 3 Determining the amount of income or expense) and so the cash paid to suppliers will reduce the trade payables liability as less money is owed to trade payables for goods and services supplied:
Double entry: Dr trade payables £55,574 (decrease liability), Cr bank £55,574 (decrease asset).
- 7.** New plant and machinery purchased with a cash payment from the bank. The new plant and machinery cost £150,000.
Plant and machinery is a non-current asset. Adding more plant and machinery will increase the plant and machinery asset. The plant and machinery has been purchased using money from the bank. Therefore, the bank asset will decrease as a result of the payment out of the bank:
Double entry: Dr plant and machinery £150,000 (increase asset), Cr bank £150,000 (decrease asset).
- 8.** Taxation paid of £27,450.
As we saw in Chapter 2 (Current liabilities), taxation is a liability that is due for payment on the profits made by an organization. Therefore, the payment of tax represents a decrease in a liability as money has been paid to reduce this liability. The money is paid from the bank account, so the bank asset will also decrease as cash is taken from the bank account to reduce the tax that is due for payment:
Double entry: Dr taxation £27,450 (decrease liability), Cr bank £27,450 (decrease asset).
- 9.** Loan instalment paid of £5,500.
Repaying part of a loan represents a decrease in a liability. The payment is made from the bank account, so the bank asset will also decrease:
Double entry: Dr loan £5,500 (decrease liability), Cr bank £5,500 (decrease asset).

10. Bank interest received of £250.

Income has been received from bank interest. Therefore, the bank account asset will increase by £250. This income will be added to an income account. However, bank interest does not represent a sale (Chapter 3, Income in the statement of profit or loss). Therefore the bank interest will increase the finance income account (this can also be called the interest receivable account):

Double entry: Dr bank £250 (increase asset), Cr finance income (interest receivable) (increase income) £250.

» Question 4.4

1. Calculate Primrose's capital account balance at 1 September 2021.

- Assets – liabilities = capital.
- Assets total: £3,540 (inventory) + £200 (cash) + £6,825 (bank) = £10,565.
- Liabilities total: £4,690 (trade payables).
- Therefore, £10,565 (total assets) – £4,690 (total liabilities) = £5,875 capital.

2. Enter the opening balances at 1 September 2021 into T accounts.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
1 Sept	Balance b/f	3,540			
		—			—
		==			==

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	200			
		—			—
		==			==

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	6,825			
		—			—
		==			==

Trade payables

Debit (decreases the liability)		Credit (increases the liability)	
2021	£	2021	£
		1 Sept	Balance b/f
			4,690
	<u> </u>		<u> </u>
	<u> </u>		<u> </u>

Primrose's capital account

Debit (decreases the capital)		Credit (increases the capital)	
2021	£	2021	£
		1 Sept	Balance b/f
			5,875
	<u> </u>		<u> </u>
	<u> </u>		<u> </u>

3. Enter the transactions for the month of September 2021 into the T accounts. You will need T accounts for cash, bank account, trade payables, cost of sales, capital account, sales, rent and inventory.

Numbers have been added to each transaction to help you trace the double entry in the T accounts below.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
1 Sept	Balance b/f	3,540	30 Sept	Inventory (7)	2,695
30 Sept	Trade payables (3)	<u>12,300</u>			<u> </u>
		<u> </u>			<u> </u>

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	200	30 Sept	Bank (2)	23,057
30 Sept	Sales (1)	25,642	30 Sept	Rent (5)	250
		<u> </u>	30 Sept	Sales (refunds) (6)	1,985
		<u> </u>	30 Sept	Capital (9)	<u>300</u>
		<u> </u>			<u> </u>

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	6,825	30 Sept	Trade payables (4)	13,460
30 Sept	Cash (2)	<u>23,057</u>	30 Sept	Capital (8)	<u>1,200</u>
		<u> </u>			<u> </u>

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
30 Sept	Bank (4)	13,460	1 Sept	Balance b/f	4,690
		<u> </u>	30 Sept	Trade payables (3)	<u>12,300</u>
		<u> </u>			<u> </u>

Primrose's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2021		£	2021		£
30 Sept	Bank (8)	1,200	1 Sept	Balance b/f	5,875
30 Sept	Cash (9)	<u>300</u>			<u> </u>
		<u> </u>			<u> </u>

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
30 Sept	Cash (refunds) (6)	<u>1,985</u>	30 Sept	Cash (1)	<u>25,642</u>
		<u> </u>			<u> </u>

Rent

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
30 Sept	Cash (5)	<u>250</u>			<u> </u>
		<u> </u>			<u> </u>

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 Sept	Cost of sales (7)	<u>2,695</u>			<u> </u>
		<u> </u>			<u> </u>

4. Extract a trial balance from the T accounts you have prepared.

Primrose: trial balance at 30 September 2021

	Debit	Credit
	£	£
Cost of sales	13,145	
Cash	250	
Bank	15,222	
Trade payables		3,530
Primrose's capital account		4,375
Sales		23,657
Rent	250	
Inventory	<u>2,695</u>	
	<u>31,562</u>	<u>31,562</u>

5. Draw up Primrose's statement of profit or loss and statement of financial position at 30 September 2021 from the trial balance you have extracted.

Primrose: statement of profit or loss for the month of September 2021

	£
Sales	23,657
Cost of sales	<u>13,145</u>
Gross profit	10,512
Expenses	
Rent	<u>250</u>
Net profit for the month	<u>10,262</u>

Primrose: statement of financial position at 30 September 2021

	£
Current assets	
Inventory	2,695
Bank	15,222
Cash	<u>250</u>
Total assets	<u>18,167</u>
Current liabilities	
Trade payables	<u>3,530</u>
Net assets	<u>14,637</u>
Capital	
Balance at 1 September 2021	5,875
Profit for the month	10,262
Drawings	<u>(1,500)</u>
Balance at 30 September 2021	<u>14,637</u>

6. Enter the profit for the month into Primrose's capital account and close off the T accounts at 30 September 2021.
7. Bring forward the balances on the T accounts at 1 October 2021.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
1 Sept	Balance b/f	3,540	30 Sept	Inventory (7)	2,695
30 Sept	Trade payables (3)	<u>12,300</u>	30 Sept	Statement of profit or loss	<u>13,145</u>
		<u>15,840</u>			<u>15,840</u>

