

**Master Your Money**  
**with**  
**Introduction to Accounting**

**by**  
**James Clarke**

© James Clarke, 1993, 1994, 1995, 1996, 1998, 1999, 2000, 2006 & 2020

***MoneyCounters***

Registered MYOB Consultants

[www.moneycounters.com.au](http://www.moneycounters.com.au)

email [moneycounter@.com](mailto:moneycounter@.com)

14 Railway Parade, MURRUMBEENA VIC 3163

Phone: 040 203 1350

## Foreword

I first wrote this introduction to accounting back in 1993 as a classroom text soon after I started teaching MYOB. It wasn't until I discovered the Recap function in MYOB that accounting theory made complete sense. This Recap function allows you to preview the debits and credits of a transaction prior recording it.

I then realised most of the accounting texts I used at school and university never clearly explained the basic fundamentals of accounting. They were more concerned about the exceptions, which accounting has many.

This introduction to accounting covers the basics and makes a good precursor to any accounting study.

James Clarke 2020

## An Introduction to Accounting

### Historical Perspective

Archaeologists have found evidence of accounting dating back as far as 8500 BC, when traders used tokens to represent the shipments of goods. The tokens were sealed in jars and the recipients would check them off against the consignment. These jars were an early form of packing slip used by traders to ensure a full complement of goods.

Today, accounting fulfils two important functions. One is to abide by the law, and the other is to keep managers and owners informed about their businesses. Unfortunately, many managers and owners only look to the first reason to account, whereas they may profit by full consideration of what a good accounting system can offer.

According to Gaffikin, Dittrich, Hanson & Walgenbach<sup>1</sup>

“ A useful definition of accounting is the process of (1) recording, (2) classifying, and (3) reporting and interpreting the financial data of an organisation. Once an accounting system has been designed and installed, recording and classifying data may become somewhat routine and repetitive.”

### Preconceptions

MYOB is often sold as a program for which you need no accounting knowledge. Whilst this is true, it is also true that a person with accounting knowledge will gain more from MYOB. Like most computer programs it is essential to have a good idea of the end result before you can fully comprehend the program.

Most computer literate people can operate a word processor, drawing program or racing car game because they know what the end result should be, but the experienced typist, graphic artist and car driver will take the programs further than the novice. This is more so with any accounting program, as the goal of the program is so often hidden from view. To efficiently use accounting software, we must look to the fundamentals of accounting.

If this is your first introduction to accounting, it is important to clear your mind of any preconceptions. Remember, accounting simply records the flow of business and does not dictate it. Accounting is merely a clear and concise way of recording business activity, where the use of seemingly unrelated accounting rules deliver the desired result. The more you can unquestionably accept the rules, the faster they make sense and help you gain control of your money.

---

<sup>1</sup> Principals of Accounting (Aust Edition), Publishers - Harcourt, Brace, Jovanovich. 1987. Page 2.

## Financial Statements

One desired result of the accounting process is the creation of reports by which management can control and make plans for their business. These are summaries of the accounting data collected through a selected period of time. Essentially these reports are retrospective, but others such as cash flow projections attempt to predict the future.

### The Profit & Loss Statement

This statement is a summary of transactions and events over time. It reports on a period basis such as the month beginning 1/7/x1 and ending on 31/7/x1, or fiscal year beginning on 1/7/x1 and ending on 30/6/x2, or any other period management considers useful. The purpose of this statement is to show the difference between money earned and spent. Consequently, it only deals with revenue and expenses for any period under review.

#### Profit & Loss Statement for XYZ Co. Ltd. for Period 1/7/x1 to 30/7/x2

Sales			\$40,000
less Cost of Goods Sold			
Stock at Start		\$10,000	
Purchases		\$20,000	
Cost of Goods Avail for Sale		\$30,000	
less			
Stock at end		\$18,000	\$12,000
Gross Profit			\$28,000
less Expenses			
Telephone		\$850	
Power		\$750	
Rent		\$3,500	
Salaries & Wages		\$5,500	\$10,600
Net Profit (Loss)			\$17,400

This Profit & Loss statement shows a business which has traded for at least one financial year. It has earned \$40,000 in sales, but it has cost \$12,000 in direct costs to make \$40,000.

