**Accounting for Transactions –Fundamentals (Part 2) - Week 3 Solutions**

**Discussion Questions**

*Q 8. Explain the fact that errors can exist even though the sum of the debit account balances may equal the sum of the credit account balances in the trial balance.*

Many errors do not affect the equality of debits and credits. Examples are an entry posted twice, or not at all, a debit or credit posted to the wrong account, or the wrong amount posted to both accounts.

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| **Exercise 3.7** |  | **Chart of accounts, posting to T accounts and** |  |  |
|  |  | **trial balance** |  |  |

*The general journal of Lenore Grunweld, Property Adviser, contained the entries below for the month of July 2016. GST is ignored.*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  |
|  | General Journal | | | | |  |
|  | Date | Particulars | Post Ref | Debit | Credit |  |
|  | 2016 |  |  |  |  |  |
|  | July 1 | Cash at Bank  Lenore Grunweld, Capital  (Cash invested by owner) |  | 150 000 | 150 000 |  |
|  | 9 | Cash at Bank  Service Fees Revenue  (Fees for services performed) |  | 15 000 | 15 000 |  |
|  | 16 | Office Equipment  Cash at Bank  Accounts Payable  (Office equipment for cash and on credit) |  | 32 000 | 3 200  28 800 |  |
|  | 22 | Service Fees Receivable  Service Fees Revenue  (Services performed on credit) |  | 25 000 | 25 000 |  |
|  | 31 | Cash at Bank  Service Fees Receivable  (Cash received from client) |  | 10 000 | 10 000 |  |
|  |  |  |  |  | |  |

***Required***

*A. Post the transactions to T accounts. The chart of accounts for the business included the following accounts:*

*Cash at Bank 1 – 100*

*Service Fees Receivable 1 – 200*

*Office Equipment 1 – 300*

*Accounts Payable 2 – 100*

*Lenore Grunweld, Capital 3 – 100*

*Service Fees Revenue 4 – 100*

*B. Prepare a trial balance of the general ledger of Lenore Grunweld, Property Adviser as at 31 July 2016.*

A.

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| **Cash at Bank** | | | | | | **1-100** |
| July 1 | Lenore Grunweld, Capital | $150 000 | July 16 | Office Equipment | $3 200 | | |
| July 9 | Service Fees | 15 000 | July 31 | Balance c/d | 171 800 | | |
| July 31 | Service Fees Receivable | 10 000 |  |  |  | | |
|  |  | 175 000 |  |  | 175 000 | | |
| July 31 | Balance b/d | 171 800 |  |  |  | | |

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| **Service Fees Receivable** | | | | | | **1-200** |
| July 22 | Service Fees Revenue | $25 000 | July 31 | Cash at Bank | $10 000 | | |
|  |  |  | July 31 | Balance c/d | 15 000 | | |
|  |  | 25 000 |  |  | 25 000 | | |
| July 31 | Balance b/d | 15 000 |  |  |  | | |

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| **Office Equipment** | | | | | | **1-300** |
| July 16 | Cash at Bank/Accounts Payable | $32 000 |  |  |  | | |

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| **Accounts Payable** | | | | | | **2-100** |
|  |  |  | July 16 | Office Equipment | $28 800 | | |
|  |  |  |  |  |  | | |

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| **Lenore Grunweld, Capital** | | | | | | **3-100** |
|  |  |  | July 1 | Cash at Bank | $150 000 | | |
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| **Service Fees Revenue** | | | | | **4-100** |
|  |  |  | July 9 | Cash at Bank | $15 000 | |
| July 31 | Balance c/d | 40 000 | July 22 | Serv. Fees Rec’ble | 25 000 | |
|  |  | 40 000 |  |  | 40 000 | |
|  |  |  | July 31 | Balance b/d | 40 000 | |

B.

