SOLUTIONS TO END-OF-CHAPTER QUESTIONS CHAPTER 4

DEVELOP YOUR UNDERSTANDING

Question 4.1

In this answer, Dr is an abbreviation for debit and Cr is an abbreviation for credit.

1. Cash sales of £35,225.

The cash asset will increase and sales will increase:

Double entry: Dr bank (or cash) £35,225 (increase asset), Cr sales £35,225 (increase income).

2. Credit sales of £125,750.

The trade receivables asset will increase (no cash has yet been received from these sales) and sales will increase:

Double entry: Dr trade receivables £125,750 (increase asset), Cr sales £125,750 (increase income).

3. Received goods from suppliers on credit. The goods received had a cost of £62,894.

Goods received from suppliers are an expense, so cost of sales will increase. The goods have been purchased on credit: as more is owed to trade payables, trade payables will increase:

Double entry: Dr cost of sales £62,894 (increase expenses), Cr trade payables £62,894 (increase liabilities).

4. Insurance premium of £6,000 paid from the bank account.

Insurance is an expense for a business, so the insurance expense will increase. The payment for the insurance has been made from the bank account, so the cash in the bank will reduce with the bank asset decreasing by the amount taken out to pay the insurance:

Double entry: Dr insurance £6,000 (increase expense), Cr bank £6,000 (decrease asset).

5. Cash received from credit customers of £140,362.

Cash has flowed into the organisation so the asset in the bank will increase. Cash received from credit customers will not increase sales: the sales are recognised at the time the credit sale is made to the customer (see entry number 2 and Chapter 3 Determining the amount of income or expense) and so the cash received from customers will reduce the trade receivables asset as less money is owed by trade receivables for goods and services supplied:

Double entry: Dr bank £140,362 (increase asset), Cr trade receivables £140,362 (decrease asset).

6. Cash paid to suppliers for purchases made on credit of £55,574

Cash has flowed out of the organisation as money has been paid out to suppliers. Therefore, the bank asset will decrease as there is now less cash in the bank as a result of the payments made.

Cash paid to trade payables (suppliers) will not increase purchases or cost of sales: the purchases/cost of sales are recognised at the time the goods are supplied on credit by the supplier (see entry number 3 and Chapter 3 Determining the amount of income or expense) and so the cash paid to suppliers will reduce the trade payables liability as less money is owed to trade payables for goods and services supplied:

Double entry: Dr trade payables £55,574 (decrease liability), Cr bank £55,574 (decrease asset).

7. New plant and machinery purchased with a cash payment from the bank. The new plant and machinery cost £150,000.

Plant and machinery is a non-current asset. Adding more plant and machinery will increase the plant and machinery asset. The plant and machinery has been purchased using money from the bank. Therefore, the bank asset will decrease as a result of the payment out of the bank:

Double entry: Dr plant and machinery £150,000 (increase asset), Cr bank £150,000 (decrease asset).

8. Taxation paid of £27,450.

As we saw in Chapter 2 (Current liabilities), taxation is a liability that is due for payment on the profits made by an organisation. Therefore, the payment of tax represents a decrease in a liability as money has been paid to reduce this liability. The money is paid from the bank account, so the bank asset will also decrease as cash is taken from the bank account to reduce the tax that is due for payment:

Double entry: Dr taxation £27,450 (decrease liability), Cr bank £27,450 (decrease asset).

9. Loan instalment paid of £5,500.

Repaying part of a loan represents a decrease in a liability. The payment is made from the bank account, so the bank asset will also decrease:

Double entry: Dr loan £5,500 (decrease liability), Cr bank £5,500 (decrease asset).

10. Bank interest received of £250.

Income has been received from bank interest. Therefore, the bank account asset will increase by £250. This income will be added to an income account. However, bank interest does not represent a sale (Chapter 3, Income in the income statement). Therefore the bank interest will increase the finance income account (this can also be called the interest receivable account):

Double entry: Dr bank £250 (increase asset), Cr finance income (interest receivable) (increase income) £250.

