Answers to end of chapter questions for lecturers

These suggested answers are for the end of chapter questions that appear in black in the book. Answers to questions in blue are in the appendix section of the book for students to access.

Chapter 1: Discussion *Answers*

The answers below provide some outline points for discussion.

A1 See Book Appendix for Answer.

A2 These are innumerable! However, below are some common decisions.

- Should the business expand its product range?
- Should the business move into new markets?
- Does the business need to borrow money?
- Can the business afford to buy a new factory or machine?
- Should the business take over another company?
- How can the business increase its profit?
- Can the business increase its dividends to shareholders?

A3 See Book Appendix for Answer.

A4 Accounting operates within society. It, therefore, changes as society changes. To take two examples:

(a) In medieval times, accounting was all about keeping track of resources, such as livestock, grain or money. Shareholders and limited companies did not exist. Today, shareholders own companies while managers run them. Shareholders, therefore, need reports on how the companies are performing. Profit has become more important as it helps to determine the dividends (i.e., cash payments) that shareholders will receive. Consequently, keeping track of assets has become less important.

(b) Germany and the UK are important developed countries in western Europe. However, Germany has a different industrial environment from the UK with banks being relatively

Q&A

Chapter 2: Numerical *Answers*

A1 See Book Appendix for Answer.

A2 Priya Patel

Priya Patel
Profit and Loss Account (Income and Expenditure Account)

	£	£
Income		
Money earned		1,800
Less *Expenses*		
Tuition fees	6,840	
Hall of residence fees	2,000	
Money spent on books	160	
Money spent on entertainment	500	
Phone calls	100	
Food	550	
General	180	10,330
Net Deficit		(8,530)

Priya Patel
Balance Sheet (Assets and Liabilities Statement)

Assets	£
Bank (from cash flow statement)	2,070
Music system	200
	2,270
Liabilities	
Parents' loan	(2,000)
Net assets	270
Capital	£
Opening capital	8,800*
Net deficit	(8,530)
Closing capital (i.e., shortfall)	270

*Cash at bank £8,600 plus £200 music system.

Q&A

A2 Priya Patel (*continued*)

Priya Patel
Cash Flow Statement

	£	£
Bank balance at start of year		8,600
Add *Receipts*:		
Loan from parents	2,000	
Earned at bazaar	1,800	3,800
		12,400
Less *Payments*:		
Tuition fees	6,840	
Hall fees	2,000	
Books	160	
Entertainment	500	
Phone calls	100	
Food	550	
General	180	10,330
Bank balance at end of year		2,070

Chapter 3: Discussion *Answers*

The answers below provide some outline points for discussion.

A1 See Book Appendix for Answer.

A2 As businesses vary in size so does their complexity. Small businesses may not require many formal books of account. The owners provide the invoices to accountants who then prepare the accounts. However, medium and large size businesses will need extensive accounting records. The larger the business, the more complicated the accounts. For instance, larger businesses may keep a separate cash book or separate ledgers for debtors and creditors. The type of business may also affect the type of books of account. In a business, such as a small shop, which only has cash customers, there will be no need to keep detailed records of debtors.

A3 The advent of computers has sped up the production of accounts. However, it is very dangerous to rely solely on the accounts produced by a computer package. Accounting entries may be input incorrectly or input into the wrong accounts A knowledge of accounting is needed to detect his. Without an understanding of accounting, there is every danger that errors will go undetected. Useful accounting output from computers thus relies on accurate input of data by someone with an understanding of accounting.

Q&A

A4 A trial balance which balances provides some comfort to the accountant. It shows that for every debit there has been an equal and opposite credit. The mechanics of the double-entry process have been carried out. However, just because the trial balance balances does not mean that all is well. Various errors may still have occurred, such as errors of omission, reverse entries, wrongly entered amounts, entries in the wrong accounts and compensating errors. All of these would affect both the debit and credit side of the trial balance equally. Thus, the trial balance will still balance even though the amounts were incorrect.

A5 The answer to this is really quite simple. There are many more asset and expense accounts than liability, capital and income accounts. The expense accounts, in particular, tend to be numerous, but often the balances are relatively small. By contrast, there are fewer liability, capital and income balances. However, these balances (for example, sales and capital) tend in the main to be quite large.

