

Use the following examples to complete the questions 12.2 - 12.5

## Examples

**Figure 12.5 Worksheet approach: transactions and the two-fold effect on a trading business**

Transaction	Assets			Liabilities		Owner's equity
	Cash at bank	Stock	Debtors	Creditors	GST debt	Capital
Jul 1. Owner deposited \$40 000 to commence business	+\$40 000					+\$40 000
Jul 1. Bought stock for cash for \$1000, plus GST \$100	-\$1 100	+\$1 000			-\$100	
Jul 2. Bought stock on credit for \$2000, plus GST \$200		+\$2 000		+\$2 200	-\$200	
Jul 3. Sold goods for cash \$2500, plus \$250 GST (cost price of \$1 200)	+\$2 750	-\$1 200			+\$250	+\$1 300
Jul 4. Sold goods on credit for \$1200, plus \$120 GST (cost price \$500)		-\$500	+\$1 320		+\$120	+\$700
Jul 5. Paid creditors \$600 of amount owing	-\$600			-\$600		
Jul 6. Received \$200 from debtors	+\$200		-\$200			
Final results after transactions	\$41 250	\$1 300	\$1 120	\$1 600	\$70	\$42 000

The final results from the worksheet prepared above can then be presented in a balance sheet in the usual fashion, as shown below:

<b>City Traders: balance sheet as at 6 July 2015</b>		
<i>Assets</i>	\$	
Cash at bank	41 250	
Stock	1 300	
Debtors	1 120	
	<u>43 670</u>	
		\$
<i>Liabilities</i>		\$
Creditor	1 600	
GST debt	<u>70</u>	1 670
<i>Owner's equity</i>		
Capital		42 000
		<u>43 670</u>

**[ Exercise 12.2 ]**

Diamond Valley Landscaping Services is a small business that offers its services to both commercial and domestic clients. It is owned and managed by Michelle King and has been in business for several reporting periods. King uses the accrual method of accounting and she recognises GST at the time services are provided. On 31 July 2015 the balance sheet prepared for this business showed the following values: Cash at bank \$1 200, Vehicle \$25 000, Equipment \$5 200, Debtors \$800, Creditors \$400, GST liability \$1 200, Loan \$4 400, Capital \$26 200.

During the first week of August the following events occurred:

- Aug 1 Charged debtors \$400, plus \$40 GST
- 2 Received cash fees from clients amounting to \$800, plus GST \$80 and paid petrol expenses of \$100, plus GST of \$10
- 3 Paid \$600 off the business loan
- 4 Purchased new equipment on credit to the value of \$1500, plus GST of \$150
- 5 Charged a commercial client \$1000 for services, plus GST of \$100 provided and paid wages of \$400
- 6 Received cash fees of \$400, plus \$40 GST and paid advertising \$200, plus \$20 GST
- 7 Paid creditors \$400 on account

- a Prepare a worksheet to show the two-fold effect of each of the above transactions. Use the headings in the list of opening balances. (Hint: make sure you include the opening balances at the top of the worksheet.)
- b Using the final results of your worksheet from part a above, prepare a balance sheet as at 7 August 2015.

**[ Exercise 12.3 ]**

Darryl Holland has decided to open a new business trading under the name Dutchy's Paints & Wallpapers. He aims to make a profit through buying and selling a range of paints, wallpapers and assorted accessories. Holland uses the accrual method of recognising GST. The following events took place in the early stages of his business:

- Sep 1 Holland contributed cash of \$30 000 and a vehicle valued at \$20 000 to start the business
- 2 Took out a loan from Mutual Finances for \$10 000
- 3 Purchased display equipment for \$15 000 cash, plus GST of \$1 500
- 4 Bought stock for \$18 000 C.O.D., plus \$1 800 GST
- 5 Purchased stock on credit for \$12 000 from Paints 'R' Us (plus GST of \$1 200)
- 6 Sold goods for \$2 000 cash, plus \$200 GST (cost price of goods sold \$800)
- 7 Sold goods for \$1 000 on credit, plus \$100 GST (cost price of goods sold \$500)
- 8 Repaid \$200 to Mutual Finances
- 9 Sold goods for \$600 cash plus \$60 GST (cost price \$300) and paid \$100 for office expenses, plus \$10 GST
- 10 Collected \$300 from debtors

- a Prepare a worksheet to show the two-fold effect of each transaction listed above and use the results to prepare a balance sheet as at 10 September 2015.
- b What source documents would be used by Holland in relation to the transactions on the following dates: 4, 5, 6 and 7 September?