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| **LENORE GRUNWELD, FINANCIAL ADVISER**  **Trial Balance**  **as at 31 July 2016** | | | |
| **Account** | **Account No.** | **Debit** | **Credit** |
| Cash at Bank | 1-100 | $171 800 |  |
| Service Fees Receivable | 1-200 | 15 000 |  |
| Office Equipment | 1-300 | 32 000 |  |
| Accounts Payable | 2-100 |  | $28 800 |
| Lenore Grunweld, Capital | 3-100 |  | 150 000 |
| Service Fees Revenue | 4-100 |  | 40 000 |
|  |  | $218 800 | $218 800 |
|  |  |  |  |

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| **Problem 3.9** |  | **Journal entries, T accounts and trial balance** |

*On 1 April 2015, Kenny’s Equipment Hire opened for operations. Kenny Kowslowski contributed the capital of the business of $720 000 cash. He has asked you to be record-keeper for the business on a part-time basis, and you initially establish the need for the following accounts (and numbers). Additional accounts may need to be added in the near future. GST is ignored.*

|  |  |
| --- | --- |
| *Cash at Bank*  *Accounts Receivable*  *Land*  *Building*  *Motor Vehicles*  *Hire Equipment*  *Accounts Payable*  *Mortgage Payable*  *Kenny Kowslowski, Capital*  *Kenny Kowslowski, Drawings*  *Equipment Hire Income* | *100*  *110*  *120*  *130*  *150*  *170*  *220*  *250*  *300*  *310*  *320* |
|  |  |

*During April the following transactions were undertaken by the business, including the initial investment by the owner:*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *April* | *1*  *2*  *4*  *7* |  | *Kenny Kowslowski contributed $720 000 to the business.*  *The business acquired land for $300 000 and a building on the land for $160 000. A cash payment of $100 000 was made and a mortgage loan with the Bank of Australia was arranged for the balance owing.*  *Purchased gardening, maintenance and repair equipment to hire out to customers for $450 000 from General Equipment Manufacturers. The business paid $200 000 cash, and the remainder was due to be paid in 30 days.*  *A garden mulcher was transferred from the business to the owner, Kenny Kowslowski, for cost price of $2500.* |  |
|  |  | *10*  *13*  *28*  *29*  *30* |  | *A trailer was found to be defective, and the business returned it to General Equipment Manufacturers. The amount due to the creditor was reduced by $12 000.*  *The business acquired some computer equipment for the main office at a total cost of $8200, paid in cash.*  *Equipment hire income of $21 600 was received in cash.*  *Paid the remaining cash owing to General Equipment Manufacturers.*  *The business paid wages of $2200 to you for keeping the accounts.*  *Equipment hire income of $14 400 was received in cash and an additional $6000 remained owing by clients.* |  |

***Required***

1. *Prepare general journal entries for the business for the month of April.*
2. *Post these entries to appropriate T accounts and determine their balances.*
3. *Provide an analysis for each transaction to explain each entry you have made in A..*

A.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| April | 1 | Cash at Bank | 100 | 720 000 |  |
|  |  | Kenny Kowslowski, Capital | 300 |  | 720 000 |
|  |  | Cash invested by owner. |  |  |  |
|  |  |  |  |  |  |
|  | 2 | Land | 120 | 300 000 |  |
|  |  | Building | 130 | 160 000 |  |
|  |  | Mortgage Payable | 250 |  | 360 000 |
|  |  | Cash at Bank | 100 |  | 100 000 |
|  |  | Land and buildings acquired for cash and under mortgage. |  |  |  |
|  |  |  |  |  |  |
|  | 4 | Hire Equipment | 150 | 450 000 |  |
|  |  | Cash at Bank | 100 |  | 200 000 |
|  |  | Accounts Payable | 220 |  | 250 000 |
|  |  | Equipment purchased for cash and on credit. |  |  |  |
|  |  |  |  |  |  |
|  | 7 | Kenny Kowslowski, Drawings | 310 | 2 500 |  |
|  |  | Hire Equipment | 150 |  | 2 500 |
|  |  | Equipment withdrawn by owner. |  |  |  |
|  |  |  |  |  |  |
|  | 10 | Accounts Payable | 220 | 12 000 |  |
|  |  | Hire Equipment | 100 |  | 12 000 |
|  |  | Equipment returned to supplier. |  |  |  |
|  |  |  |  |  |  |
|  | 13 | Office Equipment | 170 | 8 200 |  |
|  |  | Cash at Bank | 100 |  | 8 200 |
|  |  | Acquisition of computer equipment. |  |  |  |
|  |  |  |  |  |  |

