

## Chapter 5: The Double Entry System

### Chapter Review Solutions

2. (a) The extended accounting equation is the Accounting Equation

$$A = L + OE$$

AND includes Revenue and Expenses or Net Profit:

$$A + E = L + OE + R.$$

(b)

| <b>Resources<br/>(Applied)</b> |   |                 | <b>Source of Resources</b> |                    |   |                       |   |                |
|--------------------------------|---|-----------------|----------------------------|--------------------|---|-----------------------|---|----------------|
| <b>Assets</b>                  | + | <b>Expenses</b> | =                          | <b>Liabilities</b> | + | <b>Owner's Equity</b> | + | <b>Revenue</b> |
| <b>A</b>                       | + | <b>E</b>        | =                          | <b>L</b>           | + | <b>OE</b>             | + | <b>R</b>       |

(c)  $A + E = L + OE + R$

which we can rewrite as:

$$A = L + OE + (R - E)$$

Revenue minus expenses (**R - E**) is profit, and since profit accrues to the owner, we have:

or

$$A = L + [OE \text{ (Opening balance)} + (R - E)]$$

$$A = L + OE \text{ (Ending balance)}$$

4. (b) \$11,600                      (c) \$11,800                      (d) \$ 1,400  
 (e) \$ 700                              (f) \$20,000                      (g) \$ 300  
 (h) \$14,300                          (i) \$ 2,900                      (j) \$ 1,000

6.

|       | <b>Transaction</b>  | <b>Account Name</b> | <b>A/C Type</b> | <b>Increase or Decrease</b> | <b>Debit or Credit</b> |
|-------|---|---------------------|-----------------|-----------------------------|------------------------|
| ( a ) | Commenced business by depositing \$200,000 in business bank account | Cash at Bank        | A               | +200,000                    | Dr                     |
|       |   | Capital             | OE              | +200,000                    | Cr                     |
| ( b ) | Bought Premises \$100,000 for Cash                                  | Premises            | A               | +100,000                    | Dr                     |
|       |   | Cash at Bank        | A               | -100,000                    | Cr                     |
| ( c ) | Purchased computer equipment for cash \$20,000 + \$2,000 GST        | Office Equipment    | A               | +20,000                     | Dr                     |
|       |   | GST Paid            | A               | + 2,000                     | Dr                     |
|       |   | Cash at Bank        | A               | -22,000                     | Cr                     |
| ( d ) | Bought Office Equipment for cash \$10,000 + \$1000 GST              | Office Equip        | A               | +10,000                     | Dr                     |
|       |   | GST Paid            | A               | + 1,000                     | Dr                     |
|       |   | Cash at Bank        | A               | -11,000                     | Cr                     |
| ( e ) | Paid cash for advertising in local paper \$250 + \$25 GST           | Advertising         | E               | + 250                       | Dr                     |
|       |   | GST Paid            | A               | + 25                        | Dr                     |
|       |   | Cash at Bank        | A               | - 275                       | Cr                     |
| ( f ) | Commision revenue received \$700 + \$70GST                          | Cash at Bank        | A               | + 770                       | Dr                     |
|       |   | Commission revenue  | R               | + 700                       | Cr                     |
|       |   | GST Collected       | L               | + 70                        | Cr                     |
| ( g ) | Professional fees received in cash \$2,000 + \$200 GST              | Cash at Bank        | A               | + 2,200                     | Dr                     |
|       |   | Professional fees   | R               | + 2,000                     | Cr                     |
|       |   | GST Collected       | L               | + 200                       | Cr                     |
| ( h ) | Drawing \$ 3,000  | Drawings            | OE              | - 3,000                     | Dr                     |
|       |   | Cash at Bank        | A               | - 3,000                     | Cr                     |
| ( i ) | Interest received   | Cash at Bank        | A               | + 50                        | Dr                     |
|       |   | Interest            | R               | + 50                        | Cr                     |

8.

