

**Good Counsel College**

**Grade 10**

**Economics and Business**

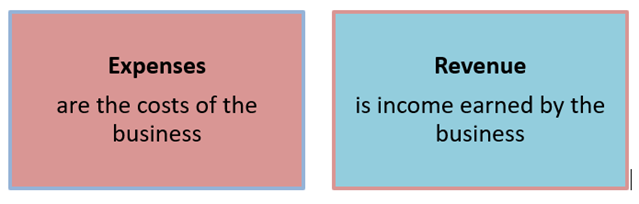
**Student Booklet**

**Foundations of Accounting**

|  |
| --- |
| Accounts of a business |
| Classifying accounts |
| The accounting equation |
| Owner’s Equity Concept |
| Accounting Period Concept |
| Final Statements |
| Statement of Financial Position |
| Statement of Profit/Loss |
| T account ledgers |
| Analyse the effect of transactions |
| Trial Balances |

**fundamental concepts and principles**

There are some key concepts you need to know to understand Accounting:



1. Fill the blanks in the table using terms listed in the boxes below:

|  |  |  |
| --- | --- | --- |
| Revenues | Sales | Accounts payable (creditors) |
| Inventories | Expenses | Wages / salaries |
| Loan | Cash at bank | Owner’s Equity |
| Capital | Rent paid | Drawings |
| Liabilities | Accounts receivable (debtors) | Furniture |
| Motor vehicle | Interest earned | Assets |
| Electricity | Equipment | Service fees revenue |

|  |  |  |
| --- | --- | --- |
| **Account Group** | **Definition** | **Examples of Accounts** |
| Owner’s Equity | The owner’s investment in the business | Drawings |
| Assets | Items of value owned by a business | Inventories  Motor vehicle  Cash at bank  Accounts receivable (debtors)  Equipment  Furniture |
| Expenses | Costs paid by the business | Electricity  Wages / salaries |
|  | Amounts owed by the business | Loan  Accounts payable (creditors) |
| Revenues | Income earned by the business | Sales  Interest earned  Service fees revenue |

1. Fill in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of A/C** | **Nature** | **Increase** | **Decrease** |
| Asset |  |  |  |
| Liability |  |  |  |
| Owner’s Equity |  |  |  |
| Revenue |  |  |  |
| Expense |  |  |  |

**the accounting equation**

The end result of the accounting process is the information in the financial reports, which the business presents to people with an interest in the business. These reports show how a business is performing and the worth of the business at a particular point in time. If you own a business, you need to know at the end of each year if you have made any profit, and if so, how much.

A major activity in accounting is the recording of business transactions. A **business transaction** is a financial event such as the purchase of a product, the payment of a bill or the investment of money. When a transaction occurs, it has a direct effect on a business’s assets, liabilities and/or owner’s equity.

**Transactions are financial events that affect elements of the accounting equation.**

The accounting equation is a simple formula that represents the relationship between the **total** assets, liabilities and owner’s equity of a business. It calculates the amount of owner’s equity (investment) in the business. The equation states that what a business owns (assets) must always equal what a business owes (liabilities and owner’s equity).

The equation is usually expressed as:

**A = L + OE OE = A - L L = A - OE**

**THE ACCOUNTING ENTITY CONCEPT**

This concept is one of the most basic concepts of accounting. It distinguishes between the owner of the business and the business itself, treating them as two separate identities. This means that all information recorded in the books of a business is **from the point of view of the business**. Any information relating to the **owner’s personal** spending or income, things they own, money they owe does not appear in the accounting records of the business.

*The Accounting Entity concept separates the owner from the business for accounting purposes.*

1. Rewrite the following transactions for the business of ABC Trading, so they follow the accounting entity concept:
2. NQ Hardware sold inventories to the business
3. Y Mangan bought inventories from the business
4. NQ Hardware were paid by the business
5. Y Mangan sent a cheque to the business to pay their account

**Accounting period Concept & going concern principle**

The Going Concern Principle assumes the business is going to continue its operations indefinitely and is not likely to be liquidated in the foreseeable future. However, business owners can’t wait until the business is sold or wound up to determine if they made a profit or not. Owners need financial information about their business on a regular basis. For example, if a business is operating at a loss, the owner would need to know this immediately so that steps can be taken to improve the business’s performance or decide to stop trading.