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|  | 28 | Cash at Bank | 100 | 21 600 |  |
|  |  | Equipment Hire Income | 320 |  | 21 600 |
|  |  | Hire income received from customers. |  |  |  |
|  |  |  |  |  |  |
|  | 29 | Accounts Payable | 220 | 238 000 |  |
|  |  | Cash at Bank | 100 |  | 238 000 |
|  |  | Payment to equipment supplier |  |  |  |
|  |  |  |  |  |  |
|  | 30 | Wages Expense | 420 | 2 200 |  |
|  |  | Cash at Bank | 100 |  | 2 200 |
|  |  | Payment of wages |  |  |  |
|  |  |  |  |  |  |
|  | 30 | Cash at Bank | 100 | 14 400 |  |
|  |  | Accounts Receivable | 110 | 6 000 |  |
|  |  | Equipment Hire Income | 320 |  | 20 400 |
|  |  | Rental income received and receivable |  |  |  |
|  |  |  |  |  |  |

B.

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| **Cash at Bank** | | | | | | **100** |
| Apr 2 | K. Kowslowski, Capital | 720 000 | Apr 2 | Land, Building | 100 000 | | |
| 28 | Equip Hire Income | 21 600 | 4 | Hire Equipment | 200 000 | | |
| 30 | Equip Hire Income | 14 400 | 13 | Office Equipment | 8 200 | | |
|  |  |  | 29 | Accounts Payable | 238 000 | | |
|  |  |  | 30 | Wages Expense | 2200 | | |
|  |  |  | 30 | Balance c/d | 207 600 | | |
|  |  | 756 000 |  |  | 756 000 | | |
| May 1 | Balance b/d | 207600 |  |  |  | | |

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| **Accounts Receivable** | | | | | | **110** |
| Apr 30 | Equip Hire Income | 6000 |  |  |  | | |
|  |  |  |  |  |  | | |

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| **Land** | | | | | | **120** |
| Apr 2 | Cash and Mortgage Payable | 300 000 |  |  |  | | |

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| **Building** | | | | | | **130** |
| Apr 2 | Cash and Mortgage Payable | 160 000 |  |  |  | | |

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| **Hire Equipment** | | | | | | **150** |
| Apr 4 | Cash and Accounts Payable | 450 000 | Apr 7 | K. Kowslowski, Drawings | 2 500 | | |
|  |  |  | 10 | Accounts Payable | 12 000 | | |
|  |  |  | 30 | Balance c/d | 435 500 | | |
|  |  | 450 000 |  |  | 450 000 | | |
| 30 | Balance b/d | 435 500 |  |  |  | | |

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| **Office Equipment** | | | | | | **170** |
| Apr 13 | Cash at Bank | 8 200 |  |  |  | | |
|  |  |  |  |  |  | | |

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| **Accounts Payable** | | | | | | **220** |
| Apr 10 | Hire Equipment | 12 000 | Apr 4 | Hire Equipment | 250 000 | | |
| 29 | Cash at Bank | 238 000 |  |  |  | | |
|  |  |  |  |  |  | | |
|  |  | 250 000 |  |  | 250 000 | | |
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| **Mortgage Payable** | | | | | | **250** |
|  |  |  | Apr 2 | Land, Building | 360 000 | | |
|  |  |  |  |  |  | | |

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| --- | --- | --- | --- | --- | --- | --- |
| **Kenny Kowslowski, Capital** | | | | | | **300** |
|  |  |  | Apr 1 | Cash at Bank | 720 000 | | |
|  |  |  |  |  |  | | |

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| **Kenny Kowslowski, Drawings** | | | | | | **310** |
| Apr 7 | Hire Equipment | 2 500 |  |  |  | | |
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| **Equipment Hire Income** | | | | | **320** |
|  |  |  | Apr 28 | Cash at Bank | 21 600 | |
|  |  |  | 30 | Cash at Bank and Accounts Receivable | 20 400 | |
| Apr 30 | Balance c/d | 42 000 |  |  |  | |
|  |  | 42 000 |  |  | 42 000 | |
|  |  |  | Apr 30 | Balance b/d | 42 000 | |

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| --- | --- | --- | --- | --- | --- | --- |
| **Wages Expense** | | | | | | **420** |
| Apr 30 | Cash at Bank | 2 200 |  |  |  | | |
|  |  |  |  |  |  | | |