Question 4.2

1. Calculate Primrose's capital account balance at 1 September 2018.

- Assets – liabilities = capital.
- Assets total: £3,540 (inventory) + £200 (cash) + £6,825 (bank) = £10,565.
- Liabilities total: £4,690 (trade payables).
- Therefore, £10,565 (total assets) – £4,690 (total liabilities) = £5,875 capital.

2. Enter the opening balances at 1 September 2018 into T accounts.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	3,540			

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	200			

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	6,825			

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
			1 Sept	Balance b/f	4,690

Primrose's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2018		**£**	**2018**		**£**
			1 Sept	Balance b/f	5,875

3. Enter the transactions for the month of September 2018 into the T accounts. You will need T accounts for cash, bank account, trade payables, cost of sales, capital account, sales, rent and inventory.

Numbers have been added to each transaction to help you trace the double entry in the T accounts below.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	3,540	30 Sept	Inventory (7)	2,695
30 Sept	Trade payables (3)	12,300			

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	200	30 Sept	Bank (2)	23,057
30 Sept	Sales (1)	25,642	30 Sept	Rent (5)	250
			30 Sept	Sales (refunds) (6)	1,985
			30 Sept	Capital (9)	300

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	6,825	30 Sept	Trade payables (4)	13,460
30 Sept	Cash (2)	23,057	30 Sept	Capital (8)	1,200

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
30 Sept	Bank (4)	13,460	1 Sept	Balance b/f	4,690
			30 Sept	Trade payables (3)	12,300

Primrose's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2018		**£**	**2018**		**£**
30 Sept	Bank (8)	1,200	1 Sept	Balance b/f	5,875
30 Sept	Cash (9)	300			

Sales

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
30 Sept	Cash (refunds) (6)	1,985	30 Sept	Cash (1)	25,642

Rent

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
30 Sept	Cash (5)	250			

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
30 Sept	Cost of sales (7)	2,695			

4. Extract a trial balance from the T accounts you have prepared.

Primrose: trial balance at 30 September 2018

	Debit £	Credit £
Cost of sales	13,145	
Cash	250	
Bank	15,222	
Trade payables		3,530
Primrose's capital account		4,375
Sales		23,657
Rent	250	
Inventory	2,695	
	31,562	**31,562**

5. Draw up Primrose's income statement and statement of financial position at 30 September 2018 from the trial balance you have extracted.

Primrose: income statement for the month of September 2018

	£
Sales	23,657
Cost of sales	13,145
Gross profit	10,512
Expenses	
Rent	250
Net profit for the month	**10,262**

Primrose: statement of financial position at 30 September 2018

	£
Current assets	
Inventory	2,695
Bank	15,222
Cash	250
Total assets	**18,167**
Current liabilities	
Trade payables	3,530
Net assets	**14,637**
Capital	
Balance at 1 September 2018	5,875
Profit for the month	10,262
Drawings	(1,500)
Balance at 30 September 2018	**14,637**

6. Enter the profit for the month into Primrose's capital account and close off the T accounts at 30 September 2018.

7. Bring forward the balances on the T accounts at 1 October 2018.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	3,540	30 Sept	Inventory (7)	2,695
30 Sept	Trade payables (3)	12,300	30 Sept	Income statement	13,145
		15,840			**15,840**

Cash

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	200	30 Sept	Bank (2)	23,057
30 Sept	Sales (1)	25,642	30 Sept	Rent (5)	250
			30 Sept	Sales (refunds) (6)	1,985
			30 Sept	Capital (9)	300
			30 Sept	Balance c/f	250
		25,842			**25,842**
2018					
1 Oct	Balance b/f	250			

Bank

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
1 Sept	Balance b/f	6,825	30 Sept	Trade payables (4)	13,460
30 Sept	Cash (2)	23,057	30 Sept	Capital (8)	1,200
			30 Sept	Balance c/f	15,222
		29,882			**29,882**
2018					
1 Oct	Balance b/f	15,222			

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
30 Sept	Bank (4)	13,460	1 Sept	Balance b/f	4,690
30 Sept	Balance c/f	3,530	30 Sept	Trade payables (3)	12,300
		16,990			**16,990**
			2018		
			1 Oct	Balance b/f	3,530