Thus, it is necessary to break the life of the business into regular reporting periods so that owners have a more accurate understanding of how their business is performing. The life of the business can be divided into periods of time eg 3 months, 6 months or 12 months so that reporting of financial information can be done on a more regular basis.

*The Accounting Period Concept assumes that the life of a business is divided into arbitrary time periods.*

**financial statements (reports)**

Financial reports are used both within the business and outside the business. People establish a business with the aim of making a profit. After some time of trading, they will want to know, have I made a profit or a loss? The financial reports prepared from a business’s accounting system will provide the owner with this essential information.

Depending on what these reports reveal, the owner then determines what s/he needs to do. If the business is going well the owner might decide to expand; if not, the owner needs to consider what needs to be done to improve the financial situation of the business.

Certain people will be interested in the financial reports of a business:

* the bank (interested as to whether any loans will be able to be repaid)
* Australian Tax Office (taxation)
* potential buyers (should they invest in this business or go elsewhere)
* current investors (should they continue their investment in this business)

**STATEMENT OF FINANCIAL POSITION**

A Statement of Financial Position is a list of all the assets, liabilities and owner’s equity of an organisation at a particular point in time.

**T Account Form**

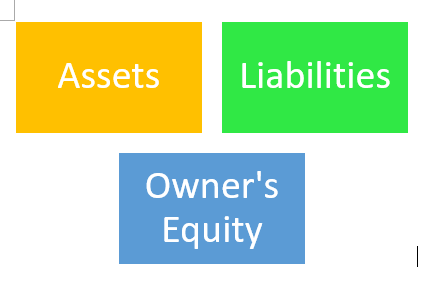
J Graham

Statement of Financial Position as at 30 June 2019

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Assets** |  | |  | **Liabilities** |  | |
| Cash at Bank | 10000 | |  | Loan from AB Co. | 20000 | |
| Supplies | 1000 | |  |  |  | |
| Furniture | 14000 | |  | Owner’s Equity |  | |
| Motor Vehicle | 15000 | |  | Capital | 20000 | |
|  |  | $40000 |  |  |  | $40000 |

**Statement Style**

J Graham

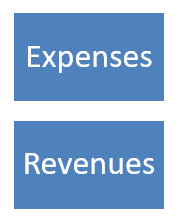
 Statement of Financial Position as at 30 June 2019

|  |  |  |
| --- | --- | --- |
| **Assets** |  |  |
| Cash at bank | 10000 |  |
| Supplies | 1000 |  |
| Furniture | 14000 |  |
| Motor Vehicle | 15000 | 40000 |
|  |  |  |
| Less **Liabilities** |  |  |
| Loan from AB Co. |  | 20000 |
| NET ASSETS |  | $20000 |
|  |  |  |
| **Owner’s Equity** |  |  |
| Capital |  | $20000 |

1. Draw up the Statement of Financial Position to calculate the Owner’s Equity for S Clune’s business as at 1 July 20—. Use both forms of presentation. Not all accounts in the table below may be required to complete the Statement.

|  |  |
| --- | --- |
| Cash at bank | 1000 |
| Inventories | 2000 |
| Wages | 3000 |
| Furniture | 1500 |
| Sales | 5000 |
| Rent Revenue | 500 |
| Advertising | 600 |
| Equipment | 10000 |
| Vehicle | 6000 |
| Loan from Bank | 4000 |

**statement of Profit or Loss**

Revenues are sources of income for an organisation.

Expenses are amounts of money paid by an organisation to keep it going.

A **Statement of Profit or Loss** is the first financial report that businesses prepare at the end of each accounting period. It details the various revenues that a business has earned during a period and compares these with the expenses the business has paid during that same period of time.

The expenses are subtracted from the revenues to determine whether a profit or a loss has been made by the organisation. This information can then be presented in the format of a report to interested parties for their evaluation.