This can be seen by looking to the Cost of Goods Sold section, which shows the firm started the year with \$10,000 of merchandise and purchased another \$20,000 worth throughout the year. The proprietors found they had \$18,000 of merchandise at the end of the period.

Therefore, to make sales of \$40,000 it cost the business \$10,000 plus \$20,000 less \$18,000, being \$12,000 for saleable merchandise. It could be said their direct cost of sales was \$12 for

every \$40 of sales, being  $12/40 = 30$  cents per sales dollar. Therefore, the gross profit per dollar of sales is 70 cents.

Other expenses for Telephone, Rent, Power and Salaries amounted to \$10,600, leaving the owners with a profit of \$17,400. These expenses may have been at the same level if the firm only sold \$20,000 of goods, and may be considered fixed expenses.

If we assume these expenses are fixed and the firm grosses 70 cents in every dollar of sales, the firm would make a profit whenever sales reached more than  $\$17,400/70 \text{ cents} = \$25,000$ . This is the firm's break even point.

### The Balance Sheet

This statement is a snapshot of transactions and events at a particular time such as the 30/6/x1 or any appropriate date. The purpose of this statement is to show a firm's Assets, Liabilities and Proprietorship (Equity)<sup>2</sup> levels.

#### Balance Sheet XYZ Co. Ltd. as at 30/6/x2

	Assets		Equals	Liabilities + Proprietorship	
Current Assets			Current Liabilities		
Bank	\$17,100		Creditors		\$5,000
Stock	\$18,000				
Debtors	\$6,500	\$41,600	Proprietorship		
			Capital	\$50,000	
Non Current Assets			less		
Motor Vehicles	\$15,000		Drawings	\$5,500	
Office Equipment	\$10,300	\$25,300		\$44,500	
			plus profit (Loss)	\$17,400	\$61,900
		\$66,900			\$66,900

It could be said that if the owners were able to sell their vehicles and equipment at the price shown, all debtors paid their bills and they paid theirs, the owners would be left with \$61,900. This being made up of their original investment of \$50,000, less what monies they have withdrawn from the business, plus any profit they have made by being in business.

---

<sup>2</sup> Proprietorship and Equity are generally interchangeable terms.

## Accounting Rules

As previously mentioned, accounting can seem like a collection of unrelated rules. The best way to come to terms with the rules is to see them together, and then see how they relate to each other. Seeing their operation gives them meaning.

## The Accounting Formula

You have already seen this formula in the Balance Sheet where:

$$\text{Assets} = \text{Liabilities} + \text{Proprietorship}$$

### Where:

**Assets** - are current, non current, tangible and intangible items or favours over which the business has control. Eg. Cash at bank, plant, equipment, debtors, stock, supplies on hand, prepayments and copyrights.

**Liabilities** - are the converse of Assets. Eg. Overdrafts, mortgages, creditors, stock held on consignment and accrued expenses.

**Proprietorship** - is the owner's stake in the business. It is often referred to as the owner's equity or capital. It is a liability to the business and an asset to the owner. Eg. Capital injections into the business, retained earnings and profit.

In firms which are sole traders and partnerships, drawings are considered as negative proprietorship. Technically the owners are not paid salaries, but receive drawings.

In companies, shareholders are paid dividends from Capital accounts and employees are paid salaries & wages from a Salaries/Wages Expense account. In many smaller companies, remuneration to working shareholders is often a combination of salaries and dividends.

Two other categories remain. These are profit and loss accounts:

**Expenses** - costs incurred in the running of a business. Eg. Rent, power, postage, purchases and salaries. This does not include drawings, as drawings are considered negative proprietorship as above.

**Revenue** - refers to income generated by the business through its activities. In otherwords - Sales.

An easy way to remember these categories is to use the term **ALPER** - Assets, Liabilities, Proprietorship, Expenses and Revenue.

## Accounts & Ledgers

Accounts and Ledgers are synonymous terms and are merely subcategories of ALPER. They are places to put like transactions such as Rent, Power, Salaries and Purchases. Every account belongs to one, and only one ALPER category. For example Rent paid to a Landlord is always an Expense, whereas Sales is always Revenue, and money in the bank is always an Asset.

For learning purposes, accounts are usually denoted by a "T" account format as illustrated below:

Bank			
Debit		Credit	
1/7 Prop	\$50,000	4/7 Computer	\$5,000
		4/7 Purchases	\$15,000

Businesses usually use accounts which carry the balance forward as below:

Bank				
Date	Particulars	Dr.	Cr.	Balance B/f
1/07/94	Proprietorship	\$50,000		\$50,000
4/07/94	Computer Purchase		\$5,000	\$45,000
4/07/94	Purchases		\$15,000	\$30,000

## **Applying the Debits and Credits**

Accounting in the sense being covered here, is merely a mechanical structure of classification which follows a few universally accepted rules.

In any accounting problem the first step is to decide which accounts have been affected, which ALPER (Asset, Liability, Proprietorship, Expense or Revenue) categories the accounts belong to, and whether the categories have increased or decreased?

Once these questions have been answered one simply applies the appropriate double entry (ALPER) rule - which states:

**Debit Increases in Assets & Expenses  
Credit Decreases in Assets & Expenses**

**and**

**Credit Increases in Liabilities, Proprietorship & Revenue  
Debit Decreases in Liabilities, Proprietorship & Revenue**

**You also need to remember that:  
For every Debit there is a corresponding Credit**

**and**

**For every Credit there is a corresponding Debit.**

**where**

**Debit is to the Left and Credit is to the Right of the ledger.**

---



## Summary

### Solution Method

- Which two accounts are affected? ie. Rent, Power, Sales
- What type of accounts are they? ie. Asset, Liability, Proprietorship, Expense or Revenue.
- What does the ALPER rule dictate?
- Apply the rule!
- 

INCREASES	
Dr.	Cr.
Assets	Liabilities
Expenses	Proprietorship
	Revenue

  

DECREASES	
Dr.	Cr.
Liabilities	Assets
Proprietorship	Expenses
Revenue	

## Example

We'll post the following transactions to ledgers, close off the accounts, perform a Trial Balance, create a Profit & Loss Statement and Balance Sheet.

On the 1/7 Jones enters business by withdrawing \$50,000 from a personal savings on the 1/7 and places it into a business account. The firm will sell shoes.

The illustrations below summarises the transaction:

Date	Account	Type	In/decrease	Dr	Cr
1/7	Bank	Asset	Increase	50000	
	Capital	Prop	Increase		50000

<b>Bank</b>			
	Dr.		Cr.
Capital	50,000		

<b>Capital</b>			
	Dr.		Cr.
		Bank	50,000

On the 4/7 Jones pays \$5,000 cash for a computer and \$15,000 for shoes to resell.<sup>3</sup>

Date	Account	Type	In/decrease	Dr	Cr
4/7	Computer	Asset	Increase	5000	
	Bank	Asset	Decrease		5000
4/7	Purchases	Expense	Increase	15000	
	Bank	Asset	Decrease		15000

<b>Bank</b>			
	Dr.		Cr.
Capital	50,000	Computer	5,000
		Purchases	15,000

<sup>3</sup> Broadly speaking, there are two way of dealing with stock. We are using the Periodic Stock Control System where purchases of stock are considered as an Expense.

The other form of stock control is the Perpetual Inventory System, where the purchase of Stock is considered as an increase in Assets. The Perpetual system is examined later as it forms the basis of MYOB's inventory system.

<b>Computer</b>	
Dr.	Cr.
Bank	5,000

<b>Purchases</b>	
Dr.	Cr.
Bank	15,000

On the 5/7 Jones makes cash shoe sales of \$600.

