

## Chapter 2

### Solution 2.1

*Indicate, by circling the correct classification, whether each of the following are assets or liabilities*

Loan from AIF	Asset	Liability
Motor vehicles	Asset	Liability
Office equipment	Asset	Liability
Stock of goods	Asset	Liability
Cash	Asset	Liability
Bank Overdraft	Asset	Liability
Debtors	Asset	Liability
Creditors	Asset	Liability

### Solution 2.2

*Indicate, by circling either true or false, whether the following classifications for assets and liabilities are correct*

Machinery = Asset	True	False
Creditors = Asset	True	False
Premises = Asset	True	False
Motor vehicles = Asset	True	False
Stock = Asset	True	False
Bank overdraft = Asset	True	False
Creditors = Liability	True	False
Debtors = Liability	True	False
Cash = Liability	True	False
Loan = Liability	True	False

### Solution 2.3

1 Capital = 38,000	i.e. 100,000 - 62,000
2 Liabilities = 40,000	i.e. 85,000 - 45,000
3 Assets = 150,000	i.e. 75,000 + 75,000
4 Liabilities = 0	i.e. 42,000 - 42,000
5 Capital = 30,000	i.e. 72,000 - 42,000

6	Assets = 25,000	i.e. 10,000 + 15,000
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## Solution 2.4

	<b>Assets</b>	<b>Liabilities</b>	<b>Capital</b>
1. Investment	<b>Increase</b>	-	<b>Increase</b>
2. Asset bought on credit	<b>Increase</b>	<b>Increase</b>	-
3. Loan obtained	<b>Increase</b>	<b>Increase</b>	-
4. Stock purchased	-	-	-
5. Stock purchased on credit	<b>Increase</b>	<b>Increase</b>	-
6. Goods sold on credit	-	-	*
7. Paid creditors	<b>Decrease</b>	<b>Decrease</b>	-
8. Debtors pay	-	-	-

In transaction 4, 6, and 8 there is movement within the category of assets but the net result is that total assets remain the same.

\* Capital would increase if a profit was made on the sale.

## Solution 2.5

### Part a) Balance sheet as at 31 December

Assets:			
Premises	298,000		
Equipment	20,000		
Fixtures & fittings	26,000		
Debtors	15,000		
Cash	1,000		
Stock	9,800	369,900	
Liabilities:			
Creditors	22,000		
Bank overdraft	5,000		
Loan	78,000	(105,000)	
		<u>264,800</u>	
Capital			<u><u>264,800</u></u>

### Part b) Balance sheet as at 7 January

Assets:			
Premises		298,000	
Equipment		20,000	
Fixtures & fittings	26,000 + 500	26,500	
Debtors	15,000 - 9,000	6,000	
Cash	1,000 + 9,000 - 5,000	5,000	
Stock	9,800 + 1,200	11,000	366,500
Liabilities:			
Creditors	22,000 + 500 + 1,200 - 2,000	21,700	
Bank overdraft	5,000 + 2,000	7,000	
Loan	78,000 - 5,000	73,000	(105,000)
		<u>264,800</u>	
Capital			<u><u>264,800</u></u>

## Solution 2.6

		<b>Account to be debited</b>	<b>Account to be credited</b>
May 1	Capital invested	<b>Bank a/c</b>	<b>Capital a/c</b>
May 2	Asset bought on credit	<b>Equipment a/c</b>	<b>KE Suppliers a/c</b>
May 3	Asset bought on credit	<b>Furniture a/c</b>	<b>RF Ltd a/c</b>
May 10	Float from bank	<b>Cash a/c</b>	<b>Bank a/c</b>
May 11	Paid creditor	<b>Fittings a/c</b>	<b>Bank. a/c</b>
May 15	Asset bought paid cheque	<b>Vehicles a/c</b>	<b>Bank a/c</b>
May 16	Paid creditor	<b>KE Suppliers a/c</b>	<b>Bank a/c</b>
May 19	Paid creditor	<b>RF Ltd a/c</b>	<b>Bank a/c</b>

<b>DR</b>	<b>Capital Account</b>		<b>CR</b>
May	€	May	€
		1 Bank a/c	60,000

<b>DR</b>	<b>Bank Account</b>		<b>CR</b>
May	€	may	€
1 Capital a/c	60,000	10 Cash	1,000
		11 Furniture a/c	25,000
		15 Motor Vehicles a/c	9,000
		16 KE suppliers a/c	20,000
		23 RF Ltd a/c	15,000

<b>DR</b>	<b>Equipment Account</b>		<b>CR</b>
May	€	May	€
2 KE Suppliers	20,000		

<b>DR</b>	<b>KE Suppliers Account</b>		<b>CR</b>
May	€	May	€
16 Bank	20,000	2 Equipment	20,000

<b>DR</b>	<b>Furniture Account</b>		<b>CR</b>
May	€	May	€
3 RF Ltd	15,000		
11 Bank	25,000		

<b>DR</b>		<b>RF Ltd Account</b>		<b>CR</b>		
May		€		May	€	
19	Bank	15,000		3	Furniture A/C	15,000

<b>DR</b>		<b>Cash Account</b>		<b>CR</b>	
May		€		May	€
10	Bank	1,000			

<b>DR</b>		<b>Motor Vehicles Account</b>		<b>CR</b>	
May		€		may	€
15	Bank a/c	9,000			

## Solution 2.7

<b>DR</b>		<b>Capital Account</b>		<b>CR</b>		
Sept		€		Sept	€	
				1	Bank a/c	40,000

<b>DR</b>		<b>Bank Account</b>		<b>CR</b>		
Sept		€		Sept	€	
1	Capital a/c	40,000		3	Premises a/c	330,000
2	Loan a/c	300,000		5	Furniture a/c	5,000
				12	QE Ltd a/c	4,000
				15	Cash a/c	500
				23	Computer a/c	1,200
				30	Style Int. a/c	1,200

<b>DR</b>		<b>Loan – IBB Account</b>		<b>CR</b>		
Sept		€		Sept	€	
				2	Bank a/c	300,000

<b>DR</b>		<b>Premises Account</b>		<b>CR</b>	
Sept		€		Sept	€
3	Bank a/c	330,000			

<b>DR</b>		<b>Furniture Account</b>		<b>CR</b>	
Sept		€		Sept	€
5	Bank a/c	5,000			
26	Style Interiors a/c	1,400			

<b>DR</b>		<b>Equipment Account</b>		<b>CR</b>	
Sept		€		Sept	€
7	QE Ltd a/c	7,000		10	QE Ltd a/c
					3,000

<b>DR</b>		<b>Premises Account</b>		<b>CR</b>	
Sept		€		Sept	€

<b>DR</b>		<b>Computer Equipment Account</b>		<b>CR</b>	
Sept		€		Sept	€
23	Bank a/c	1,200			

<b>DR</b>		<b>Cash Account</b>		<b>CR</b>	
Sept		€		Sept	€
15	Bank a/c	500			

<b>DR</b>		<b>Creditor – QE Ltd Account</b>		<b>CR</b>	
Sept		€		Sept	€
10	Equipment a/c	3,000		7	Equipment a/c
12	Bank a/c	4,000			7,000

<b>DR</b>		<b>Creditor – Style Interior Account</b>		<b>CR</b>	
Sept		€		Sept	€
30	Bank a/c	1,200		26	Furniture a/c
					1,400