Trading organisations purchase inventories with the intention of reselling them at a profit. Therefore, the major revenue for a trading business is **sales**, and the major expense item will be **cost of goods sold**. The following is an example of an Income Statement:

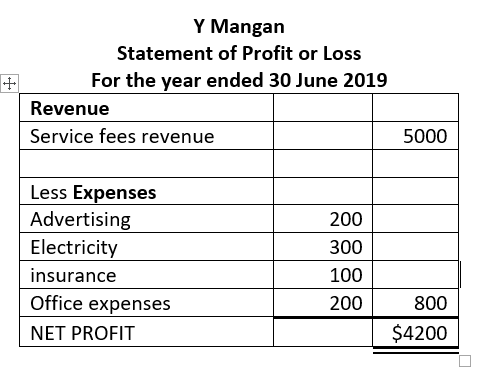
**Gross Profit or loss** shows a trading business’s profit or loss on its main operating activity – buying and selling goods.

**Net Profit or loss** shows a business’s overall profit or loss after deducting all other operating expenses.



Businesses need to look at the gross profit to decide if they should:

* increase the selling price of goods
* reduce the expenses associated with buying inventories, if possible

1. From the information below, select the correct accounts to complete a Statement of Profit or Loss for the year ended 30 June 20— . Not all accounts listed will be required.

Example of

Statement of P/Loss

|  |  |
| --- | --- |
| Capital | 10000 |
| Service fees revenue | 100000 |
| Drawings | 500 |
| Advertising | 15000 |
| Furniture | 1000 |
| Electricity | 1000 |
| Accounts Payable | 3000 |
| Insurance | 2000 |
| Office expenses | 3500 |
| Accounts Receivable | 6000 |
| Bank Overdraft | 10000 |
| Postage | 500 |
| Mortgage | 40000 |
| Land | 50000 |

**t account ledgers**

Many transactions occur in all businesses every day and it would be almost impossible to draw up a new Statement of Financial Position after every transaction. What is needed is some device where changes to a particular item (eg cash at bank) can be recorded or an account of it kept. Such a device is called an account – abbreviated to a/c.

*An account is a record in a ledger where all changes to a particular item are shown.*

Every item in the Statement of Financial Position has an account. For example, the record where all the changes to furniture are shown is in the Furniture a/c. All these accounts are kept together in a ledger.A ledger is a collection of all the accounts.Ledgers keep a record of what happens to a particular item.

There are two methods of presenting accounts: T account format and Columnar format

T Account format:

DR CR

Y Mangan

Ledger

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Particulars | Amt | Date | Particulars | Amt |
| Cash at Bank a/c 3103 | | | | | |
| Jan 1 | Balance | 1000 | Jan 5 | Wages | 100 |
| 5 | Sales | 500 | 10 | Furniture | 400 |
|  |  |  | 31 | Balance c/d | 1000 |
|  |  | $1500 |  |  | $1500 |
| Feb 1 | Balance b/d | 1000 |  | Last day of month |  |

Assets have a **debit** nature.

Liabilities have a **credit** nature.

Owner’s Equity have a **credit** nature.

Expenses have a **debit** nature.

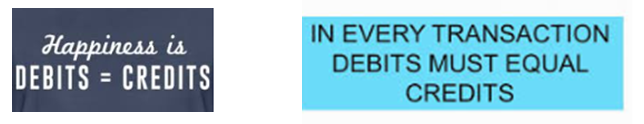
Revenues have a **credit** nature

First day of next month

**The Accounting Rules**

You already know that every transaction affects two or more items in the Statement of Financial Position. Therefore, each transaction must affect two or more accounts in the ledger. At least one of these accounts will be debited and one will be credited.

For every transaction the total debit amounts equal the total credit amounts. This is called double entry. Double entry does not mean only two accounts are affected.



**Transaction Tables**

1. Prepare a transaction table to analyse the following transactions.

**Y Mangan**

|  |  |  |
| --- | --- | --- |
| Jan | 10 | Obtained a $15000 loan from the bank |
|  | 17 | Bought furniture from ABC Co for $400 |
|  | 19 | Purchased a vehicle for $10000 cash |
|  | 29 | Sold some furniture for $200 cash |
|  | 30 | Bought government bonds for $1000 cash |

**Masso & Co**

|  |  |  |
| --- | --- | --- |
| Mar | 1 | Owner introduced vehicle $1000 and cash $500 as capital |
|  | 2 | Bought furniture for $500 from V Jones |
|  | 4 | Sold vehicle to S Smith for $1000 |
|  | 7 | Paid V Jones $500 cash |
|  | 9 | Received $1000 from S Smith |