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	200	30 Sept	Bank (2)	23,057
30 Sept	Sales (1)	25,642	30 Sept	Rent (5)	250
		<u>25,842</u>	30 Sept	Sales (refunds) (6)	1,985
		<u>25,842</u>	30 Sept	Capital (9)	300
			30 Sept	Balance c/f	<u>250</u>
					<u>25,842</u>
2021					
1 Oct	Balance b/f	250			

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
1 Sept	Balance b/f	6,825	30 Sept	Trade payables (4)	13,460
30 Sept	Cash (2)	23,057	30 Sept	Capital (8)	1,200
			30 Sept	Balance c/f	15,222
		<u>29,882</u>			<u>29,882</u>
2021					
1 Oct	Balance b/f	15,222			

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
30 Sept	Bank (4)	13,460	1 Sept	Balance b/f	4,690
30 Sept	Balance c/f	3,530	30 Sept	Trade payables (3)	12,300
		<u>16,990</u>			<u>16,990</u>
			2021		
			1 Oct	Balance b/f	3,530

Primrose's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2021		£	2021		£
30 Sept	Bank (8)	1,200	1 Sept	Balance b/f	5,875
30 Sept	Cash (9)	300	30 Sept	Profit for September	10,262
30 Sept	Balance c/f	14,637			<u>16,137</u>
		<u>16,137</u>			
			2021		
			1 Oct	Balance b/f	14,637

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
30 Sept	Cash (refunds) (6)	1,985	30 Sept	Cash (1)	25,642
30 Sept	Statement of profit or loss	23,657			<u>25,642</u>
		<u>25,642</u>			

Rent

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
30 Sept	Cash (5)	<u>250</u>	30 Sept	Statement of profit or loss	<u>250</u>
		<u>250</u>			<u>250</u>

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 Sept	Cost of sales (7)	<u>2,695</u>	30 Sept	Balance c/f	<u>2,695</u>
		<u>2,695</u>			<u>2,695</u>
2021					
1 Oct	Balance b/f	2,695			

» Question 4.5**1. Debit cash:**

- Credit sales (double entry for a sale of goods or services for cash).
- Credit trade receivables (double entry to record the receipt of cash from a credit customer).
- Credit interest receivable (double entry to record the receipt of interest).
- Credit capital (double entry to record cash paid into the business by its owner).
- Credit loan account (double entry to record the receipt of a loan from a financial institution).

2. Debit trade receivables:

- Credit sales (double entry to record a sale of goods or services to a credit customer).

3. Debit non-current assets:

- Credit cash (double entry to record the acquisition of a non-current asset for cash).
- Credit trade payables (double entry to record the acquisition of a non-current asset on credit).

4. Debit capital

- Credit cash (double entry to record money withdrawn from the business by the owner).

5. Debit trade payables

- Credit cash (double entry to record the payment of suppliers for goods and services supplied on credit).
- Credit purchases or expenses (double entry to record the return of goods or cancellation of services supplied on credit).

6. Debit sales

- Credit trade receivables (double entry to record the cancellation of a credit sale).
- Credit cash (double entry to record a cash refund to a customer to cancel a cash sale).

7. Credit cash

- Debit trade payables (double entry to record payments made to suppliers for goods and services supplied on credit).
- Debit expenses (double entry to record the payment of expenses in cash)
- Debit capital (double entry to record money withdrawn from the business by the owner)
- Debit sales (double entry to record a cash refund to a customer to cancel a cash sale).
- Debit non-current assets (double entry to record the acquisition of a non-current asset for cash).
- Debit loan account (double entry to record the repayment of a loan).

8. Credit trade receivables

- Debit cash (double entry to record the receipt of cash from a credit customer).
- Debit irrecoverable debts (double entry to record the amounts that will not be recovered from a credit customer).
- Debit sales (double entry to record the cancellation of a credit sale).

9. Credit trade payables

- Debit expense accounts (double entry to record the cost of goods and services supplied on credit).
- Debit non-current assets (double entry to record the acquisition of a non-current asset on credit).

10. Credit capital

- Debit cash (double entry to record cash paid into the business by the owner).

11. Credit sales

- Debit cash (double entry to record a sale of goods or services for cash).
- Debit trade receivables (double entry to record a sale of goods or services to a credit customer).

» Question 4.6

- (a) Debit cash/bank, credit capital
- (b) Debit trade receivables, credit sales
- (c) Debit tax account, credit cash/bank
- (d) No double entry required as no transaction has taken place
- (e) Debit property, plant and equipment, credit trade payables
- (f) Debit purchases, credit cash/bank
- (g) Debit capital, credit inventory/cost of sales (this transaction represents drawings, withdrawing assets from the business (though this is usually cash) for personal use)
- (h) Debit bank, credit cash
- (i) Debit cash/bank, credit trade receivables
- (j) Debit bank, credit loan account
- (k) Debit trade payables, credit cash/bank

» Question 4.7

Solution:

	Bank £000	Receivables £000	Building £000	Expenses £000	Payables £000	Capital £000	Revenue £000
01/04: balances b/f	100	20	200	30	50	220	80
03/04: provided services for £25,000 on credit.		+25					+25
05/04: paid £30,000 wages.	-30			+30			
08/04: £40,000 cash received for services provided.	+40						+40
15/04: received £25,000 from a credit customer.	+25	-25					
20/04: £80,000 paid into the business bank account by the owner.	+80					+80	
25/04: paid gas and electricity bills of £2,000.	-2			+2			
30/04: £30,000 cash received for services supplied.	+30						+30
30/04: balances c/f	<u>243</u>	<u>20</u>	<u>200</u>	<u>62</u>	<u>50</u>	<u>300</u>	<u>175</u>

Laura's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2021		£	2020		£
31 Aug	Bank (25)	30,000	1 Sept	Bank (1)	50,000
31 Aug	Bank (26)	<u>90,000</u>			<u> </u>
		<u> </u>			<u> </u>

The balance on Laura's capital account at 31 August 2021 is a debit balance of £70,000 (£50,000 capital introduced – £120,000 capital withdrawn). There are £120,000 of debits (decreases in capital) and £50,000 of credits (increases in capital), so the balance on Laura's capital account is a debit balance as there are more debits than credits. £70,000 is added to the debit side of the trial balance. This looks unusual as the capital account (capital) is usually a credit balance. However, once the profit for the year is known this will be added to Laura's capital account and the account will show a credit balance as expected.