Primrose's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2018		**£**	**2018**		**£**
30 Sept	Bank (8)	1,200	1 Sept	Balance b/f	5,875
30 Sept	Cash (9)	300	30 Sept	Profit for September	10,262
30 Sept	Balance c/f	14,637			
		16,137			**16,137**
			2018		
			1 Oct	Balance b/f	14,637

Sales

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
30 Sept	Cash (refunds) (6)	1,985	30 Sept	Cash (1)	25,642
30 Sept	Income statement	23,657			
		25,642			**25,642**

Rent

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
30 Sept	Cash (5)	250	30 Sept	Income statement	250
		250			**250**

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
30 Sept	Cost of sales (7)	2,695	30 Sept	Balance c/f	2,695
		2,695			**2,695**
2018					
1 Oct	Balance b/f	2,695			

TAKE IT FURTHER

Question 4.3

Laura

1. Open as many T accounts as you require and post all the above transactions into the T accounts you have opened.

Numbers have been added to each transaction to help you trace the double entry through the T accounts below.

Bank account

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2017**		**£**
1 Sept	Laura's capital (1)	50,000	1 Sept	Van cost (10)	6,000
2018			1 Sept	Equipment cost (13)	5,000
31 Aug	Sales (cash) (2)	112,000	1 Sept	Insurance (17)	1,800
31 Aug	Trade receivables (4)	36,000	**2018**		
31 Aug	Interest received (23)	250	31 Aug	Trade payables (6)	38,000
			31 Aug	Van running expenses and insurance (12)	4,000
			31 Aug	Wages of part-time employees (15)	9,600
			31 Aug	Bank charges (20)	400
			31 Aug	Bank interest (22)	200
			31 Aug	Laura's capital (25)	30,000
			31 Aug	Laura's capital (26)	90,000

The balance on the bank account at 31 August 2018 is £13,250 (£198,250 cash in – £185,000 cash paid out). There are £198,250 of debits (increases in the asset) and £185,000 of credits (decreases in the asset), so the balance on the bank account is a debit balance as there are more debits than credits. £13,250 is added to the debit side of the trial balance.

Laura's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2018		**£**	**2017**		**£**
31 Aug	Bank (25)	30,000	1 Sept	Bank (1)	50,000
31 Aug	Bank (26)	90,000			

The balance on Laura's capital account at 31 August 2018 is a debit balance of £70,000 (£50,000 capital introduced – £120,000 capital withdrawn). There are £120,000 of debits (decreases in capital) and £50,000 of credits (increases in capital), so the balance on Laura's capital account is a debit balance as there are more debits than credits. £70,000 is added to the debit side of the trial balance. This looks unusual as the capital account (capital) is usually a credit balance. However, once the profit for the year is known this will be added to Laura's capital account and the account will show a credit balance as expected.

Sales

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
			31 Aug	Bank (cash sales) (2)	112,000
			31 Aug	Trade receivables (3)	48,000
					160,000

The balance on the sales account at 31 August 2018 is a credit balance of £160,000 (£160,000 sales – £Nil sales cancelled/refunded). There are £160,000 of credits (increases in income) and £Nil of debits (decreases in income), so the balance on the sales account is a credit balance as there are more credits than debits. £160,000 is added to the credit side of the trial balance.

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Sales (credit) (3)	48,000	31 Aug	Bank (4)	36,000
			31 Aug	Irrecoverable debts (8)	2,500

The balance on the trade receivables account at 31 August 2018 is £9,500 (£48,000 of trade receivables – £36,000 of cash received to settle the amounts owed by customers – £2,500 of trade receivables that will not result in inflows of cash as they will no longer be paid. This credit to the trade receivables account represents the derecognition of a trade receivable asset as it will no longer result in the inflow of future economic benefits.) There are £48,000 of debits (increases in the asset) and £38,500 of credits (decreases in the asset), so the balance on the trade receivables account is a debit balance as there are more debits than credits. £9,500 is added to the debit side of the trial balance.