**Nguyen Services**

|  |  |  |
| --- | --- | --- |
| Dec | 10 | Owner commenced business with $10000 cash, supplies $1000 and furniture $500 |
|  | 12 | Bought equipment for $1000 from Suppliers Ltd |
|  | 14 | Bought more furniture for $500 cash |
|  | 17 | Paid suppliers Ltd $200 |

1. Prepare ledger accounts using T Account format for each of the above transaction tables.
2. Balance the following accounts.  
   DR CR

Motor Vehicle 3303

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jan 1 | Capital | 20000 | Jan 4 | Cash | 10000 |
| 15 | Vehicle Traders | 9000 |  |  |  |
| 25 | Cash | 10000 |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

Capital 5101

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Jan 1 | Cash | 10000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

Furniture 3301

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jan 5 | ABC Co Ltd | 10000 | Jan 15 | Cash | 10000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

ABC Co Ltd 4102.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Jan 7 | Cash | 2000 | Jan 5 | Equipment | 4000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

1. You are given the following ledger account for M Popas and are required to balance the ledger account and explain each transaction that is recorded in the account.  
   DR CR

Cash at bank 3103

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Mar 1 | Capital | 50000 | Mar 3 | Furniture | 10000 |
| 10 | Service fees | 5000 | 5 | Motor vehicles | 20000 |
| 15 | Equipment | 12000 | 19 | J Black | 5000 |
| 28 | F Kim | 9000 | 22 | Wages | 1600 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

|  |  |
| --- | --- |
| Mar 1 |  |
| 3 |  |
| 5 |  |
| 10 |  |
| 15 |  |
| 19 |  |
| 22 |  |
| 28 |  |

1. Prepare a ledger from the following transactions of the business of J Nella.

|  |  |  |
| --- | --- | --- |
| Feb | 1 | Purchased furniture $14 000 from T Mylonas |
|  | 3 | Owner introduced furniture $15 000 into business |
|  | 8 | Paid T Mylonas $14 000 |
|  | 28 | Purchased vehicle $19 000 from F Kindt |

1. From the business events of **R Shaw** listed below, prepare a T Account ledger:

|  |  |  |
| --- | --- | --- |
| Aug | 9 | The owner invested cash $1 500 and equipment $1 000 |
|  | 10 | Bought equipment from S Green $500 cash |
|  | 11 | Bought furniture from J Jones $1 000 |
|  | 17 | Paid $500 to J Jones |
|  | 23 | Supplied services to A Smith $400 |
|  | 21 | Received payment of $400 from A Smith |

1. Prepare a T Account ledger for the business of **S Green**:

|  |  |  |
| --- | --- | --- |
| June | 1 | S Green commenced business with inventories $800 and cash $10 000 |
|  | 2 | Bought furniture worth $1 000 from (Furnitureland Co) paying a deposit of $400 and agreeing to pay the balance within a month |
|  | 6 | Borrowed $3 000 from the bank towards meeting some future purchases |
|  |  |  |
|  | 10 | Bought land for $10 000 from Finance Co Ltd |
|  |  | Paid Furnitureland Co $200 |

1. Prepare a T Account ledger for **Lizzie’s Lounges** for the month of April.

|  |  |
| --- | --- |
| April 1 | Elizabeth began the business with a cash investment of $140,000 and a loan for $50,000. (Hint: Capital will be 90000 because 140000 minus 50000) |
| 2 | Advertising paid by cash $2000 |
| 3 | Purchased delivery van $40,999 on credit from Zupps Holden |
| 7 | Cash purchases of stock $30,000 |
| 11 | Cash sales $22,000 |
| 12 | Shop rent paid by cash $16,000 |
| 16 | Owner withdrew $2,000 from business |

**Trial balance**

The reason for preparing a trial balance is to check the arithmetic accuracy of the ledger and to ensure that double entry has taken place. It does not guarantee that the ledger is correct.