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
		<u> </u>	31 Aug	Bank (cash sales) (2)	112,000
		<u> </u>	31 Aug	Trade receivables (3)	<u>48,000</u>
		<u> </u>			<u> </u>

The balance on the sales account at 31 August 2021 is a credit balance of £160,000 (£160,000 sales – £nil sales cancelled/refunded). There are £160,000 of credits (increases in income) and £nil of debits (decreases in income), so the balance on the sales account is a credit balance as there are more credits than debits. £160,000 is added to the credit side of the trial balance.

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Sales (credit) (3)	48,000	31 Aug	Bank (4)	36,000
		<u> </u>	31 Aug	Irrecoverable debts (8)	2,500
		<u> </u>			<u> </u>

The balance on the trade receivables account at 31 August 2021 is £9,500 (£48,000 of trade receivables – £36,000 of cash received to settle the amounts owed by customers – £2,500 of trade receivables that will not result in inflows of cash as they will no longer be paid). This credit to the trade receivables account represents the derecognition of a trade receivable asset as it no longer has the potential to produce economic benefits. There are £48,000 of debits (increases in the asset) and £38,500 of credits (decreases in the asset), so the balance on the trade receivables account is a debit balance as there are more debits than credits. £9,500 is added to the debit side of the trial balance.

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
31 Aug	Bank (6)	38,000	31 Aug	Cost of sales (5)	45,000
31 Aug	Discounts received (7)	1,000			
		<u> </u>			<u> </u>
		<u> </u>			<u> </u>

The balance on the trade payables account at 31 August 2021 is £6,000 (£45,000 of trade payables, purchases made on credit, – £38,000 of cash paid – £1,000 of discounts received). There are £45,000 of credits (increases in the liability) and £39,000 of debits (decreases in the liability), so the balance on the trade payables account is a credit balance as there are more credits than debits. £6,000 is added to the credit side of the trial balance.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Trade payables (5)	45,000	31 Aug	Inventory (19)	4,500
		<u> </u>			<u> </u>
		<u> </u>			<u> </u>

The balance on the cost of sales account at 31 August 2021 is £40,500 (£45,000 of purchases on credit from suppliers – £4,500 closing inventory). There are £45,000 of debits (increases in the expense) and £4,500 of credits (decreases in the expense), so the balance on the cost of sales account is a debit balance as there are more debits than credits. £40,500 is added to the debit side of the trial balance.

Discounts received

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
		<u> </u>	31 Aug	Trade payables (7)	1,000
		<u> </u>			<u> </u>
		<u> </u>			<u> </u>

The balance on the discounts received account at 31 August 2021 is a credit balance of £1,000 (£1,000 discounts received – £nil discounts cancelled or withdrawn). There are £1,000 of credits (increases in income) and £nil of debits (decreases in income), so the balance on the discounts received account is a credit balance as there are more credits than debits. £1,000 is added to the credit side of the trial balance.

Irrecoverable debts

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Trade receivables (8)	<u>2,500</u>			<u>—</u>
		<u>—</u>			<u>—</u>

The balance on the irrecoverable debts account at 31 August 2021 is £2,500 (£2,500 of irrecoverable debts – £nil reduction in this expense). There are £2,500 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the irrecoverable debts account is a debit balance as there are more debits than credits. £2,500 is added to the debit side of the trial balance.

Allowance for receivables expense

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Allowance for receivables (9)	<u>950</u>			<u>—</u>
		<u>—</u>			<u>—</u>

The balance on the allowance for receivables expense account at 31 August 2021 is £950 (£950 of allowance for receivables – £nil reduction in this expense). There are £950 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the allowance for receivables expense account is a debit balance as there are more debits than credits. £950 is added to the debit side of the trial balance. Look at the notes to answer 3.10 to remind you how the allowance figure of £950 was calculated.

Allowance for receivables

Debit (decreases the allowance)			Credit (increases the allowance)		
2021		£	2021		£
		<u>—</u>	31 Aug	Allowance for receivables (9)	<u>950</u>
		<u>—</u>			<u>—</u>

The balance on the allowance for receivables account at 31 August 2021 is a credit balance of £950 (£950 allowance for receivables – £nil decrease in the allowance). There are £950 of credits (increases in the allowance) and £nil of debits (decreases in the allowance), so the balance on the allowance for receivables account is a credit balance as there are more credits than debits. £950 is added to the credit side of the trial balance.

Van cost

Debit (increases the asset)			Credit (decreases the asset)	
2020		£	2021	£
1 Sept	Bank (10)	6,000		
		<u> </u>		<u> </u>
		<u> </u>		<u> </u>

The balance on the van cost account at 31 August 2021 is £6,000 (£6,000 of cost – £nil of decreases in the cost of the asset). There are £6,000 of debits (increases in the asset) and £nil of credits (decreases in the asset), so the balance on the van cost account is a debit balance as there are more debits than credits. £6,000 is added to the debit side of the trial balance.

Van depreciation charge

Debit (increases the expense)			Credit (decreases the expense)	
2021		£	2021	£
31 Aug	Van accumulated depreciation (11)	1,800		
		<u> </u>		<u> </u>
		<u> </u>		<u> </u>

The balance on the van depreciation charge account at 31 August 2021 is £1,800 (£1,800 of depreciation for the year – £nil reduction in this expense). There are £1,800 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the van depreciation account is a debit balance as there are more debits than credits. £1,800 is added to the debit side of the trial balance.

Van accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)	
2021		£	2021	£
		<u> </u>	31 Aug	Van depreciation charge (11)
		<u> </u>		
		<u> </u>		1,800
		<u> </u>		<u> </u>

The accumulated depreciation account is used to recognize the reduction in a non-current asset balance. The balance on the van accumulated depreciation account at 31 August 2021 is a credit balance of £1,800 (£1,800 accumulated depreciation on the van – £nil decrease in the accumulated depreciation). There are £1,800 of credits (increases in the accumulated depreciation) and £nil of debits (decreases in the accumulated depreciation), so the balance on the van accumulated depreciation account is a credit balance as there are more credits than debits. £1,800 is added to the credit side of the trial balance.

Van running expenses and insurance

Debit (increases the expense)		Credit (decreases the expense)	
2021	£	2021	£
31 Aug Bank (12)	<u>4,000</u>		<u> </u>
	<u> </u>		<u> </u>

The balance on the van running expenses and insurance account at 31 August 2021 is £4,000 (£4,000 of costs for the year – £nil reduction in this expense). There are £4,000 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the van running expenses and insurance account is a debit balance as there are more debits than credits. £4,000 is added to the debit side of the trial balance.