| <b>Date</b> | <b>Transaction</b>  | <b>Acc Name</b>                       | <b>Account Type</b>           | <b>Incr/Decr</b>     | <b>Dr/Cr</b>                   |
|-------------|---|---------------------------------------|-------------------------------|----------------------|--------------------------------|
| 01/5        | Owner commenced business by depositing \$60,000 cash in a business bank account | Bank Capital                          | Asset<br>Owner's Equity       | Incr<br>Incr         | 60,000 Dr<br>60,000 Cr         |
| 02/5        | Purchased office equipment for cash \$500 + \$50 GST                            | Bank Equipment<br>GST Paid            | Asset<br>Asset<br>Asset       | Decr<br>Incr<br>Incr | 550 Cr<br>500 Dr<br>50 Dr      |
| 03/5        | Paid for dinner dance tickets (Drawings) \$120                                  | Bank Drawings                         | Asset<br>Owner's Equity       | Decr<br>Decr         | 120 Cr<br>120 Dr               |
| 04/5        | Obtained a long term loan from Finance Company \$15,000                         | Bank Loan                             | Asset<br>Liability            | Incr<br>Incr         | 15,000 Dr<br>15,000 Cr         |
| 05/5        | Services provided for cash \$5,000 + \$500 GST                                  | Bank Service Revenue<br>GST Collected | Asset<br>Revenue<br>Liability | Incr<br>Incr<br>Incr | 5,500 Dr<br>5,000 Cr<br>500 Cr |
| 06/5        | Paid electricity \$220 including GST  | Bank Electricity<br>GST Paid          | Asset<br>Expense<br>Asset     | Decr<br>Incr<br>Incr | 220 Cr<br>200 Dr<br>20 Dr      |
| 07/5        | Paid telephone \$500 + \$35 GST   | Bank Telephone<br>GST Paid            | Asset<br>Expense<br>Asset     | Decr<br>Incr<br>Incr | 535 Cr<br>500 Dr<br>35 Dr      |

( a )

| GENERAL JOURNAL GJ3 |                                     |       |        |        |
|---------------------|-------------------------------------|-------|--------|--------|
| Date                | Particulars                         | Folio | Debit  | Credit |
| May 01              | Bank                                | 100   | 60,000 |        |
|                     | Capital                             | 300   |        | 60,000 |
|                     | <b>Owner's contribution</b>         |       |        |        |
| 02                  | Equipment                           | 166   | 500    |        |
|                     | GST Paid                            | 125   | 50     |        |
|                     | Bank                                | 100   |        | 550    |
|                     | <b>Purchased equipment for cash</b> |       |        |        |
| 03                  | Drawings                            | 310   | 120    |        |
|                     | Bank                                | 100   |        | 120    |
|                     | <b>Owner's private expenses</b>     |       |        |        |
| 04                  | Bank                                | 100   | 15,000 |        |
|                     | Loan                                | 270   |        | 15,000 |
|                     | <b>Loan proceeds received</b>       |       |        |        |
| 05                  | Bank                                | 100   | 5,500  |        |
|                     | Service Revenue                     | 410   |        | 5,000  |
|                     | GST Collected                       | 230   |        | 500    |
|                     | <b>Cash services provided</b>       |       |        |        |
| 06                  | Electricity Expense                 | 705   | 200    |        |
|                     | GST Paid                            | 125   | 20     |        |
|                     | Bank                                | 100   |        | 220    |
|                     | <b>Paid electricity</b>             |       |        |        |
| 07                  | Telephone Expense                   | 765   | 500    |        |
|                     | GST Paid                            | 125   | 35     |        |
|                     | Bank                                | 100   |        | 535    |
|                     | <b>Paid telephone bill</b>          |       |        |        |

( b )

**T Account**

| Cash at Bank |                  |       |        |        |                  |       | 100    |
|--------------|------------------|-------|--------|--------|------------------|-------|--------|
| Date         | Details          | Folio | Amount | Date   | Details          | Folio | Amount |
| May 01       | Capital          | GJ3   | 60,000 | 02     | Equip, GST       | GJ3   | 550    |
| 04           | Loan             | GJ3   | 15,000 | 03     | Drawings         | GJ3   | 120    |
| 05           | Service Rev, GST | GJ3   | 5,500  | 06     | Electricity, GST | GJ3   | 220    |
|              |                  |       |        | 07     | Tele, GST        | GJ3   | 535    |
|              |                  |       |        | May 31 | Bal c/d          |       | 79,075 |
|              |                  |       | 80,500 |        |                  |       | 80,500 |
| June 01      | Bal o/d          |       | 79,075 |        |                  |       |        |

