



Q10. Bobby opened a consulting firm and completed these transactions during November, 2005:

- (a) Invested Rs 4,00,000 cash and office equipment with Rs 1,50,000 in a business called Bobbie Consulting.
- (b) Purchased land and a small office building. The land was worth Rs 1,50,000 and the building worth Rs 3,50,000. The purchase price was paid with Rs 2,00,000 cash and a long term note payable for Rs 8,00,000.
- (c) Purchased office supplies on credit for Rs 12,000.
- (d) Bobbie transferred title of motor car to the business. The motor car was worth Rs 90,000.
- (e) Purchased for Rs 30,000 additional office equipment on credit.
- (f) Paid Rs 75,00 salary to the office manager.
- (g) Provided services to a client and collected Rs 30,000
- (h) Paid Rs 4,000 for the month's utilities.
- (i) Paid supplier created in transaction (c).
- (j) Purchase new office equipment by paying Rs 93,000 cash and trading in old equipment with a recorded cost of Rs 7,000.
- (k) Completed services of a client for Rs 26,000. This amount is to be paid within 30 days.
- (l) Received Rs 19,000 payment from the client created in transaction (k).
- (m) Bobby withdrew Rs 20,000 from the business.

Analyse the above stated transactions and open the following T-accounts:

Cash, client, office supplies, motor car, building, land, long term payables, capital, withdrawals, salary, expense and utilities expense.

Answer :

a) The transaction (a) increases assets by Rs 5,50,000 (cash Rs 4,00,000 and office equipment Rs 1,50,000) it will be debited and on the other hand it will increase the capital by Rs 5,50,000, so it will be credited in capital account.

Office Equipment Account		Capital Account			
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
(a) Rs 4,00,000		(a) Rs 1,50,000			(a) Rs 4,00,000
					(a) Rs 1,50,000

b)

Purchase of land and small office building are assets. On one hand, the purchase of these items will increase their individual accounts and this will increase the total amount of the assets in the business; so, both the accounts will be debited. On the other hand, payment in cash on the purchase of these assets will decrease the cash balance, so cash account will be credited to the extent of amount paid. After payment for building in cash, the balance of building account will be transferred to creditors for building account. This will increase the amount of the creditors, which in turn will increase the total liabilities of the business. Long term payables are regarded as loan to the business that will increase both cash balance (due to intake of loan) as well as liabilities of the business.

Land Account	
Dr.	Cr.
(b) Rs 1,50,000	

Building Account	
Dr.	Cr.
(b) Rs 3,50,000	

Cash Account	
Dr.	Cr.
(a) Rs 4,00,000	(b) Rs 1,50,000
(b) Rs 8,00,000	(b) Rs 50,000

Long Term Payable Account	
Dr.	Cr.
	(b) Rs 8,00,000

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