Equipment cost

Debit (increases the asset)		Credit (decreases the asset)	
2021	£	2021	£
1 Sept Bank (13)	<u>5,000</u>		<u> </u>
	<u> </u>		<u> </u>

The balance on the equipment cost account at 31 August 2021 is £5,000 (£5,000 of cost – £nil of decreases in the cost of the asset). There are £5,000 of debits (increases in the asset) and £nil of credits (decreases in the asset), so the balance on the van cost account is a debit balance as there are more debits than credits. £5,000 is added to the debit side of the trial balance.

Equipment depreciation charge

Debit (increases the expense)		Credit (decreases the expense)	
2021	£	2021	£
31 Aug Equipment accumulated depreciation (14)	<u>1,235</u>		<u> </u>
	<u> </u>		<u> </u>

The balance on the equipment depreciation charge account at 31 August 2021 is £1,235 (£1,235 of depreciation for the year – £nil reduction in this expense). There are £1,235 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the van depreciation account is a debit balance as there are more debits than credits. £1,235 is added to the debit side of the trial balance.

Equipment accumulated depreciation

Debit (decreases the accumulated depreciation)		Credit (increases the accumulated depreciation)	
2021	£	2021	£
		31 Aug	Equipment depreciation charge (14)
	—		1,235
	—		—
	=		=

As we saw above in relation to depreciation on the van, accumulated depreciation is used to recognize a reduction in an asset balance. The balance on the equipment accumulated depreciation account at 31 August 2021 is a credit balance of £1,235 (£1,235 accumulated depreciation on the van – £nil decrease in the accumulated depreciation). There are £1,235 of credits (increases in the accumulated depreciation) and £nil of debits (decreases in the accumulated depreciation), so the balance on the equipment accumulated depreciation account is a credit balance as there are more credits than debits. £1,235 is added to the credit side of the trial balance.

Wages of part-time employees

Debit (increases the expense)		Credit (decreases the expense)	
2021	£	2021	£
31 Aug	Bank (15)		
	9,600		
31 Aug	Wages accrual (16)		
	800		—
	—		—
	=		=

The balance on the wages of part-time employees account at 31 August 2021 is £10,400 (£9,600 of cash spent on this expense during the year + £800 for expenses incurred but not yet paid – £nil decrease in this expense). There are £10,400 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the wages of part-time employees account is a debit balance as there are more debits than credits. £10,400 is added to the debit side of the trial balance.

Wages accrual

Debit (decreases the liability)		Credit (increases the liability)	
2021	£	2021	£
		31 Aug	Wages of part-time employees (16)
	—		800
	—		—
	=		=

The balance on the wages accrual account at 31 August 2021 is £800 (£800 liability for expenses incurred but not yet paid – £nil decrease in this liability). There are £800 of credits (increases in the liability) and £nil of debits (decreases in the liability), so the balance on the trade payables account is a credit balance as there are more credits than debits. £800 is added to the credit side of the trial balance.

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2020		£	2021		£
1 Sept	Bank (17)	1,800	31 Aug	Insurance prepayment (18)	600
		—			—
		==			==

The balance on the insurance account at 31 August 2021 is £1,200 (£1,800 of cash spent on this expense during the year – £600 of the total expenditure in the year which relates to a future accounting period, a prepayment of future expenditure). There are £1,800 of debits (increases in the expense) and £600 of credits (decreases in the expense), so the balance on the insurance account is a debit balance as there are more debits than credits. £1,200 is added to the debit side of the trial balance.

Insurance prepayment

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Insurance (18)	600			—
		—			—
		==			==

The balance on the insurance prepayment account at 31 August 2021 is £600 (£600 of expenditure paid in advance – £nil of decreases in the asset). There are £600 of debits (increases in the asset) and £nil of credits (decreases in the asset), so the balance on the insurance prepayment account is a debit balance as there are more debits than credits. £600 is added to the debit side of the trial balance.

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Cost of sales (19)	4,500			—
		—			—
		==			==

The balance on the inventory account at 31 August 2021 is £4,500 (£4,500 of costs carried forward to set against sales revenue in the next accounting period – £nil of decreases in the cost of the asset). There are £4,500 of debits (increases in the asset) and £nil of credits (decreases in the asset), so the balance on the inventory account is a debit balance as there are more debits than credits. £4,500 is added to the debit side of the trial balance.

Bank charges

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (20)	400			
31 Aug	Bank charges accrual (21)	<u>75</u>			<u>—</u>
		<u>—</u>			<u>—</u>

The balance on the bank charges account at 31 August 2021 is £475 (£400 of cash spent on this expense during the year + £75 of expense incurred but not yet paid – £nil decrease in this expense). There are £475 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the insurance account is a debit balance as there are more debits than credits. £475 is added to the debit side of the trial balance.

Bank charges accrual

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
		<u>—</u>	31 Aug	Bank charges (21)	<u>75</u>
		<u>—</u>			<u>—</u>

The balance on the bank charges accrual account at 31 August 2021 is £75 (£75 liability for expenses incurred but not yet paid – £nil decrease in this liability). There are £75 of credits (increases in the liability) and £nil of debits (decreases in the liability), so the balance on the trade payables account is a credit balance as there are more credits than debits. £75 is added to the credit side of the trial balance.

Bank interest

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (22)	<u>200</u>			<u>—</u>
		<u>—</u>			<u>—</u>

The balance on the bank interest account at 31 August 2021 is £200 (£200 of cash spent on this expense during the year – £nil decrease in this expense). There are £200 of debits (increases in the expense) and £nil of credits (decreases in the expense), so the balance on the bank interest account is a debit balance as there are more debits than credits. £200 is added to the debit side of the trial balance.

Interest received

Debit (decreases the income)		Credit (increases the income)	
2021	£	2021	£
		31 Aug Bank (23)	250
		31 Aug Interest receivable (24)	50
	—		—
	==		==

The balance on the interest received account at 31 August 2021 is a credit balance of £300 (£250 of cash received + £50 income receivable but not yet received – £nil decreases in this source of income). There are £300 of credits (increases in income) and £nil of debits (decreases in income), so the balance on the interest received account is a credit balance as there are more credits than debits. £300 is added to the credit side of the trial balance.