| GST Paid |         |       |        |        |         |       |        | 125 |
|----------|---------|-------|--------|--------|---------|-------|--------|-----|
| Date     | Details | Folio | Amount | Date   | Details | Folio | Amount |     |
| May 02   | Bank    | GJ3   | 50     | May 31 | Bal c/d |       | 105    |     |
| 06       | Bank    | GJ3   | 20     |        |         |       |        |     |
| 07       | Bank    | GJ3   | 35     |        |         |       |        |     |
|          |         |       | 105    |        |         |       | 105    |     |
| June 01  | Bal o/d |       | 105    |        |         |       |        |     |

| Equipment |         |       |        |        |         |       |        | 166 |
|-----------|---------|-------|--------|--------|---------|-------|--------|-----|
| Date      | Details | Folio | Amount | Date   | Details | Folio | Amount |     |
| May 02    | Bank    | GJ3   | 500    | May 31 | Bal c/d |       | 500    |     |
|           |         |       | 500    |        |         |       | 500    |     |
| June 01   | Bal o/d |       | 500    |        |         |       |        |     |

| Loan   |         |       |        |         |         |       |        | 220 |
|--------|---------|-------|--------|---------|---------|-------|--------|-----|
| Date   | Details | Folio | Amount | Date    | Details | Folio | Amount |     |
| May 31 | Bal c/d |       | 15,000 | May 04  | Bank    | GJ3   | 15,000 |     |
|        |         |       | 15,000 |         |         |       | 15,000 |     |
|        |         |       |        | June 01 | Bal o/d |       | 15,000 |     |

| GST Collected |         |       |        |         |         |       |        | 230 |
|---------------|---------|-------|--------|---------|---------|-------|--------|-----|
| Date          | Details | Folio | Amount | Date    | Details | Folio | Amount |     |
| May 31        | Bal c/d |       | 500    | May 05  | Bank    | GJ3   | 500    |     |
|               |         |       | 500    |         |         |       | 500    |     |
|               |         |       |        | June 01 | Bal o/d |       | 500    |     |

**Do not close accounts at this stage**

| <b>Capital</b> |         |       |        |        |         |       |        | <b>300</b> |
|----------------|---------|-------|--------|--------|---------|-------|--------|------------|
| Date           | Details | Folio | Amount | Date   | Details | Folio | Amount |            |
|                |         |       |        | May 01 | Bank    | GJ3   | 60,000 |            |
|                |         |       |        |        |         |       |        |            |
|                |         |       |        |        |         |       |        |            |

| <b>Drawings</b> |      |     |     |  |  |  |  | <b>310</b> |
|-----------------|------|-----|-----|--|--|--|--|------------|
| May 03          | Bank | GJ3 | 120 |  |  |  |  |            |
|                 |      |     |     |  |  |  |  |            |
|                 |      |     |     |  |  |  |  |            |

| <b>Service Fees</b> |  |  |  |        |      |     |       | <b>410</b> |
|---------------------|--|--|--|--------|------|-----|-------|------------|
|                     |  |  |  | May 05 | Bank | GJ3 | 5,000 |            |
|                     |  |  |  |        |      |     | 5,000 |            |

| <b>Electricity</b> |      |     |     |  |  |  |  | <b>705</b> |
|--------------------|------|-----|-----|--|--|--|--|------------|
| May 06             | Bank | GJ3 | 200 |  |  |  |  |            |
|                    |      |     | 200 |  |  |  |  |            |

| <b>Telephone</b> |      |     |     |  |  |  |  | <b>765</b> |
|------------------|------|-----|-----|--|--|--|--|------------|
| May 07           | Bank | GJ3 | 500 |  |  |  |  |            |
|                  |      |     | 500 |  |  |  |  |            |

| <b>Trial Balance</b> |               |               |
|----------------------|---------------|---------------|
|                      | <b>Debit</b>  | <b>Credit</b> |
| Bank                 | 79,075        |               |
| GST Paid             | 105           |               |
| Equipment            | 500           |               |
| GST Collected        |               | 500           |
| Loan                 |               | 15,000        |
| Capital              |               | 60,000        |
| Drawings             | 120           |               |
| Service Revenue      |               | 5,000         |
| Electricity          | 200           |               |
| Telephone            | 500           |               |
|                      | <b>80,500</b> | <b>80,500</b> |