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
31 Aug	Bank (6)	38,000	31 Aug	Cost of sales (5)	45,000
31 Aug	Discounts received (7)	1,000			

The balance on the trade payables account at 31 August 2018 is £6,000 (£45,000 of trade payables, purchases made on credit, – £38,000 of cash paid – £1,000 of discounts received). There are £45,000 of credits (increases in the liability) and £39,000 of debits (decreases in the liability), so the balance on the trade payables account is a credit balance as there are more credits than debits. £6,000 is added to the credit side of the trial balance.

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Trade payables (5)	45,000	31 Aug	Inventory (19)	4,500

The balance on the cost of sales account at 31 August 2018 is £40,500 (£45,000 of purchases on credit from suppliers – £4,500 closing inventory). There are £45,000 of debits (increases in the expense) and £4,500 of credits (decreases in the expense), so the balance on the cost of sales account is a debit balance as there are more debits than credits. £40,500 is added to the debit side of the trial balance.

Discounts received

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
			31 Aug	Trade payables (7)	1,000

The balance on the discounts received account at 31 August 2018 is a credit balance of £1,000 (£1,000 discounts received – £Nil discounts cancelled or withdrawn). There are £1,000 of credits (increases in income) and £Nil of debits (decreases in income), so the balance on the discounts received account is a credit balance as there are more credits than debits. £1,000 is added to the credit side of the trial balance.

Irrecoverable debts

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Trade receivables (8)	2,500			

The balance on the irrecoverable debts account at 31 August 2018 is £2,500 (£2,500 of irrecoverable debts – £Nil reduction in this expense). There are £2,500 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the irrecoverable debts account is a debit balance as there are more debits than credits. £2,500 is added to the debit side of the trial balance.

Allowance for receivables expense

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Allowance for receivables (9)	950			

The balance on the allowance for receivables expense account at 31 August 2018 is £950 (£950 of allowance for receivables – £Nil reduction in this expense). There are £950 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the allowance for receivables expense account is a debit balance as there are more debits than credits. £950 is added to the debit side of the trial balance. Look at the notes to answer 3.5 to remind you how the allowance figure of £950 was calculated.

Allowance for receivables

Debit (decreases the allowance)			Credit (increases the allowance)		
2018		**£**	**2018**		**£**
			31 Aug	Allowance for receivables expense (9)	950

The balance on the allowance for receivables account at 31 August 2018 is a credit balance of £950 (£950 allowance for receivables – £Nil decrease in the allowance). There are £950 of credits (increases in the allowance) and £Nil of debits (decreases in the allowance), so the balance on the allowance for receivables account is a credit balance as there are more credits than debits. £950 is added to the credit side of the trial balance.

Van cost

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2018**		**£**
1 Sept	Bank (10)	6,000			

The balance on the van cost account at 31 August 2018 is £6,000 (£6,000 of cost – £Nil of decreases in the cost of the asset). There are £6,000 of debits (increases in the asset) and £Nil of credits (decreases in the asset), so the balance on the van cost account is a debit balance as there are more debits than credits. £6,000 is added to the debit side of the trial balance.

Van depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Van accumulated depreciation (11)	1,800			

The balance on the van depreciation charge account at 31 August 2018 is £1,800 (£1,800 of depreciation for the year – £Nil reduction in this expense). There are £1,800 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the van depreciation account is a debit balance as there are more debits than credits. £1,800 is added to the debit side of the trial balance.

Van accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2018		**£**	**2018**		**£**
			31 Aug	Van depreciation charge (11)	1,800

The accumulated depreciation account is used to recognise the reduction in a non-current asset balance. The balance on the van accumulated depreciation account at 31 August 2018 is a credit balance of £1,800 (£1,800 accumulated depreciation on the van – £Nil decrease

in the accumulated depreciation). There are £1,800 of credits (increases in the accumulated depreciation) and £Nil of debits (decreases in the accumulated depreciation), so the balance on the van accumulated depreciation account is a credit balance as there are more credits than debits. £1,800 is added to the credit side of the trial balance.