Interest receivable

Debit (increases the asset)		Credit (decreases the asset)	
2021	£	2021	£
31 Aug Interest received (24)	50		
	—		—
	==		==

The balance on the interest receivable account at 31 August 2021 is £50 (£50 of income due to the business but not yet received – £nil decreases in the asset). There are £50 of debits (increases in the asset) and £nil of credits (decreases in the asset), so the balance on the insurance prepayment account is a debit balance as there are more debits than credits. £50 is added to the debit side of the trial balance.

2. Laura's trial balance at 31 August 2021

	Debit £	Credit £
Bank account	13,250	
Laura's capital account	70,000	
Sales		160,000
Trade receivables	9,500	
Trade payables		6,000
Cost of sales	40,500	
Discounts received		1,000
Irrecoverable debts	2,500	
Allowance for receivables expense	950	
Allowance for receivables		950
Van	6,000	
Van depreciation charge	1,800	
Van accumulated depreciation		1,800
Van running expenses and insurance	4,000	
Equipment	5,000	
Equipment depreciation charge	1,235	
Equipment accumulated depreciation		1,235
Wages of part time employees	10,400	
Wages accrual		800
Insurance	1,200	
Insurance prepayment	600	
Inventory	4,500	
Bank charges	475	
Bank charges accrual		75
Bank interest	200	
Interest received		300
Interest receivable	50	
Totals	<u>172,160</u>	<u>172,160</u>

3. Laura's statement of profit or loss for the year ended 31 August 2021

	£	£
Sales		160,000
Cost of sales (£40,500 cost of sales – £1,000 discounts received)		<u>39,500</u>
Gross profit		120,500
Expenses		
Irrecoverable debt	2,500	
Allowance for receivables expense	950	
Van depreciation	1,800	
Van running expenses	4,000	
Equipment depreciation	1,235	
Wages of part-time employees	10,400	
Insurance	1,200	
Bank charges	475	
Bank interest paid	<u>200</u>	
Total expenses		22,760
Interest received		<u>(300)</u>
Profit for the year		<u><u>98,040</u></u>

3. Laura's statement of financial position at 31 August 2021

	£
Non-current assets	
Van (£6,000 van cost – £1,800 van accumulated depreciation)	4,200
Construction equipment (£5,000 equipment cost – £1,235 equipment accumulated depreciation)	<u>3,765</u>
	<u><u>7,965</u></u>
Current assets	
Inventory	4,500
Trade receivables (£9,500 trade receivables – £950 allowance for receivables)	8,550
Insurance prepayment	600
Interest receivable	50
Cash at bank	<u>13,250</u>
	<u><u>26,950</u></u>
Total assets	<u><u>34,915</u></u>
Current liabilities	
Trade payables	6,000
Accruals (£800 wages accrual + £75 bank charges accrual)	<u>875</u>
Total liabilities	<u><u>6,875</u></u>
Net assets	<u><u>28,040</u></u>

	£
Capital account	
Capital introduced by Laura	50,000
Profit for the year from the statement of profit or loss	98,040
Drawings	<u>(120,000)</u>
Capital account at 31 August 2021	<u><u>28,040</u></u>

4. Your comparison of Laura's statement of profit or loss and statement of financial position both here and in answer 3.10 should have shown you that both statements show exactly the same figures.
5. Close off the T accounts at 31 August 2021 and bring forward the asset, liability and capital balances.

Bank Account

Debit (increases the asset)			Credit (decreases the asset)		
		£			£
2020			2020		
1 Sept	Laura's capital (1)	50,000	1 Sept	Van cost (10)	6,000
2021			1 Sept	Equipment cost (13)	5,000
31 Aug	Sales (cash) (2)	112,000	1 Sept	Insurance (17)	1,800
31 Aug	Trade receivables (4)	36,000	2021		
31 Aug	Interest received (23)	250	31 Aug	Trade payables (6)	38,000
			31 Aug	Van running expenses and insurance (12)	4,000
			31 Aug	Wages of part-time employees (15)	9,600
			31 Aug	Bank charges (20)	400
			31 Aug	Bank interest (22)	200
			31 Aug	Laura's capital (25)	30,000
			31 Aug	Laura's capital (26)	90,000
			31 Aug	Balance c/f	<u>13,250</u>
		<u><u>198,250</u></u>			<u><u>198,250</u></u>
2021					
1 Sept	Balance b/f	13,250			

Laura's capital account

Debit (decreases the capital)			Credit (increases the capital)		
		£			£
2021			2020		
31 Aug	Bank (25)	30,000	1 Sept	Bank (1)	50,000
31 Aug	Bank (26)	90,000	2021		
31 Aug	Balance c/f	<u>28,040</u>	31 Aug	Profit for the year (statement of profit or loss)	98,040
		<u><u>148,040</u></u>			<u><u>148,040</u></u>
			2021		
			1 Sept	Balance b/f	28,040

The double entry for the profit for the year is Debit statement of profit or loss £98,040, Credit capital account £98,040.

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
31 Aug	Statement of profit or loss	160,000	31 Aug	Bank (cash sales) (2)	112,000
			31 Aug	Trade receivables (3)	48,000
		<u>160,000</u>			<u>160,000</u>

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Sales (credit) (3)	48,000	31 Aug	Bank (4)	36,000
			31 Aug	Irrecoverable debts (8)	2,500
			31 Aug	Balance c/f	9,500
		<u>48,000</u>			<u>48,000</u>
2021					
1 Sept	Balance b/f	9,500			

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
31 Aug	Bank (6)	38,000	31 Aug	Cost of sales (5)	45,000
31 Aug	Discounts received (7)	1,000			
31 Aug	Balance c/f	6,000			
		<u>45,000</u>			<u>45,000</u>
			2021		
			1 Sept	Balance b/f	6,000

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Trade payables (5)	45,000	31 Aug	Inventory (19)	4,500
			31 Aug	Statement of profit or loss	40,500
		<u>45,000</u>			<u>45,000</u>

Discounts received

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
31 Aug	Statement of profit or loss	1,000	31 Aug	Trade payables (7)	1,000
		<u>1,000</u>			<u>1,000</u>

Irrecoverable debts

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Trade receivables (8)	2,500	31 Aug	Statement of profit or loss	2,500
		<u>2,500</u>			<u>2,500</u>

Allowance for receivables expense

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Allowance for receivables (9)	950	31 Aug	Statement of profit or loss	950
		<u>950</u>			<u>950</u>

Allowance for receivables

Debit (decreases the allowance)			Credit (increases the allowance)		
2021		£	2021		£
31 Aug	Balance c/f	950	31 Aug	Allowance for receivables (9)	950
		<u>950</u>			<u>950</u>
			2021		
			1 Sept	Balance b/f	950