A6 See Book Appendix for Answer.

Chapter 3: Numerical *Answers*

A1, A2, A3 See Book Appendix for Answers.

A4 Four Accounts

(i) Sales

	£		£
30 June Bal. c/f	*3,000*	8 June Bank	1,000
		9 June Brown	2,000
	3,000		*3,000*
30 June to trading a/c	*3,000*	*30 June Bal. b/f*	*3,000*

(ii) Purchases

	£		£
1 June Bank	500	*30 June Bal. c/f*	*10,000*
30 June Patel	9,500		
	10,000		*10,000*
30 June Bal. b/f	*10,000*	*30 June to trading a/c*	*10,000*

(iii) Bank

	£		£
3 June Cash sales	500	1 June Wages	800
30 June Bal. c/f	*800*	7 June Rent	300
		8 June Purchases	200
	1,300		*1,300*
		1 July Bal. b/f	*800*

(iv) R. Smith (debtor)

	£		£
1 June Sales	800	3 June Sales Returns	1,000
30 June Bal. c/f	*3,200*	4 June Bank	3,000
	4,000		*4,000*
		1 July Bal. b/f	*3,200*

Note. To aid understanding the balancing off process is italicised.

Q&A

A5 John Frier

(i) Ledger accounts

Sales

	£		£
30 June Bal. c/f	*9,000*	7 May Army	9,000
	9,000		9,000
		30 June Bal. b/f	*9,000*

Purchases

	£		£
10 March Miner	8,000	*30 June Bal. c/f*	*8,000*
	8,000		8,000
30 June Bal. b/f	*8,000*		

Capital

	£		£
30 June Bal. c/f	*10,000*	1 Jan. Bank	10,000
	10,000		10,000
		1 July Bal. b/f	*10,000*

Bank

	£		£
1 Jan Capital	10,000	8 Feb. Motor van	4,000
10 June Army	4,500	12 April Miner	3,000
		30 June Bal. c/f	*7,500*
	14,500		14,500
1 July Bal. b/f	*7,500*		

Motor van

	£		£
8 Feb. Bank	4,000	*30 June Bal. c/f*	*4,000*
	4,000		4,000
1 July Bal. b/f	*4,000*		

R. Army (debtor)

	£		£
7 May Sales	9,000	10 June Bank	4,500
		30 June Bal. c/f	*4,500*
	9,000		9,000
1 July Bal. b/f	*4,500*		

A. Miner (creditor)

	£		£
12 April Bank	3,000	10 March Purchases	8,000
30 June Bal. c/f	*5,000*		
	8,000		8,000
		1 July Bal. b/f	*5,000*

Note. To aid understanding the balancing off process is italicised.

(ii) Trial balance

John Frier
Trial Balance as at 30 June

	Debit £	Credit £
Sales		9,000
Purchases	8,000	
Capital		10,000
Bank	7,500	
Motor van	4,000	
R. Army (Debtor)	4,500	
A. Miner (Creditor)		5,000
	24,000	24,000

A6 See Book Appendix for Answer.

A7 R. Poon

(i) Ledger accounts

Capital

	£		£
31 May Bal. c/f	*8,000*	1 May Bank	8,000
	8,000		*8,000*
		1 June Bal. b/f	*8,000*

Bank

	£		£
1 May Capital	8,000	2 May Purchases	2,000
4 May Sales	1,500	20 May S. Eal	3,400
15 May Interest Rec'd	250	20 May P. Olar	750
21 May H. Unter	2,000	31 May Wages	800
21 May M. Dick	800	31 May Rent	500
		31 May Electricity	75
		31 May Stationery	25
		31 May Bal. c/f	*5,000*
	12,550		*12,550*
1 June Bal. b/f	*5,000*		

Sales

	£		£
		4 May Bank	1,500
		4 May H. Unter	5,000
		4 May M. Dick	3,000
31 May Bal. c/f	*11,100*	11 May H. Unter	1,600
	11,100		*11,100*
		31 May Bal. b/f	*11,100*