Van running expenses and insurance

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (12)	4,000			

The balance on the van running expenses and insurance account at 31 August 2018 is £4,000 (£4,000 of costs for the year – £Nil reduction in this expense). There are £4,000 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the van running expenses and insurance account is a debit balance as there are more debits than credits. £4,000 is added to the debit side of the trial balance.

Equipment cost

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2018**		**£**
1 Sept	Bank (13)	5,000			

The balance on the equipment cost account at 31 August 2018 is £5,000 (£5,000 of cost – £Nil of decreases in the cost of the asset). There are £5,000 of debits (increases in the asset) and £Nil of credits (decreases in the asset), so the balance on the equipment cost account is a debit balance as there are more debits than credits. £5,000 is added to the debit side of the trial balance.

Equipment depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Equipment accumulated depreciation (14)	1,235			

The balance on the equipment depreciation charge account at 31 August 2018 is £1,235 (£1,235 of depreciation for the year – £Nil reduction in this expense). There are £1,235 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the equipment depreciation account is a debit balance as there are more debits than credits. £1,235 is added to the debit side of the trial balance.

Equipment accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2018		**£**	**2018**		**£**
			31 Aug	Equipment depreciation charge (14)	1,235

As we saw above in relation to depreciation on the van, accumulated depreciation is used to recognise a reduction in an asset balance. The balance on the equipment accumulated depreciation account at 31 August 2018 is a credit balance of £1,235 (£1,235 accumulated depreciation on the van – £Nil decrease in the accumulated depreciation). There are £1,235 of credits (increases in the accumulated depreciation) and £Nil of debits (decreases in the accumulated depreciation), so the balance on the equipment accumulated depreciation account is a credit balance as there are more credits than debits. £1,235 is added to the credit side of the trial balance.

Wages of part-time employees

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (15)	9,600			
31 Aug	Wages accrual (16)	800			

The balance on the wages of part-time employees account at 31 August 2018 is £10,400 (£9,600 of cash spent on this expense during the year + £800 for expenses incurred but not yet paid – £Nil decrease in this expense). There are £10,400 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the wages of part-time employees account is a debit balance as there are more debits than credits. £10,400 is added to the debit side of the trial balance.

Wages accrual

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
			31 Aug	Wages of part-time employees (16)	800

The balance on the wages accrual account at 31 August 2018 is £800 (£800 liability for expenses incurred but not yet paid – £Nil decrease in this liability). There are £800 of credits (increases in the liability) and £Nil of debits (decreases in the liability), so the balance on the wages accrual account is a credit balance as there are more credits than debits. £800 is added to the credit side of the trial balance.

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2017		**£**	**2018**		**£**
1 Sept	Bank (17)	1,800	31 Aug	Insurance prepayment (18)	600

The balance on the insurance account at 31 August 2018 is £1,200 (£1,800 of cash spent on this expense during the year – £600 of the total expenditure in the year which relates to a future accounting period, a prepayment of future expenditure). There are £1,800 of debits (increases in the expense) and £600 of credits (decreases in the expense), so the balance on the insurance account is a debit balance as there are more debits than credits. £1,200 is added to the debit side of the trial balance.

Insurance prepayment

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Insurance (18)	600			

The balance on the insurance prepayment account at 31 August 2018 is £600 (£600 of expenditure paid in advance – £Nil of decreases in the asset). There are £600 of debits (increases in the asset) and £Nil of credits (decreases in the asset), so the balance on the insurance prepayment account is a debit balance as there are more debits than credits. £600 is added to the debit side of the trial balance.

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Cost of sales (19)	4,500			

The balance on the inventory account at 31 August 2018 is £4,500 (£4,500 of costs carried forward to set against sales revenue in the next accounting period – £Nil of decreases in the cost of the asset). There are £4,500 of debits (increases in the asset) and £Nil of credits (decreases in the asset), so the balance on the inventory account is a debit balance as there are more debits than credits. £4,500 is added to the debit side of the trial balance.

Bank charges

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (20)	400			
31 Aug	Bank charges accrual (21)	75			

The balance on the bank charges account at 31 August 2018 is £475 (£400 of cash spent on this expense during the year + £75 of expense incurred but not yet paid – £Nil decrease in this expense). There are £475 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the bank charges account is a debit balance as there are more debits than credits. £475 is added to the debit side of the trial balance.