*The trial balance is a list of account balances prepared on a particular date, to help check the accuracy of the ledger.*

**ABC INDUSTRIES**

**Trial Balance as at 30 September 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| a Account No | Account | Debit | Credit |
| 1102 | Service fees revenue |  | 2 000 |
| 2421 | Wages and salaries | 1 000 |  |
| 3103 | Cash at bank | 192 000 |  |
| 3104.1 | M Johnson | 2 000 |  |
| 3303 | Motor vehicles | 35 000 |  |
| 4102.3 | ABC Ltd |  | 28 000 |
| 5101 | Capital |  | 200 000 |
|  |  | $230 000 | $230 000 |

1. Find and correct the errors in the following trial balance so that it balances.

**Kelly’s Water Cleaning Co**

**Trial Balance as at 31 July 201-**

|  |  |  |  |
| --- | --- | --- | --- |
| Ac No | Account | Debit | Credit |
| 1102 | Service revenue |  | 5000 |
| 2301 | Advertising |  | 100 |
| 3103 | Cash at bank | 18900 |  |
| 3104.1 | Accounts Receivable | 3000 |  |
| 3301 | Furniture |  | 2000 |
| 3303 | Motor Vehicle | 42000 |  |
| 4101.1 | Accounts Payable |  | 2000 |
| 4201 | Loan Bendigo Bank |  | 40000 |
| 5101 | Capital | 20000 |  |
| 5101A | Drawings | 1000 |  |
| Recalculate the totals | |  |  |

1. Indicate the type of balance (DR or CR) each account would have by completing the Trial Balance below. You are required to calculate the **total** for ***both*** columns.

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Balance** | **Trial Balance** | |
| **Debit** | **Credit** |
| Interest Received | 20000 |  |  |
| Wages | 8150 |  |  |
| Telephone Bill | 230 |  |  |
| Bank Overdraft | 268 |  |  |
| Accounts Payable | 412 |  |  |
| Delivery Van | 1300 |  |  |
| Buildings | 15000 |  |  |
| Drawings | 200 |  |  |
| Capital | 4200 |  |  |
|  |  |  |  |

1. Prepare the T Account Ledger and Trial Balance of **Smith’s Vehicle Repairs.**

|  |  |  |
| --- | --- | --- |
| June | 1 | Performed services on cars for $1 000 cash |
|  | 3 | Paid wages $1 500 |
|  | 4 | Purchased consumable supplies from Ampol Ltd on account $1 000 |
|  | 7 | Received rent for unused part of premises in cash $2 000 |
|  | 10 | Performed services on truck, $3 500 ($2 500 for cash, $1 000 on account to Jim’s Truckers) |
|  | 20 | Paid Ampol Ltd $1 000 |

1. Prepare the T Account Ledger and Trial Balance for **Amy Peffer.** **(Answer is $230 500)**

|  |  |
| --- | --- |
| Dec 1 | A Peffer contributed $24000 to the business |
| 5 | Purchased furniture $2400 cash |
| 9 | Borrowed money from Westpac $28000 |
| 15 | Purchased vehicle from Taylors Holden $18000 cash |
| 22 | Returned furniture and received cash refund $2400 |
| 24 | Purchased more suitable furniture $15000 for cash |
| 28 | A Peffer decided to contribute premises to the business $150000 |
| 30 | Bought equipment on credit from ABC Co $34000 and paid deposit $5500 |

1. Prepare the T Account Ledger and Trial Balance for D Lockyear.

July 1 Owner commenced business by introducing $10000 cash

2 Paid insurance by cheque $550

6 Purchased electrical equipment on credit from Thaiday Bros Co. for $6235

18 Cash sales of $348

1. Paid Thaiday Bros Co. in full settlement of account owing
2. Bought stationery using cheque $350

**Difficult question ahead!!**

You are given an incomplete ledger and are required to complete it by inserting any missing debit or credit entries.

**L Bailey**

**Ledger**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars | Fol | Amt | Date | Particulars | Fol | Amt |
| Service Fees Revenue 1102 | | | | | | | |
|  |  |  |  | Aug 1 | A Brown |  | 200 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Supplies Expense 2201 | | | | | | | |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Electricity 2407 | | | | | | | |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Cash at bank 3103 | | | | | | | |
| Aug 5 | Service Fees |  | 1000 | Aug 8 | Electricity |  | 100 |
|  |  |  |  | 12 | Supplies |  | 300 |
|  |  |  |  | 18 | J Smith |  | 25 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| A Brown 3104.1 | | | | | | | |
|  |  |  |  | Aug 15 | Cash |  | 200 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Supplies 3107 | | | | | | | |
| Aug 10 | J Smith |  | 50 | Aug 31 | Supplies Expense |  | 300 |
|  |  |  |  |  |  |  |  |
| J Smith 4101.1 | | | | | | | |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |