

FNDB020 Accounting

Student Workbook

# Week 3: General Ledger

& Trial Balance

Updated February 2018

# FNDB020 Lecture Week 3: The Accounting Cycle

## The Accounting cycle

Note (or Draw) the accounting cycle from the slide 7

## Review the rules for debits and credits (slide 6)

## General Journal

* Analyse the transaction. Note effect on A = L + OE (+ income - expense)
* Transactions are recorded in chronological order in the Journal
* For each transaction the journal shows the debit and credit effects on each specific account.
* Narration or brief description is recorded to explain the entry
* Posted (or transferred) to the individual ledger accounts

Example of 1 entry in the General Journal for M Jones Business: Owner invests $50,000 cash into the business to commence operations

Transaction analysis table

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Owners Equity (+ income – Expense) |
|  | Cash At Bank + 50,000 Debit |  | Capital + 50,000 Credit |

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Details (Account names) | Debit | Credit |
| 1/4/2018 | Cash At Bank | 50,000 |  |
|  | Mark Jones , Capital |  | 50,000 |
|  | ( investment from Mark Jones) |  |  |

## Justin’s Studio: Transaction Analysis, General Journal & Ledger

Justin is starting up his business, Justin’s Hair Studio. For the following events, analyse each transaction and how it affects the assets, liabilities and equity in the accounting equation.

1. **Complete** the transaction analysis table (below)
2. Write the **general journal** entries that reflect the transaction (event)

|  |  |
| --- | --- |
| Event | Transaction |
| 1/4/2018 | Justin paid $100,000 cash to invest into his new hair studio business. |
| 2/4/2018 | He starts off by buying 3 barber chairs at $1,000 each and paid 20% deposit on the date of purchase. He agreed to pay the balance at a later date (he owes creditors). |
| 3/4/2018 | He paid for 35 pairs of cutting scissors at $50 each. |
| 4/4/2018 | Purchases 15 blow dryers at $100 each from his friend Bob. At  delivery, Bob agrees that Justin can make the payment 3 months later. |
| 10/4/2018 | Justin subscribed for a professional hairdressing magazine for one year. He paid the annual fee ($120). |
| 11/4 | Justin subscribed for a 1-year professional hairdressing magazine. He paid the annual fee ($120) in advance. |
| 12/4/2018 | Justin borrowed $5,000 from the Commonwealth Bank for his hair studio. |

**Analyse the transactions.**

Transaction analysis table

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Owner’s Equity (+ income – Expense) |
| 1/4 |  |  |  |
| 2/4 |  |  |  |
| 3/4 |  |  |  |
| 4/4 |  |  |  |
| 10/4 |  |  |  |
| 11/4 |  |  |  |
| 12/4 |  |  |  |

* General Journal Sheet: (exam format)

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Details | Debit | Credit |
|  | **Cash At Bank** |  |  |
|  | **Justin, Capital** |  |  |
|  | **(Received investment from owner)** |  |  |
|  |  |  |  |
|  | **Furniture & Fittings** |  |  |
|  | **Cash At Bank** |  |  |
|  | **Accounts Payable** |  |  |
|  | **(Purchased barber chairs)** |  |  |
|  |  |  |  |
|  | **Studio Equipment** |  |  |
|  | **Cash At Bank** |  |  |
|  | **(Purchased tools - cutting scissors)** |  |  |
|  |  |  |  |
|  | **Studio Equipment** |  |  |
|  | **Accounts Payable** |  |  |
|  | **(Purchased tools - hair dryers)** |  |  |
|  |  |  |  |
|  | **Prepaid Subscription** |  |  |
|  | **Cash at Bank** |  |  |
|  | **(1- year Magazine subscription)** |  |  |
|  |  |  |  |
|  | **Cash at Bank** |  |  |
|  | **Loans Payable** |  |  |
|  | **(Commonwealth Bank loan)** |  |  |
|  |  |  |  |
|  |  |  |  |

1. check the solution on the PPT slide 10 to 19
2. Post entries to the ledger see PPT slides 24 to 30

* General Ledger: (exam format)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Cash At Bank** | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | **Prepaid Subscription** | | | | | | | |
|  |
|  | **Furniture & Fittings** | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | **Studio Equipment** | | | | | | | |
|  |
|  | **Accounts Payable** | | | | | | | |
|  |
|  | **Loans Payable** | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  | **Justin,Capital** | | | | | | | |
|  |  |  |  |  |  |  |  |  |

## What about income and expense transactions?

The business will have numerous transactions that involve the earning of income and the payment of expenses over its operating life.

With Justin’s Hairdressing business how does he earn income for the business?



What are some typical expenses he will incur each week or month?



## Apply your learning. Some simple transactions involving all 5 elements.

1/5 Owner Jack invested $50,000 cash and a vehicle worth $20,000 into his “Geelong Cleaning” business

2/5 Purchase for cash cleaning equipment for $10,000

3/5 A customer paid Justin $200 for cleaning their house

4/5 Justin paid rent on a warehouse to store equipment of $500 for the month

5/5 Justin paid for the electricity account which was $120 for the month

6/5 A customer had $300 cleaning and has agreed to pay in 1 month.

7/5 Purchased a vacuum cleaner for $1000 on credit from Harvey Norman

Transaction analysis table

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Owner’s Equity (+ income – Expense) |
| 1/5 |  |  |  |
| 2/5 |  |  |  |
| 3/5 |  |  |  |
| 4/5 |  |  |  |
| 5/5 |  |  |  |
| 6/5 |  |  |  |
| 7/5 |  |  |  |

General Journal

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Details | Debit | Credit |
|  |  |  |  |
|  |  |  |  |
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## What is a Trial Balance?



Limitations include:



## Complete the Trial Balance for Jack’s Geelong Cleaning

|  |  |  |
| --- | --- | --- |
| Account names | Debit | Credit |
| Cash at Bank |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Total |  |  |

## Extension work. Do a simple Income Statement and Balance Sheet for Jack.



## Tutorial Week 3

*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.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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 2018. GST is ignored.*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  |
|  | General Journal | | | | |  |
|  | Date | Particulars | Post Ref | Debit | Credit |  |
|  | 2018 |  |  |  |  |  |
|  | 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 |  |

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 201

|  |  |  |
| --- | --- | --- |
| **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  Ken Kowslowski, Capital  Ken 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. |  |

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..