Bank charges accrual

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
			31 Aug	Bank charges (21)	75

The balance on the bank charges accrual account at 31 August 2018 is £75 (£75 liability for expenses incurred but not yet paid – £Nil decrease in this liability). There are £75 of credits (increases in the liability) and £Nil of debits (decreases in the liability), so the balance on the bank charges accrual account is a credit balance as there are more credits than debits. £75 is added to the credit side of the trial balance.

Bank interest

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (22)	200			

The balance on the bank interest account at 31 August 2018 is £200 (£200 of cash spent on this expense during the year – £Nil decrease in this expense). There are £200 of debits (increases in the expense) and £Nil of credits (decreases in the expense), so the balance on the bank interest account is a debit balance as there are more debits than credits. £200 is added to the debit side of the trial balance.

Interest received

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
			31 Aug	Bank (23)	250
			31 Aug	Interest receivable (24)	50

The balance on the interest received account at 31 August 2018 is a credit balance of £300 (£250 of cash received + £50 income receivable but not yet received – £Nil decreases in this source of income). There are £300 of credits (increases in income) and £Nil of debits (decreases in income), so the balance on the interest received account is a credit balance as there are more credits than debits. £300 is added to the credit side of the trial balance.

Interest receivable

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Interest received (24)	50			

The balance on the interest receivable account at 31 August 2018 is a debit balance of £50 (£50 of income due to the business but not yet received – £Nil decreases in the asset). There are £50 of debits (increases in the asset) and £Nil of credits (decreases in the asset), so the balance on the interest receivable account is a debit balance as there are more debits than credits. £50 is added to the debit side of the trial balance.

2. Laura's trial balance at 31 August 2018

	Debit £	Credit £
Bank account	13,250	
Laura's capital account	70,000	
Sales		160,000
Trade receivables	9,500	
Trade payables		6,000
Cost of sales	40,500	
Discounts received		1,000
Irrecoverable debts	2,500	
Allowance for receivables expense	950	
Allowance for receivables		950
Van	6,000	
Van depreciation charge	1,800	
Van accumulated depreciation		1,800
Van running expenses and insurance	4,000	
Equipment	5,000	
Equipment depreciation charge	1,235	
Equipment accumulated depreciation		1,235
Wages of part time employees	10,400	
Wages accrual		800
Insurance	1,200	
Insurance prepayment	600	
Inventory	4,500	
Bank charges	475	
Bank charges accrual		75
Bank interest	200	
Interest received		300
Interest receivable	50	
Totals	**172,160**	**172,160**

3. Laura's income statement for the year ended 31 August 2018

	£	£
Sales		160,000
Cost of sales (£40,500 cost of sales – £1,000 discounts received)		39,500
Gross profit		120,500
Expenses		
Irrecoverable debt	2,500	
Allowance for receivables expense	950	
Van depreciation	1,800	
Van running expenses	4,000	
Equipment depreciation	1,235	
Wages of part-time employees	10,400	
Insurance	1,200	
Bank charges	475	
Bank interest paid	200	
Total expenses		22,760
Interest received		(300)
Profit for the year		**98,040**

3. Laura's statement of financial position at 31 August 2018

	£
Non-current assets	
Van (£6,000 van cost – £1,800 van accumulated depreciation)	4,200
Construction equipment (£5,000 equipment cost – £1,235 equipment accumulated depreciation)	3,765
	7,965
Current assets	
Inventory	4,500
Trade receivables (£9,500 trade receivables – £950 allowance for receivables)	8,550
Insurance prepayment	600
Interest receivable	50
Cash at bank	13,250
	26,950
Total assets	**34,915**
Current liabilities	
Trade payables	6,000
Accruals (£800 wages accrual + £75 bank charges accrual)	875
Total liabilities	**6,875**
Net assets	**28,040**

Capital account	**£**
Capital introduced by Laura	50,000
Profit for the year from the income statement	98,040
Drawings	(120,000)
Capital account at 31 August 2018	**28,040**

4. Your comparison of Laura's income statement and statement of financial position both here and in answer 3.5 should have shown you that both statements show exactly the same figures.