Van cost

Debit (increases the asset)			Credit (decreases the asset)		
2020		£	2021		£
1 Sept	Bank (10)	6,000	31 Aug	Balance c/f	6,000
		<u>6,000</u>			<u>6,000</u>
2021					
1 Sept	Balance b/f	6,000			

Van depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Van accumulated depreciation (11)	1,800	31 Aug	Statement of profit or loss	1,800
		<u>1,800</u>			<u>1,800</u>

Van accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2021		£	2021		£
31 Aug	Balance c/f	1,800	31 Aug	Van depreciation charge (11)	1,800
		<u>1,800</u>			<u>1,800</u>
			2021		
			1 Sept	Balance b/f	1,800

Van running expenses and insurance

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (12)	4,000	31 Aug	Statement of profit or loss	4,000
		<u>4,000</u>			<u>4,000</u>

Equipment cost

Debit (increases the asset)			Credit (decreases the asset)		
2020		£	2021		£
1 Sept	Bank (13)	5,000	31 Aug	Balance c/f	5,000
		<u>5,000</u>			<u>5,000</u>
2021					
1 Sept	Balance b/f	5,000			

Equipment depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Equipment accumulated depreciation (14)	1,235	31 Aug	Statement of profit or loss	1,235
		<u>1,235</u>			<u>1,235</u>

Equipment accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2021		£	2021		£
31 Aug	Balance c/f	1,235	31 Aug	Equipment depreciation charge (14)	1,235
		<u>1,235</u>			<u>1,235</u>
			2021		
			1 Sept	Balance b/f	1,235

Wages of part-time employees

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (15)	9,600	31 Aug	Statement of profit or loss	10,400
31 Aug	Wages accrual (16)	800			
		<u>10,400</u>			<u>10,400</u>

Wages accrual

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
31 Aug	Balance c/f	800	31 Aug	Wages of part-time employees (16)	800
		<u>800</u>			<u>800</u>
			2021		
			1 Sept	Balance b/f	800

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2020		£	2021		£
1 Sept	Bank (17)	1,800	31 Aug	Insurance prepayment (18)	600
			31 Aug	Statement of profit or loss	1,200
		<u>1,800</u>			<u>1,800</u>

Insurance prepayment

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Insurance (18)	600	31 Aug	Balance c/f	600
		<u>600</u>			<u>600</u>
2021					
1 Sept	Balance b/f	600			

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Cost of sales (19)	4,500	31 Aug	Balance c/f	4,500
		<u>4,500</u>			<u>4,500</u>
2021					
1 Sept	Balance b/f	4,500			

Bank charges

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (20)	400	31 Aug	Statement of profit or loss	475
31 Aug	Bank charges accrual (21)	75			
		<u>475</u>			<u>475</u>

Bank charges accrual

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
31 Aug	Balance c/f	75	31 Aug	Bank charges (21)	75
		<u>75</u>			<u>75</u>
			2021		
			1 Sept	Balance b/f	75

Bank interest

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (22)	200	31 Aug	Statement of profit or loss	200
		<u>200</u>			<u>200</u>

Interest received

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
31 Aug	Statement of profit or loss	300	31 Aug	Bank (23)	250
			31 Aug	Interest receivable (24)	50
		<u>300</u>			<u>300</u>

Interest receivable

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
31 Aug	Interest received (24)	50	31 Aug	Balance c/f	50
		<u>50</u>			<u>50</u>
2021					
1 Sept	Balance b/f	50			

6. Extract a trial balance at 1 September 2021 to ensure that Laura's accounts are in balance at the start of the new financial year.

Laura's trial balance at 1 September 2021.

	Debit	Credit
	£	£
Bank account	13,250	
Laura's capital account		28,040
Trade receivables	9,500	
Trade payables		6,000
Allowance for receivables		950
Van	6,000	
Van accumulated depreciation		1,800
Equipment	5,000	
Equipment accumulated depreciation		1,235
Wages accrual		800
Insurance prepayment	600	
Inventory	4,500	
Bank charges accrual		75
Interest receivable	50	
Totals	<u>38,900</u>	<u>38,900</u>

Do note that the total debits do not total up to the total assets in Laura's statement of financial position. This is because the figures for the van, the equipment and the trade receivables are all included in the above trial balance at their gross figures (the total amount before deducting accumulated depreciation and the allowance for receivables). You can check that the total debits in the trial balance at 1 September 2021 are equivalent to the total assets figure in the statement of financial position by deducting these accumulated depreciation and allowance figures. Thus £38,900 total debits in the trial balance at 1 September 2021 – £1,800 (van accumulated depreciation) – £1,235 (equipment accumulated depreciation) – £950 (allowance for receivables) = £34,915 total assets in the statement of financial position.

»» Question 4.9

- (a) Enter the balances into T accounts.

Capital

Debit (decreases the equity)		Credit (increases the equity)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			2,200

Retained profit

Debit (decreases the equity)		Credit (increases the equity)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			250

Property, plant and equipment cost

Debit (increases the asset)		Credit (decreases the asset)	
2021	£000	2021	£000
30 Sept	Balance b/f		
	3,000		

Loan

Debit (decreases the liability)		Credit (increases the liability)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			300

Accumulated depreciation

Debit (decreases accumulated depreciation)		Credit (increases accumulated depreciation)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			600

Purchases

Debit (increases the expense)		Credit (decreases the expense)	
2021	£000	2021	£000
30 Sept	Balance b/f		
	2,545		

Trade and other payables

Debit (decreases the liability)		Credit (increases the liability)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			110

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£000	2021		£000
30 Sept	Balance b/f	400			

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	200			

General and selling expenses

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	1,100			

Loan interest

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	15			

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£000	2021		£000
			30 Sept	Balance b/f	4,400

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2020		£000	2021		£000
1 Oct	Balance b/f	600			

(b) Post the year-end adjustments to the relevant accounts.

