**RECORDING BUSINESS TRANSACTIONS**

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# Part A

## Advantages and disadvantages of each type of business

*Sole-trader ship advantages*

* **Complete control**

In a solo trader ship business, the owner can get full control without having any shareholders or directors in the equation (Phillipson *et al.*, 2019). In addition to this, the freedom of making choices and decisions can also be obtained while doing this kind of business.

* **Simple registration**

The registration process for this type of business is very simple along with its legal requirements. The only registration that a sole trader needs to do is to be registered as self-employed for tax purposes.

* **Financially rewarding**

Based on the fact that a sole trader ship does not require any other owners in order to do a business or to share the profit, it is considered to be more financially rewarding than other forms of business (Cribb *et al*., 2019).

* **Fewer tax responsibilities**

In sole trader ship, tax responsibilities are relatively straight forward and there is no existence of paying corporation tax based on the fact that the business is not incorporated. Additionally, sole traders need to submit the self-assessment tax return on an annual basis.

*Disadvantages*

* **Unlimited liabilities**

Liability issues are considered to be the biggest challenge of doing sole trader ship business which means being responsible for any kind of debts and losses for doing business (Travis, 2019). In times of financial difficulties, personal assets can also be at risk.

* **Sole responsibility**

Although, Having full control of the business is considered to be the biggest advantage, on the other hand being responsible and accountable for everything can taken to be a significant issue.

*Partnership-advantages*

* **Less formal with fewer legal obligations**

The accounting process is simpler in this business, where a partnership tax return needs to be submitted.

* **Access to knowledge and skills**

Each partner is able to bring new knowledge and expertise that can provide a better chance of being successful.

* **Better decision making**

In comparison to sole trader ship, this type of business can be benefitted from the unique perspectives of partners that can enhance the decision-making process (MacDonald *et al*., 2022).

* **Privacy**

In comparison to limited organisations, the activities of partnership businesses have the ability to maintain confidentiality.

*Disadvantages*

* **Limited access to capital**

It becomes quite difficult for the partnership business the process of raising money in comparison to a limited company.

* **Conflict development**

Conflict issues are known to be one of the biggest challenges for partnerships business and each of the partners needs to demonstrate compromise and flexibility.

* **Unlimited liability**

Based on the fact that these businesses do not have separate legal personalities, all the partners are liable for losses and debts personally.

## Identification of 5 steps to starting a new business

1. Conducting market research and writing a business plan.
2. Funding the business and choosing a structure.
3. Selection of the business name
4. Doing registration of the business.
5. Getting state and federal tax IDs.

# Part B

# 1. Journal Entries

In the books of Kavan

**Journal Entries for the year ended March 2021**

| **Date** | **Particulars** | **Amount**  **Dr. (£)** | **Amount**  **Cr. (£)** |
| --- | --- | --- | --- |
| 1/3 | Purchase A/c | 60000 |  |
|  | To Y and Co. A/c |  | 60000 |
|  | (Being goods worth £60000 purchased  from Y and Co on credit) |  |  |
| 2/3 | D and Co. A/c | 30000 |  |
|  | To Sales A/c |  | 30000 |
|  | (Being goods worth £30000 sold to D  and Co. on credit) |  |  |
| 3/3 | Y and Co. A/c | 58000 |  |
|  | To Bank A/c |  | 58000 |
|  | (Being payment made to Y and Co through  bank) |  |  |
| 4/3 | Bills Receivable A/c | 30000 |  |
|  | To D and Co. |  | 30000 |
|  | (Being bills accepted by D and Co worth £30000) |  |  |
| 5/3 | L A/c | 20000 |  |
|  | To Sales A/c |  | 20000 |
|  | (Being credit sales performed to L worth £20000) |  |  |
| 06/03 | M A/c | 40000 |  |
|  | To Sales A/c |  | 40000 |
|  | (Being goods sold to M worth £40000 on credit) |  |  |
| 07/03 | Bank A/c | 39000 |  |
|  | To M A/c |  | 39000 |
|  | (Being cheque received from M and deposited  to the bank) |  |  |
| 8/3 | Y and Co. A/c | 2000 |  |
|  | To Purchase Return A/c |  | 2000 |
|  | (Being goods returned to Y and Co. worth £2000) |  |  |
| 9/3 | Cash A/c | 18000 |  |
|  | Bad debt A/c | 2000 |  |
|  | To L A/c |  | 20000 |
|  | (Being L became insolvent and £18000 is  received as final settlement) |  |  |
| 10/3 | Sales Return A/c | 1000 |  |
|  | To M A/c |  | 1000 |
|  | (Being goods returned by M worth £1000) |  |  |

**Table 1: Journal entries**

(Source: Created by self)

**2. Trial Balance**

## a. Trial Balance preparation

In the books of ABC

**Trial Balance as of 31st August 2021**

| **Particulars** | **Debit Balance** | **Credit Balance** |
| --- | --- | --- |
| Sales |  | 41700 |
| Purchases | 34680 |  |
| Receivables | 6,790 |  |
| Payables |  | 5650 |
| General expenses | 12,760 |  |
| Loan |  | 10,000 |
| Plant and Machinery | 5,000 |  |
| Motor Van | 6,000 |  |
| Drawings | 2,000 |  |
| Rent and rates | 6,700 |  |
| Insurance | 4,000 |  |
| Capital |  | 20000 |
| Bank Overdraft |  | 580 |
| **Total** | **77930** | **77930** |

## b. Benefits and Limitations of Trial balance

The trial balance is a financial statement which is used for the purpose of listing the debit and credit balances that are derived from a ledge account. The trial balance also includes the balances of cash and bank that are taken from the books of accounts. The trial balance has the following benefits and limitations for its use in a business organisation

The benefits of the trial balance are as follows:

* The financial statement allows the summarisation of transactions that take place in a business organisation and provides a consolidated ledger balance (Murdihardjo *et al*. 2020)
* The trial balance is considered one of the shortest methods which are used for the purpose of verifying accuracies of the transaction
* One of the core instruments for the development of the final account is the statement of trial balance which provides the data for the preparation of trading accounts and profit/loss accounts.

The limitations of the trial balances are as follows:

* The trial balance is prepared where the financial statements and accounting are followed through a double-entry system.
* Even though arithmetical accuracies are projected by the trial balances, specific errors in the books of accounts are hidden from the trial balance.

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