**Accounting for Transactions –Fundamentals (Part 1) - Week 2 Solutions**

*Q 3.6 Give an example of a transaction that results in:*

1. *An increase in one asset and an increase in a liability*
2. *A decrease in one asset but no change in the total assets*
3. *An increase in one asset and an increase in equity*
4. *A decrease in one asset and a decrease in a liability*
5. *A decrease in one asset and a decrease in equity*
6. *One asset increasing, one asset decreasing and one liability increasing*
7. *A decrease in equity and an increase in a liability*

(a) Purchase of stationery on credit from a supplier which would increase Stationery Supplies Inventory and increase Accounts Payable.

(b) Examples are purchase of supplies for cash and the collection of money from a customer who was part of accounts receivable.

(c) The owner contributing an asset to the business such as cash or equipment or land or buildings. Earning income would increase either cash at bank or accounts receivable and also increase income, which by definition is an increase in equity.

(d) Paying a supplier for goods or services purchased on credit would reduce cash at bank as well as the accounts payable.

(e) If the owner took cash from the business bank account this would reduce cash at bank and equity by increasing drawings. Paying cash for an expense incurred by the business would .reduce the asset cash at bank and reduce equity by increasing expenses which are defined as decreases in equity.

(f) Purchase of an asset (such as equipment or a building) in which a part payment is made and the balance of the purchase price is borrowed from a bank or finance company

(g) The incurrence of an expense on credit or which is not yet paid for e.g. wages expense and wages payable.

**Exercises**

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| **Exercise 3.2** |  | **Transaction analysis** |  |  |

*For each of the following transactions, indicate whether the accounts affected are an asset, a liability, an equity, an income or an expense. Also indicate whether the accounts are being increased or decreased and whether the increase or decrease is a debit or credit. Ignore GST.*

1. *Owner gave their personal computer to the business..*
2. *Employed a secretary*.
3. *Cash payment made for insurance 6 months in advance.*
4. *Purchased supplies on credit.*
5. *Paid a creditor using an electronic transfer.*
6. *Invoiced a customer for services performed.*
7. *Owner paid for their personal groceries using the business credit card.*
8. *Paid some cash and took out a loan to purchase office furniture.*
9. *Received cash from a customer that owed the business money.*
10. *Paid for an advertisement aired on television.*

1. Increase an asset (debit), increase equity (credit)

2. No transaction recorded.

3. Increase an asset (debit), decrease an asset (credit)

4. Increase an asset (debit), increase a liability (credit)

5. Decrease a liability (debit), decrease an asset (credit)

6. Increase an asset (debit), increase an income or revenue (credit)

7. Decrease equity (debit), increase a liability (credit)

8. Increase an asset (debit), decrease an asset (credit), increase a liability (credit)

9. Increase an asset (debit), decrease an asset (credit)

10. Increase an expense (debit), decrease an asset (credit).

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| **Exercise 3.3** |  | **Effects of transactions on financial position** |  |  |
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*The following transactions were undertaken by Massenburg Personnel Services during the month of February 2016. Ignore GST.*

*1. Invoiced a client for providing advice on current employment legislation, $2400.*

*2. Paid salaries to staff, $3600.*

*3. Paid an annual subscription for access to an online data base of employment legislation until the end of January 2017.*

*4. Received $6000 from a client for employing staff for them in January.*

*5. M. Massenburg invested a further $20 000 additional capital into the business to ensure it has sufficient cash to continue operations.*

*6. Purchased new office furniture and equipment on credit for $12 500.*

*7. Invoiced a client for $7000 for providing advice regarding an industrial dispute they had with their employees.*

*8. Paid $720 electricity account the day the account was received.*

*9. Paid the firm’s lawyers for an account received from them in December for receiving legal advice, $7100.*

*10. Paid for the equipment purchased in (6).*

*11. M. Massenburg withdrew $1200 from the business bank account for personal use.*

###### *Required*

*Indicate with the appropriate letter whether each of the transactions resulted in:*

*(a) an increase in assets and a decrease in assets*

*(b) an increase in assets and an increase in liabilities*

*(c) an increase in assets and an increase in equity*

*(d) a decrease in assets and a decrease in liabilities*

*(e) a decrease in assets and a decrease in equity*

*(f) an increase in liabilities and a decrease in equity*

*(g) an increase in equity and a decrease in liabilities.*

1. (c) increase in assets and an increase in equity

2. (e) a decrease in assets and a decrease in equity

3. (a) an increase in assets and a decrease in assets

4. (a) increase in assets and a decrease in assets,

5. (c) increase in assets and an increase in equity

6. (b) an increase in assets and an increase in liabilities

7. (c) increase in assets and an increase in equity

8. (e) a decrease in assets and a decrease in equity

9. (d) a decrease in assets and a decrease in liabilities

10. (d) a decrease in assets and a decrease in liabilities

11 (e) a decrease in assets and a decrease in equity

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| **Exercise 3.5** |  | **Recording transactions in general journal and** | | |  |  |
|  |  | **analysis** |  |  |  |  |