Capital

Debit (decreases the equity)		Credit (increases the equity)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			2,200

Retained profit

Debit (decreases the equity)		Credit (increases the equity)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			250

Property, plant and equipment cost

Debit (increases the asset)		Credit (decreases the asset)	
2021	£000	2021	£000
30 Sept	Balance b/f		
	3,000		

Loan

Debit (decreases the liability)		Credit (increases the liability)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			300

PPE accumulated depreciation

Debit (decreases accumulated depreciation)		Credit (increases accumulated depreciation)	
2021	£000	2021	£000
		30 Sept	Balance b/f
		30 Sept	Depreciation expense
			(4)
			600
			300

Purchases

Debit (increases the expense)		Credit (decreases the expense)	
2021	£000	2021	£000
30 Sept	Balance b/f	30 Sept	Cost of sales (6)
	2,545		2,545

Trade and other payables

Debit (decreases the liability)		Credit (increases the liability)	
2021	£000	2021	£000
		30 Sept	Balance b/f
		30 Sept	Income tax (5)
			110
			60

Trade receivables

Debit (increases the asset)		Credit (decreases the asset)	
2021	£000	2021	£000
30 Sept	Balance b/f		
	400		

Insurance

Debit (increases the expense)		Credit (decreases the expense)	
2021	£000	2021	£000
30 Sept	Balance b/f	30 Sept	Prepayment (2)
	200		150

General and selling expenses

Debit (increases the expense)		Credit (decreases the expense)	
2021	£000	2021	£000
30 Sept	Balance b/f		
30 Sept	Accruals (3)		
	1,100		
	40		

Loan interest

Debit (increases the expense)		Credit (decreases the expense)	
2021	£000	2021	£000
30 Sept	Balance b/f		
	15		

Sales

Debit (decreases the income)		Credit (increases the income)	
2021	£000	2021	£000
		30 Sept	Balance b/f
			4,400

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2020		£000	2021		£000
1 Oct	Balance b/f	600	30 Sept	Cost of sales (6)	600
2021					
30 Sept	Cost of sales (1)	450			

Cost of sales

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Inventory (6)	600	30 Sept	Inventory (1)	450
30 Sept	Purchases (6)	2,545			

Prepayment

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Insurance (2)	150			

Accruals

Debit (decreases the liability)			Credit (increases the liability)		
2021		£000	2021		£000
			30 Sept	Selling and general (3)	40

Depreciation expense

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	PPE accumulated depreciation (4)	300			

Income tax

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Trade and other payables (5)	60			

(c) Extract a trial balance from the T accounts you have prepared.

Logan Limited: Trial balance at 30 September 2021

	Debit £000	Credit £000
Capital		2,200
Retained profit		250
Property, plant and equipment cost	3,000	
Loan		300
PPE accumulated depreciation		900
Trade and other payables		170
Trade receivables	400	
Insurance	50	
General and selling expenses	1,140	
Loan interest	15	
Sales		4,400
Inventory	450	
Cost of sales	2,695	
Prepayment	150	
Accruals		40
Depreciation expense	300	
Income tax	60	
Total	<u>8,260</u>	<u>8,260</u>

(d) Draw up Logan Limited's statement of profit or loss for the year ended 30 September 2021 and a statement of financial position at that date.

Logan Limited: Statement of profit or loss for the year ended 30 September 2021

	£000
Sales	4,400
Cost of sales	<u>2,695</u>
Gross profit	1,705
Expenses:	
General and selling expenses	1,140
Insurance	50
Depreciation	300
Loan interest	15
Income tax	<u>60</u>
Total expenses	<u>1,565</u>
Profit for the year	<u>140</u>

Logan Limited: Statement of financial position at 30 September 2021

Assets	£000
Non-current assets	
Property, plant and equipment £3,000 (cost) – £900 (accumulated depreciation)	<u>2,100</u>
Current assets	
Inventory	450
Trade receivables	400
Prepayment	<u>150</u>
	<u>1,000</u>
Total assets	<u>3,100</u>
Current liabilities	
Trade and other payables	170
Accruals	<u>40</u>
	<u>210</u>
Non-current liabilities	
Borrowings	<u>300</u>
Total liabilities	<u>510</u>
Net assets (total assets – total liabilities)	<u>2,590</u>
Equity	
Capital	2,200
Retained profit (£250 + £140)	<u>390</u>
Total equity	<u>2,590</u>

(e) and (f) Close off the T accounts at 30 September 2021 and bring forward the balances on the T accounts at 1 October 2021.

Capital

Debit (decreases the equity)			Credit (increases the equity)		
2021		£000	2021		£000
30 Sept	Balance c/f	<u>2,200</u>	30 Sept	Balance b/f	<u>2,200</u>
			1 Oct	Balance b/f	2,200

Retained profit

Debit (decreases the equity)			Credit (increases the equity)		
2021		£000	2021		£000
30 Sept	Balance c/f	390	30 Sept	Balance b/f	250
			30 Sept	Statement of profit or loss	140
		<u>390</u>			<u>390</u>
			1 Oct	Balance b/f	390

Property, plant and equipment cost

Debit (increases the asset)			Credit (decreases the asset)		
2021		£000	2021		£000
30 Sept	Balance b/f	<u>3,000</u>	30 Sept	Balance c/f	<u>3,000</u>
1 Oct	Balance b/f	<u>3,000</u>			

Loan

Debit (decreases the liability)			Credit (increases the liability)		
2021		£000	2021		£000
30 Sept	Balance c/f	<u>300</u>	30 Sept	Balance b/f	<u>300</u>
			1 Oct	Balance b/f	300

PPE accumulated depreciation

Debit (decreases accumulated depreciation)			Credit (increases accumulated depreciation)		
2021		£000	2021		£000
30 Sept	Balance c/f	900	30 Sept	Balance b/f	600
			30 Sept	Depreciation expense (4)	300
		<u>900</u>			<u>900</u>
			1 Oct	Balance b/f	900

Purchases

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	<u>2,545</u>	30 Sept	Cost of sales (6)	<u>2,545</u>

Trade and other payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£000	2021		£000
30 Sept	Balance c/f	<u>170</u>	30 Sept	Balance b/f	110
		<u>170</u>	30 Sept	Income tax (5)	<u>60</u>
					<u>170</u>
			1 Oct	Balance b/f	<u>170</u>

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£000	2021		£000
30 Sept	Balance b/f	<u>400</u>	30 Sept	Balance c/f	<u>400</u>
1 Oct	Balance b/f	<u>400</u>			

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	200	30 Sept	Prepayment (2)	150
		<u>200</u>	30 Sept	Statement of profit or loss	<u>50</u>
					<u>200</u>

General and selling expenses

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	1,100	30 Sept	Statement of profit or loss	1,140
30 Sept	Accruals (3)	40			<u>1,140</u>
		<u>1,140</u>			