**[ Exercise 12.4 ]**

Chapel Street Furniture is a retail store owned by Laura Magill. The business has traded successfully for three years and its most recent balance sheet (prepared 30/6/15) included the following dollar values: Cash at bank \$13 200, Debtors \$4 200, Stock \$48 000, Office furniture \$6 000, Creditors \$12 000 and GST liability \$1 300.

The transactions listed below occurred during July 2015:

- Jul 1 Bought stock on credit for \$5 000, plus \$500 GST
- 2 Received \$2 200 cash from debtors on account
- 3 Sold furniture for \$3 000 cash, plus \$300 GST (cost of sale \$1 400)
- 4 Magill withdrew stock for personal use. The stock cost \$2 000
- 5 Paid creditors \$4 000
- 6 Sold furniture on credit for \$6 000, plus \$600 GST (cost of sale \$2 900)
- 7 Paid weekly wages of \$500 to assistant
- 8 Magill contributed an additional \$5 000 cash to the business
- 9 Borrowed \$6 000 from the National Bank
- 10 Cash sale of \$3 000, plus \$300 GST (cost price \$1 600) and paid for cleaning of shop \$100, plus \$10 GST
- 11 Purchased stock for cash \$2 900, plus \$290 GST
- 12 Paid for telephone expenses \$150, plus \$15 GST
- 13 Bought a second-hand delivery van for \$19 000
- 14 Credit sale of \$5 000, plus \$500 GST (cost price \$2 600) and paid wages of \$500

- a Complete a worksheet to show the two-fold effect of all transactions listed above.
- b Prepare a balance sheet as at 14 July 2015.

**[ Exercise 12.5 ]**

Andy Erkihun owns and operates Andy's Discount Store. On 1 August 2015 the balance sheet of his business included the following items: Cash at bank \$3 290, Stock \$54 300, Debtors \$7 800, Shop fittings \$22 500, Creditors \$3 780 and GST debt \$1 800. During August the following transactions occurred:

- Aug 2 Sold goods for cash \$3 000 (GST \$300) – cost price of sales \$1 300
- 4 Purchased additional shop fittings costing \$2 500 for cash, plus GST of \$250.
- 7 Bought stock on credit for \$3 400, plus \$340 GST
- 11 Erkihun withdrew \$800 cash from the business
- 13 Made a credit sale for \$2 400 (plus \$240 GST) – cost price \$1 100
- 16 Sent a cheque to a creditor for \$1 280
- 19 Paid advertising of \$200, plus \$20 GST and insurance \$660 (plus \$66 GST)
- 23 Purchased stock for \$500, plus \$50 GST, paying C.O.D.
- 25 Collected \$1 600 from debtors
- 28 Made a cash sale for \$2 300, plus GST of \$230 (cost of sale \$1 100)

- a Complete a worksheet to show the effect of all transactions listed above on the assets, liabilities and owner's equity of Andy's Discount Store.
- b Prepare a balance sheet as at 31 August 2015.
- c State the source document that would be used by Erkihun to evidence the following transactions: 2 August, 4 August, 7 August, 13 August and 23 August.
- d Explain how the documents you listed in part c above help satisfy the qualitative characteristics of accounting.



ELEMENT	DEFINITION	3 examples
ASSET		
LIABILITY		
OWNERS EQUITY		
CURRENT ASSET		
NON CURRENT ASSET		

CURRENT LIABILITY		
NON CURRENT LIABILITY		
REVENUE		
EXPENSE		