5. Close off the T accounts at 31 August 2018 and bring forward the asset, liability and capital balances.

Bank Account

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2017**		**£**
1 Sept	Laura's capital (1)	50,000	1 Sept	Van cost (10)	6,000
2018			1 Sept	Equipment cost (13)	5,000
31 Aug	Sales (cash) (2)	112,000	1 Sept	Insurance (17)	1,800
31 Aug	Trade receivables (4)	36,000	**2018**		
31 Aug	Interest received (23)	250	31 Aug	Trade payables (6)	38,000
			31 Aug	Van running expenses and insurance (12)	4,000
			31 Aug	Wages of part-time employees (15)	9,600
			31 Aug	Bank charges (20)	400
			31 Aug	Bank interest (22)	200
			31 Aug	Laura's capital (25)	30,000
			31 Aug	Laura's capital (26)	90,000
			31 Aug	Balance c/f	13,250
		198,250			**198,250**
2018					
1 Sept	Balance b/f	13,250			

Laura's capital account

Debit (decreases the capital)			Credit (increases the capital)		
2018		**£**	**2017**		**£**
			1 Sept	Bank (1)	50,000
31 Aug	Bank (25)	30,000	**2018**		
31 Aug	Bank (26)	90,000	31 Aug	Profit for the year (income statement)	98,040
31 Aug	Balance c/f	28,040			
		148,040			**148,040**
			2018		
			1 Sept	Balance b/f	28,040

The double entry for the profit for the year is Debit income statement £98,040, Credit capital account £98,040.

Sales

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
31 Aug	Income statement	160,000	31 Aug	Bank (cash sales) (2)	112,000
			31 Aug	Trade receivables (3)	48,000
		160,000			**160,000**

Trade receivables

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Sales (credit) (3)	48,000	31 Aug	Bank (4)	36,000
			31 Aug	Irrecoverable debts (8)	2,500
			31 Aug	Balance c/f	9,500
		48,000			**48,000**
2018					
1 Sept	Balance b/f	9,500			

Trade payables

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
31 Aug	Bank (6)	38,000	31 Aug	Cost of sales (5)	45,000
31 Aug	Discounts received (7)	1,000			
31 Aug	Balance c/f	6,000			
		45,000			**45,000**
			2018		
			1 Sept	Balance b/f	6,000

Cost of sales (opening inventory + purchases – closing inventory)

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Trade payables (5)	45,000	31 Aug	Inventory (19)	4,500
			31 Aug	Income statement	40,500
		45,000			**45,000**

Discounts received

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
31 Aug	Income statement	1,000	31 Aug	Trade payables (7)	1,000
		1,000			**1,000**

Irrecoverable debts

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Trade receivables (8)	2,500	31 Aug	Income statement	2,500
		2,500			**2,500**

Allowance for receivables expense

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Allowance for receivables (9)	950	31 Aug	Income statement	950
		950			**950**

Allowance for receivables

Debit (decreases the allowance)			Credit (increases the allowance)		
2018		**£**	**2018**		**£**
31 Aug	Balance c/f	950	31 Aug	Allowance for receivables (9)	950
		950			**950**
			2018		
			1 Sept	Balance b/f	950

Van cost

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2018**		**£**
1 Sept	Bank (10)	6,000	31 Aug	Balance c/f	6,000
		6,000			**6,000**
2018					
1 Sept	Balance b/f	6,000			

Van depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Van accumulated depreciation (11)	1,800	31 Aug	Income statement	1,800
		1,800			**1,800**

Van accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2018		**£**	**2018**		**£**
31 Aug	Balance c/f	1,800	31 Aug	Van depreciation charge (11)	1,800
		1,800			**1,800**
			2018		
			1 Sept	Balance b/f	1,800

Van running expenses and insurance

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (12)	4,000	31 Aug	Income statement	4,000
		4,000			**4,000**