Purchases

	£		£
2 May Bank	2,000		
2 May S. Eal	4,000		
2 May P. Olar	1,000		
10 May S. Eal	1,200	*31 May Bal. c/f*	*8,200*
	8,200		*8,200*
31 May Bal. b/f	*8,200*		

Sales returns

	£		£
7 May M. Dick	2,000	*31 May Bal. c/f*	*2,000*
	2,000		*2,000*
31 May Bal. b/f	*2,000*		

Purchases returns

	£		£
31 May Bal. c/f	*1,800*	8 May S. Eal	1,800
	1,800		*1,800*
		31 May Bal. b/f	*1,800*

Electricity

	£		£
31 May Bank	75	*31 May Bal. c/f*	*75*
	75		*75*
31 May Bal. b/f	*75*		

Wages

	£		£
31 May Bank	800	*31 May Bal. c/f*	*800*
	800		*800*
31 May Bal. b/f	*800*		

Bank interest received

	£		£
31 May Bal. c/f	*250*	15 May Bank	250
	250		250
		31 May Bal. b/f	*250*

Rent

	£		£
31 May Bank	500	*31 May Bal. c/f*	*500*
	500		*500*
31 May Bal. b/f	*500*		

Q&A

A7 R. Poon (*continued*)

Stationery

	£		£
31 May Bank	25	*31 May Bal. c/f*	*25*
	25		*25*
31 May Bal. b/f	*25*		

H. Unter (debtor)

	£		£
4 May Sales	5,000	21 May Bank	2,000
11 May Sales	1,600	*31 May Bal. c/f*	*4,600*
	6,600		*6,600*
1 June Bal. b/f	*4,600*		

M. Dick (debtor)

	£		£
4 May Sales	3,000	7 May Sales Rets.	2,000
		21 May Bank	800
		31 May Bal. c/f	*200*
	3,000		*3,000*
1 June Bal. b/f	*200*		

S. Eal (creditor)

	£		£
8 May Purchases Rets.	1,800	2 May Purchases	4,000
20 May Bank	3,400	10 May Purchases	1,200
	5,200		*5,200*

P. Olar (creditor)

	£		£
20 May Bank	750	2 May Purchases	1,000
31 May Bal. c/f	*250*		
	1,000		*1,000*
		1 June Bal. b/f	*250*

Note. To aid understanding the balancing off process is italicised.

(ii) Trial balance

R. Poon

Trial Balance as at 31 May

	£	£
Capital		8,000
Bank	5,000	
Sales		11,100
Purchases	8,200	
Sales returns	2,000	
Purchases returns		1,800
Electricity	75	
Wages	800	
Interest receivable		250
Rent	500	
Stationery	25	
H. Unter (debtor)	4,600	
M. Dick (debtor)	200	
P. Olar (creditor)		250
	21,400	21,400

Q&A

A8 See Book Appendix for Answer.

A9 Mary Symonds

Mary Symonds
Trial Balance as at 30 September

	Debit £	Credit £
Office	80,000	
Long-term loan		3,000
Van	3,500	
H. Mellett (debtor)	650	
R. Edwards (debtor)	1,300	
P. Morgan (creditor)		1,400
Y. Karbhari (creditor)		600
Consultancy fees		70,000
Cash at bank	3,700	
Electricity	1,600	
Telephone	3,400	
Repairs	300	
Business rates	900	
Computer	3,000	
Travel	4,000	
Stationery	800	
Capital		28,150
	103,150	103,150

Note. The nature of Mary Symonds' business is that she does not really have ordinary sales and purchases of goods. Instead, we have consultancy fees and purchases of various items.

A10 See Book Appendix for Answer.

A11 Rachel Thomas: One way to tackle this question is to do the adjustments through the 'T' accounts. The letter (**in bold**) by each amount indicates the transaction. Alternatively, you can just adjust each item.

Bank

	£		£
Bal. b/f	100,000	(**a**) Computer	3,000
(**e**) Van	45,000	*31 Dec. Bal. c/f*	*142,000*
	145,000		*145,000*
1 Jan. Bal. b/f	*142,000*		

Computer

	£		£
(**a**) Bank	3,000	*31 Dec. Bal. c/f*	*3,000*
	3,000		*3,000*
1 Jan. Bal. b/f	*3,000*		