*The chart of accounts of Pellham Poster Printers contained the following accounts: Cash at Bank; Accounts Receivable; Equipment; Accounts Payable; K. Pellham, Drawings; Printing Fees; Salaries Expense and Advertising Expense. Ignore GST.*

*The following transactions occurred during the month of June:*

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|  | *June* | *1*  *5*  *9*  *14*  *18*  *22*  *30* |  | *K. Pellham withdrew $850 cash for personal use.*  *Purchased new equipment for $5000. Paid $500 deposit with the balance to be paid within 60 days.*  *Paid for advertising in the local newspaper, $510.*  *Paid $320 to creditors for office supplies that had been purchased on credit in the previous month.*  *Paid salaries of $970.*  *Received $500 from customers to reduce their account balances.*  *$12 000 in printing fees were due during the month. Of this, 20% of the fees were collected in cash and 80% will be paid within 60 days.* |  |

***Required***

*A. Prepare the general journal entries to record the transactions (ignore GST).*

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| **PELLHAM POSTER PRINTERS** | | | | |
| (ignoring GST)  DR CR | | | | |
| June | 1 | K. Pellham, Drawings | $850 |  |
|  |  | Cash at Bank |  | $850 |
|  |  | K. Pellham withdrew $850 for personal use. |  |  |
|  |  |  |  |  |
|  | 5 | Equipment | 5 000 |  |
|  |  | Cash at Bank |  | 500 |
|  |  | Accounts Payable |  | 4 500 |
|  |  | Purchased equipment for cash $500 and the balance payable in 60 days. |  |  |
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|  | 9 | Advertising Expense | 510 |  |
|  |  | Cash at Bank |  | 510 |
|  |  | Payment for newspaper advertisements. |  |  |
|  |  |  |  |  |
|  | 14 | Accounts Payable | 320 |  |
|  |  | Cash at Bank |  | 320 |
|  |  | Payment to suppliers. |  |  |
|  |  |  |  |  |
|  | 18 | Salaries Expense | 970 |  |
|  |  | Cash at Bank |  | 970 |
|  |  | Payment for newspaper advertisements. |  |  |
|  |  |  |  |  |
|  | 22 | Cash at Bank | 500 |  |
|  |  | Accounts Receivable |  | 500 |
|  |  | Cash receipts from credit customers. |  |  |
|  |  |  |  |  |
|  | 30 | Cash at Bank | 2 400 |  |
|  |  | Accounts Receivable | 9 600 |  |
|  |  | Printing Fees Revenue |  | 12 000 |
|  |  | Printing fees received and receivable. |  |  |

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| **Exercise 3.10** |  | **Recording transactions in general journal and general ledger** |  |  |

*In December 2016, the following transactions occurred in Macchiato’s Coffee Roasters business that supplies cafés and also sells direct to the public:*

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|  | *Dec.* | | *2* |  | *Michael Macchiato invested $2 650  000 into the business of Macchiato’s Coffee Roasters by purchasing a fully equipped coffee roasting business. The business acquired consisted of the following assets and liabilities:*  *Land $1 200 000*  *Building 1 000 000*  *Coffee roasting equipment 420 000*  *Office equipment 60 000*  *Accounts payable 30 000* |  |
|  |  | *5*  *6*  *12*  *14*  *18*  *23*  *30* | |  | *Purchased some new roasting equipment on credit for $160 000.*  *Collected cash from customers for the month, $220 000.*  *Paid the accounts payable owing on 2 December when Michael purchased the business.*  *Purchased an insurance policy for the year for $6000 cash.*  *Purchased television advertising for the Christmas — New Year period for $8000 to be paid for in 30 days.*  *Collected fees in cash from customers for the Christmas — New Year period, amounting to $46 000.*  *Michael withdrew $8000 cash in order to pay for private Christmas presents and parties.* |  |

***Required***

* + 1. *Prepare general journal entries for each of the above transactions and events.*
    2. *Post the entries to ledger T accounts and balance the accounts as at 31 December 2016.*

