

14 Profit and Loss Calculation in the Ledger

Question 1

Sales					
2019			2019		
Jun 30	Profit and loss	90,000	Jun 30	Balance	90,000
Interest Income					
2019			2019		
Jun 30	Profit and loss	1,000	Jun 30	Balance	1,000
Cost of Sales					
2019			2019		
Jun 30	Balance	30,000	Jun 30	Profit and Loss	30,000
Wages					
2019			2019		
Jun 30	Balance	20,000	Jun 30	Profit and Loss	20,000
Electricity					
2019			2019		
Jun 30	Balance	6,000	Jun 30	Profit and Loss	6,000
Telephone					
2019			2019		
Jun 30	Balance	2,000	Jun 30	Profit and Loss	2,000
Profit and Loss					
2019			2019		
Jun 30	Cost of Sales	30,000	Jun 30	Sales	90,000
	Wages	20,000		Interest	1,000
	Electricity	6,000			
	Telephone	2,000			
	Capital (Profit)	33,000			
		91,000			91,000

Question 1 continued**Drawings**

2019			2019		
<i>Jun 30</i>	<i>Balance</i>	<i>10,000</i>	<i>Jun 30</i>	<i>Capital</i>	<i>10,000</i>
		<hr/>			<hr/>

Capital

2019			2018		
<i>Jun 30</i>	<i>Drawings</i>	<i>10,000</i>	<i>Jul 1</i>	<i>Balance b/d</i>	<i>50,000</i>
	<i>Balance c/d</i>	<i>73,000</i>	2019		
		<hr/>	<i>Jun 30</i>	<i>Profit and Loss</i>	<i>33,000</i>
		<i>83,000</i>			<hr/>
		<hr/>			<i>83,000</i>
			<i>Jul 1</i>	<i>Balance b/d</i>	<i>73,000</i>

Bargain Price Traders
Balance Sheet (extract)
as at 30 June 2019

Equity	
Capital	50,000
Add Profit	33,000
	<hr/>
	83,000
Less Drawings	10,000
	<hr/>
Total Equity	73,000
	<hr/>

Question 2**Sales**

2027				2027		
Jun 30	Profit and loss	81,000		Jun 30	Balance	81,000

Cost of Sales

2027				2027		
Jun 30	Balance	33,000		Jun 30	Profit and Loss	33,000

Wages

2027				2007		
Jun 30	Balance	29,000		Jun 30	Profit and Loss	29,000

Electricity

2027				2007		
Jun 30	Balance	2,000		Jun 30	Profit and Loss	2,000

Telephone

2027				2027		
Jun 30	Balance	4,000		Jun 30	Profit and Loss	4,000

Profit and Loss

2019				2019		
Jun 30	Cost of Sales	33,000		Jun 30	Sales	81,000
	Wages	29,000				
	Electricity	2,000				
	Telephone	4,000				
	Capital (Profit)	13,000				
		81,000				81,000

Question 2 continued**Drawings**

2027			2027		
<i>Jun 30</i>	<i>Balance</i>	<u>9,000</u>	<i>Jun 30</i>	<i>Capital</i>	<u>9,000</u>

Capital

2027			2026		
<i>Jun 30</i>	<i>Drawings</i>	<u>9,000</u>	<i>Jul 1</i>	<i>Balance</i>	<u>70,000</u>
	<i>Balance c/d</i>	<u>74,000</u>	2027		
		<u>83,000</u>	<i>Jun 30</i>	<i>Profit and Loss</i>	<u>13,000</u>
					<u>83,000</u>
			<i>Jul 1</i>	<i>Balance b/d</i>	<u>74,000</u>

Perth Traders
Balance Sheet (extract)
as at 30 June 2027

Equity	
Capital	70,000
Add Profit	<u>13,000</u>
	83,000
Less Drawings	<u>9,000</u>
Total Equity	<u>74,000</u>

Question 3

Profit and Loss					
2028			2028		
Jun 30	Cost of Sales	33,000	Jun 30	Sales	73,000
	Advertising	5,000		Interest Income	100
	Electricity	1,000			
	Wages	19,000			
	Telephone	6,000			
	Interest on Loan	1,200			
	Capital (Profit)	7,900			
		<u>73,100</u>			<u>73,100</u>

**Mandurah Traders
Balance Sheet
as at 30 June 2028**

Current Assets	
Cash at Bank	2,000
Accounts Receivable	4,000
Inventory	8,000
Total Current Assets	<u>14,000</u>
Non-Current Assets	
Motor Vehicle	20,000
Office Equipment	6,000
Total Non-Current Assets	<u>26,000</u>
Total Assets	<u>40,000</u>
Current Liabilities	
Accounts Payable	9,000
Loan from Bank	4,000
Total Current Liabilities	<u>13,000</u>
Total Liabilities	<u>13,000</u>
<i>Net Assets</i>	<u><i>\$27,000</i></u>
Equity	
Capital	30,100
Add Profit	7,900
	<u>38,000</u>
Less Drawings	11,000
<i>Total Equity</i>	<u><i>\$27,000</i></u>

Question 4

Profit and Loss					
2029			2029		
Jun 30	Wages	18,100	Jun 30	Sales	81,000
	Telephone	4,000		Interest Income	300
	Electricity	3,000			
	Interest on Loan	1,300			
	Advertising	7,000			
	Cost of Sales	45,000			
	Capital (Profit)	2,900			
		<u>81,300</u>			<u>81,300</u>

Northam Traders
Balance Sheet
as at 30 June 2029

Current Assets	
Cash at Bank	3,000
Accounts Receivable	5,000
Inventory	9,000
Total Current Assets	<u>17,000</u>
Non-Current Assets	
Office Furniture	5,000
Office Equipment	11,000
Total Non-Current Assets	<u>16,000</u>
Total Assets	<u>33,000</u>
Current Liabilities	
Accounts Payable	5,000
Total Current Liabilities	<u>5,000</u>
Non-Current Liabilities	
Loan from Bank	9,000
Total Non-Current Liabilities	<u>9,000</u>
Total Liabilities	<u>14,000</u>
<i>Net Assets</i>	<u><i>\$19,000</i></u>
Equity	
Capital	18,100
Add Profit	2,900
	<u>21,000</u>
Less Drawings	<u>2,000</u>
<i>Total Equity</i>	<u><i>\$19,000</i></u>

Question 5

General Journal

Date	Details	Debit	Credit
2026 Jun 30	Sales Interest Income Profit and Loss <i>Income transferred.</i>	93,000 700 	 93,700
	Profit and Loss Cost of Sales Insurance Rent Wages Interest Telephone <i>Expenses transferred.</i>	90,700	47,000 3,400 11,600 25,000 2,400 1,300
	Profit and Loss Capital <i>Profit transferred.</i>	3,000	3,000
	Drawings Capital <i>Drawings transferred.</i>	7,000	7,000

Question 5 continued

Profit and Loss					
2026			2026		
Jun 30	Cost of Sales	47,000	Jun 30	Sales	93,000
	Insurance	3,400		Interest Income	700
	Rent	11,600			
	Wages	25,000			
	Interest on Loan	2,400			
	Telephone	1,300			
	Capital (Profit)	2,900			
		<u>93,700</u>			<u>93,700</u>

Question 6

General Journal			
Date	Details	Debit	Credit
2027 Jun 30	Sales	84,000	
	Interest Income	2,000	
	Profit and Loss		86,000
	<i>Income transferred.</i>		
	Profit and Loss	85,000	
	Cost of Sales		39,200
	Wages		24,000
	Rent		13,000
	Advertising		7,000
	Interest on Loan		1,800
	<i>Expenses transferred.</i>		
	Profit and Loss	1,000	
	Capital		1,000
	<i>Profit transferred.</i>		

Question 6 continued**General Journal**

Date	Details	Debit	Credit
	Drawings Capital <i>Drawings transferred.</i>	9,000	9,000

Profit and Loss

2027			2027		
Jun 30	Cost of Sales	39,200	Jun 30	Sales	84,000
	Wages	24,000		Interest Income	2,000
	Rent	13,000			
	Advertising	7,000			
	Interest on Loan	1,800			
	Capital (Profit)	1,000			
		<u>86,000</u>			<u>86,000</u>

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It is necessary to make closing general journal and ledger entries to enable the profit or loss to be calculated and to reduce the income and expense account balances to zero. This ensures that the income and expenses for the current year cannot be included in the calculation of the profit or loss for next year. All income and expense ledger accounts are closed off.

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Drawings is **not** an expense. The Framework definition of an expense specifically excludes drawings from this definition.

Drawings involves a transfer of resources, such as money, to the owner of the business. An expense involves a transfer of resources to a party outside of the business, such as, the payment of money to another business.

Question 7**General Journal**

Date	Details	Debit	Credit
2029 Jun 30	Sales Interest Income Profit and Loss <i>Income transferred.</i>	269,000 300 	 269,300
	Profit and Loss Cost of Sales Advertising Telephone Wages Cartage Outwards Interest on Loan <i>Expenses transferred.</i>	207,300	122,000 19,300 4,000 48,300 6,500 7,200
	Profit and Loss Capital <i>Profit transferred.</i>	62,000	62,000
	Drawings Capital <i>Drawings transferred.</i>	7,000	7,000