Loan interest

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Balance b/f	<u>15</u>	30 Sept	Statement of profit or loss	<u>15</u>

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£000	2021		£000
30 Sept	Statement of profit or loss	<u>4,400</u>	30 Sept	Balance b/f	<u>4,400</u>

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2020		£000	2021		£000
1 Oct	Balance b/f	600	30 Sept	Cost of sales (6)	600
2021					
30 Sept	Cost of sales (1)	<u>450</u>	30 Sept	Balance c/f	<u>450</u>
		<u>1,050</u>			<u>1,050</u>
1 Oct	Balance b/f	450			

Cost of sales

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Inventory (6)	600	30 Sept	Inventory (1)	450
30 Sept	Purchases (6)	2,545	30 Sept	Statement of profit or loss	2,695
		<u>3,145</u>			<u>3,145</u>

Prepayment

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Insurance (2)	<u>150</u>	30 Sept	Balance c/f	<u>150</u>
1 Oct	Balance b/f	150			

Accruals

Debit (decreases the liability)			Credit (increases the liability)		
2021		£000	2021		£000
30 Sept	Balance c/f	<u>40</u>	30 Sept	Selling and general (3)	<u>40</u>
			1 Oct	Balance b/f	<u>40</u>

Depreciation expense

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	PPE accumulated depreciation (4)	<u>300</u>	30 Sept	Statement of profit or loss	<u>300</u>

Income tax

Debit (increases the expense)			Credit (decreases the expense)		
2021		£000	2021		£000
30 Sept	Trade and other payables (5)	<u>60</u>	30 Sept	Statement of profit or loss	<u>60</u>

»» Question 4.10

(a) Enter the balances at 30 June 2021 into T accounts.

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	6,000			

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	2,000			

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	5,200			

Machinery cost

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	20,000			

Trade and other payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
			30 June	Balance b/f	2,000

Loan

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
			30 June	Balance b/f	15,800

Capital

Debit (decreases the equity)			Credit (increases the equity)		
2021		£	2021		£
			30 June	Balance b/f	15,400

(b) Record all the transactions made in July and August into T accounts.

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	6,000	31 Aug	Purchases (3)	9,800
31 Aug	Sales (1)	23,000	31 Aug	Trade and other payables (4)	2,300
31 Aug	Trade receivables (2)	1,000	31 Aug	Rent (5)	3,200
			31 Aug	Power and heating (6)	600
			31 Aug	Wages and salaries (7)	1,240
			31 Aug	Loan interest (8)	158

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	2,000	31 Aug	Bank (2)	1,000
31 Aug	Sales (2)	2,400			

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	5,200	31 Aug	Cost of sales (9)	5,200
31 Aug	Cost of sales (9)	2,800			

Machinery cost

Debit (increases the asset)			Credit (decreases the asset)		
2021		£	2021		£
30 June	Balance b/f	20,000			

Trade and other payables

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
31 Aug	Bank (4)	2,300	30 June	Balance b/f	2,000
				Purchases (4)	3,300

Loan

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
			30 June	Balance b/f	15,800

Capital

Debit (decreases the equity)			Credit (increases the equity)		
2021		£	2021		£
			30 June	Balance b/f	15,400

Sales

Debit (decreases the income)			Credit (increases the income)		
2021		£	2021		£
			31 Aug	Bank (1)	23,000
				Trade receivables (2)	2,400

Purchases

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
30 June	Bank (3)	9,800	31 Aug	Cost of sales (9)	13,100
	Trade payables (4)	3,300			

Rent

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (5)	3,200			

Power and heating

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (6)	600			
31 Aug	Accruals (6) (estimate for power and heating for August)	600			

Accruals

Debit (decreases the liability)			Credit (increases the liability)		
2021		£	2021		£
			31 Aug	Power and heating (6) (estimate for August)	600

Wages and salaries

Debit (increases the expense)			Credit (decreases the income)		
2021		£	2021		£
31 Aug	Bank (7)	1,240			

Loan interest

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Bank (8) (£15,800 x 6% x 2/12)	158			

Cost of sales

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
30 June	Opening inventory (9)	5,200	31 Aug	Closing inventory (9)	2,800
31 Aug	Purchases (9)	13,100			

Machinery depreciation expense

Debit (increases the expense)			Credit (decreases the expense)		
2021		£	2021		£
31 Aug	Machinery accumulated depreciation (10) (£20,000 – £2,000) ÷ 10 x (2/12)	300			

Machinery accumulated depreciation

Debit (decreases accumulated depreciation)			Credit (increases accumulated depreciation)		
2021		£	2021		£
			31 Aug	Machinery depreciation expense (10)	300

(c) Extract a trial balance from the T accounts.

Emma Limited: Trial balance at 31 August 2021

Account	Debit £	Credit £
Bank	12,702	
Trade receivables	3,400	
Inventory	2,800	
Machinery cost	20,000	
Trade and other payables		3,000
Loan		15,800
Capital		15,400
Sales		25,400
Rent	3,200	
Power and heating	1,200	
Accruals		600
Wages and salaries	1,240	
Loan interest	158	
Cost of sales	15,500	
Machinery depreciation expense	300	
Machinery accumulated depreciation		300
	<u>60,500</u>	<u>60,500</u>

(d) Draw up Emma Limited's statement of profit or loss for July and August 2021 together with a statement of financial position at that date.

Emma Limited: Statement of profit or loss for July and August 2021

	£	£
Sales		25,400
Cost of sales		<u>15,500</u>
Gross profit		9,900
Expenses:		
Rent	3,200	
Power and heating	1,200	
Wages and salaries	1,240	
Loan interest	158	
Depreciation expense	<u>300</u>	
Total expenses		6,098
Profit for July and August 2021		<u>3,802</u>

Emma Limited: Statement of financial position at 31 August 2021

Assets	£
Non-current assets	
Machinery £20,000(cost) – £300 (accumulated depreciation)	19,700
	<u> </u>
Current assets	
Inventory	2,800
Trade receivables	3,400
Bank	12,702
	<u>18,902</u>
	<u> </u>
Total assets	<u>38,602</u>
Liabilities	
Trade and other payables	3,000
Accruals	600
	<u>3,600</u>
Non-current liabilities	
Borrowings	15,800
Total liabilities	<u>19,400</u>
Net assets (total assets – total liabilities)	<u>19,202</u>
	<u> </u>
Equity	
Capital	15,400
Retained profit	<u>3,802</u>
Total equity	<u>19,202</u>