Equipment cost

Debit (increases the asset)			Credit (decreases the asset)		
2017		**£**	**2018**		**£**
1 Sept	Bank (13)	5,000	31 Aug	Balance c/f	5,000
		5,000			**5,000**
2018					
1 Sept	Balance b/f	5,000			

Equipment depreciation charge

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Equipment accumulated depreciation (14)	1,235	31 Aug	Income statement	1,235
		1,235			**1,235**

Equipment accumulated depreciation

Debit (decreases the accumulated depreciation)			Credit (increases the accumulated depreciation)		
2018		**£**	**2018**		**£**
31 Aug	Balance c/f	1,235	31 Aug	Equipment depreciation charge (14)	1,235
		1,235			**1,235**
			2018		
			1 Sept	Balance b/f	1,235

Wages of part-time employees

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (15)	9,600	31 Aug	Income statement	10,400
31 Aug	Wages accrual (16)	800			
		10,400			**10,400**

Wages accrual

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
31 Aug	Balance c/f	800	31 Aug	Wages of part-time employees (16)	800
		800			**800**
			2018		
			1 Sept	Balance b/f	800

Insurance

Debit (increases the expense)			Credit (decreases the expense)		
2017		**£**	**2018**		**£**
1 Sept	Bank (17)	1,800	31 Aug	Insurance prepayment (18)	600
			31 Aug	Income statement	1,200
		1,800			**1,800**

Insurance prepayment

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Insurance (18)	600	31 Aug	Balance c/f	600
		600			**600**
2018					
1 Sept	Balance b/f	600			

Inventory

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Cost of sales (19)	4,500	31 Aug	Balance c/f	4,500
		4,500			**4,500**
2018					
1 Sept	Balance b/f	4,500			

Bank charges

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (20)	400	31 Aug	Income statement	475
31 Aug	Bank charges accrual (21)	75			
		475			**475**

Bank charges accrual

Debit (decreases the liability)			Credit (increases the liability)		
2018		**£**	**2018**		**£**
31 Aug	Balance c/f	75	31 Aug	Bank charges (21)	75
		75			**75**
			2018		
			1 Sept	Balance b/f	75

Bank interest

Debit (increases the expense)			Credit (decreases the expense)		
2018		**£**	**2018**		**£**
31 Aug	Bank (22)	200	31 Aug	Income statement	200
		200			**200**

Interest received

Debit (decreases the income)			Credit (increases the income)		
2018		**£**	**2018**		**£**
31 Aug	Income statement	300	31 Aug	Bank (23)	250
			31 Aug	Interest receivable (24)	50
		300			**300**

Interest receivable

Debit (increases the asset)			Credit (decreases the asset)		
2018		**£**	**2018**		**£**
31 Aug	Interest received (24)	50	31 Aug	Balance c/f	50
		50			**50**
2018					
1 Sept	Balance b/f	50			

6. Extract a trial balance at 1 September 2018 to ensure that Laura's accounts are in balance at the start of the new financial year.

Laura's trial balance at 1 September 2018

	Debit	Credit
	£	£
Bank account	13,250	
Laura's capital account		28,040
Trade receivables	9,500	
Trade payables		6,000
Allowance for receivables		950
Van	6,000	
Van accumulated depreciation		1,800
Equipment	5,000	
Equipment accumulated depreciation		1,235
Wages accrual		800
Insurance prepayment	600	
Inventory	4,500	
Bank charges accrual		75
Interest receivable	50	
Totals	**38,900**	**38,900**

Do note that the total debits do not total up to the total assets in Laura's statement of financial position. This is because the figures for the van, the equipment and the trade receivables are all included in the above trial balance at their gross figures (the total amount before deducting accumulated depreciation and the allowance for receivables). You can check that the total debits in the trial balance at 1 September 2018 are equivalent to the total assets figure in the statement of financial position by deducting these accumulated depreciation and allowance figures. Thus £38,900 total debits in the trial balance at 1 September 2018 – £1,800 (van accumulated depreciation) – £1,235 (equipment accumulated depreciation) – £950 (allowance for receivables) = £34,915 total assets in the statement of financial position.