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| **MACCHIATO’S COFFEE ROASTERS (ignore GST)** | | | | |
| Dec. | 2 | Land | 1 200 000 |  |
|  |  | Building | 1 000 000 |  |
|  |  | Coffee Roasting Equipment | 420 000 |  |
|  |  | Office Equipment | 60 000 |  |
|  |  | Accounts Payable |  | 30 000 |
|  |  | Michael Macchiato, Capital |  | 2 650 000 |
|  |  | Assets and liabilities contributed by the owner |  |  |
|  |  |  |  |  |
|  | 5 | Coffee Roasting Equipment | 160 000 |  |
|  |  | Accounts Payable |  | 160 000 |
|  |  | Purchase of roasting equipment on credit |  |  |
|  |  |  |  |  |
|  | 6 | Cash at Bank | 220 000 |  |
|  |  | Coffee Sales |  | 220 000 |
|  |  | Cash received for coffee sales for December. |  |  |
|  |  |  |  |  |
|  | 12 | Accounts Payable | 30 000 |  |
|  |  | Cash at Bank |  | 30 000 |
|  |  | Cash paid for creditor for roasting equipment. |  |  |
|  |  |  |  |  |
|  | 14 | Prepaid Insurance | 6 000 |  |
|  |  | Cash at Bank |  | 6 000 |
|  |  | Cash paid in advance for insurance policy. |  |  |
|  |  |  |  |  |
|  | 18 | Advertising Expense\* | 8 000 |  |
|  |  | Accounts Payable |  | 8 000 |
|  |  | Advertising costs over the holiday period |  |  |
|  |  |  |  |  |
|  | 23 | Cash at Bank | 46 000 |  |
|  |  | Coffee Sales |  | 46 000 |
|  |  | Coffee sales received for the holiday period. |  |  |
|  |  |  |  |  |
|  | 30 | Michael Macchiato, Drawings | 8 000 |  |
|  |  | Cash at Bank |  | 8 000 |
|  |  | Cash withdrawn by owner |  |  |

\* Alternatively, debit Prepaid Advertising (asset), as not all of the expense applies to the month of December.

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| **Cash at Bank** | | | | | |  |
| Dec 6 | Coffee Sales | 220 000 | Dec 12 | Accounts Payable | 30 000 | | |
| 23 | Coffee Sales | 46 000 | 14 | Prepaid Insurance | 6 000 | | |
|  |  |  |  |  |  | | |
|  |  |  | 30 | Michael Macchiato, Drawings | 8 000 | | |
|  |  |  | 31 | Balance c/d | 222 000 | | |
|  |  | 266 000 |  |  | 266 000 | | |
| 31 | Balance c/d | 222 000 |  |  |  | | |

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| **Land** | | | | | |  |
| Dec 2 | Macchiato, Capital | 1 200 000 |  |  |  | | |
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| **Building** | | | | | |  |
| Dec 2 | Macchiato, Capital | 1 000 000 |  |  |  | | |
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| **Coffee Roasting Equipment** | | | | | |  |
| Dec 2 | Macchiato, Capital | 420 000 |  |  |  | | |
| 5 | Accounts Payable | 160 000 | Dec 31 | Balance c/d | 580 000 | | |
|  |  | 580 000 |  |  | 580 000 | | |
| 31 | Balance b/d | 580 000 |  |  |  | | |
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| **Office Equipment** | | | | | |  |
| Dec 1 | Michael Macchiato, Capital | 60 000 |  |  |  | | |
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| **Prepaid Insurance** | | | | | |  |
| Dec 14 | Cash at Bank | 6 000 |  |  |  | | |
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| **Accounts Payable** | | | | | |  |
| Dec 12 | Cash at Bank | 30 000 | Dec 2 | Macchiato, Capital | 30 000 | | |
| 31 | Balance c/d | 168 000 | 5 | Coffee Roasting Equipment | 160 000 | | |
|  |  |  | 18 | Advertising Expense | 8 000 | | |
|  |  | 198 000 |  |  | 198 000 | | |
|  |  |  | Dec 31 | Balance b/d | 168 000 | | |
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| **Michael Macchiato, Capital** | | | | | |  |
|  |  |  | Dec 2 | Various Assets and Acc’s payable | 2 650 000 | | |
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| **Michael Macchiato, Drawings** | | | | | |  |
| Dec 30 | Cash at Bank | 8 000 |  |  |  | | |
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| **Coffee Sales** | | | | |  |
|  |  |  | Dec 6 | Cash at Bank | 220 000 | |
| Dec 31 | Balance c/d | 266 000 | 23 | Cash at Bank | 46 000 | |
|  |  | 266 000 |  |  | 266 000 | |
|  |  |  | 31 | Balance b/d | 266 000 | |

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| **Advertising Expense** | | | | | |  |
| Dec 18 | Cash at Bank | 8 000 |  |  |  | | |
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