Date	Account	Type	In/decrease	Dr	Cr
5/7	Bank	Asset	Increase	600	
	Sales	Revenue	Increase		600

<b>Bank</b>	
Dr.	Cr.
Capital	50,000
Sales	600
Computer	5,000
Purchases	15,000

<b>Sales</b>	
Dr.	Cr.
	Bank
	600

On the 6/7 Jones makes credit shoe sales of \$1,500 to Mr. Bata.

Date	Account	Type	In/decrease	Dr	Cr
6/7	Debtors	Asset	Increase	1500	
	Sales	Revenue	Increase		1500

Debtors		
	Dr.	Cr.
Sales	1,500	

Sales		
	Dr.	Cr.
		Bank 600
		Debtors 1,500

12/7 Pay rent \$550.

Date	Account	Type	In/decrease	Dr	Cr
12/7	Rent	Expense	Increase	550	
	Bank	Asset	Decrease		550

Bank		
	Dr.	Cr.
Capital	50,000	Computer 5,000
Sales	600	Purchases 15,000
		Rent 550

Rent		
	Dr.	Cr.
Bank	550	

14/7 Withdraw \$250 in Cash.

Date	Account	Type	In/decrease	Dr	Cr
14/7	Drawings	Prop	Decrease	250	
	Bank	Asset	Decrease		250

Bank			
	Dr.		Cr.
Capital	50,000	Computer	5,000
Sales	600	Purchases	15,000
		Rent	550
		Drawing	250

Drawing			
	Dr.		Cr.
Bank	250		

15/7 Receive \$1,000 from Mr. Bata as part payment of the amount owing.

Date	Account	Type	In/decrease	Dr	Cr
15/7	Bank	Asset	Increase	1000	
	Debtors	Asset	Decrease		1000

Bank			
	Dr.		Cr.
Capital	50,000	Computer	5,000
Sales	600	Purchases	15,000
Debtors	1,000	Rent	550
		Drawing	250

Debtors			
	Dr.		Cr.
Sales	1,500	Bank	1,000

18/7 Purchase \$5,000 of shoes from W. Smith on credit.

Date	Account	Type	In/decrease	Dr	Cr
18/7	Purchases	Expense	Increase	5000	
	Creditors	Liability	Increase		5000

**Purchases**

	Dr.	Cr.
Bank	15,000	
Creditors	5,000	

**Creditors.**

	Dr.	Cr.
		Purchases 5,000

19/7 Pay SEC \$200.

Date	Account	Type	In/decrease	Dr	Cr
19/7	Power	Expense	Increase	200	
	Bank	Asset	Decrease		200

**Bank**

	Dr.	Cr.
Capital	50,000	Computer 5,000
Sales	600	Purchases 15,000
Debtors	1,000	Rent 550
		Drawing 250
		Power 200

**Power**

	Dr.	Cr.
Bank	200	

28/7 Purchase a delivery van \$15,000 cash.

Date	Account	Type	In/decrease	Dr	Cr
28th	Van	Asset	Increase	15000	
	Bank	Asset	Decrease		15000

Bank			
	Dr.		Cr.
Capital	50,000	Computer	5,000
Sales	600	Purchases	15,000
Debtors	1,000	Rent	550
		Drawing	250
		Power	200
		Van	15,000

Van			
	Dr.		Cr.
Bank	15,000		

Additional information: Stock at end of period totals \$19,000

## Closing off the Account

This process is simply calculating the ending balance in each account and bringing this forward for the next accounting period. In most of the accounts this is self-evident as many of the accounts have only one entry as shown below.

Rent	
Dr.	Cr.
Bank	550

The power account has a balance of \$200 and many accountants will simply circle the amount to make it easy to find when they create a trial balance.

Closing off an account is an accounting ritual where the accountant will close off the account and bring the balance forward as the starting balance for the next period. The accountant adds up both the debit and credit sides and calculates the difference between the two. This is the balance of the account and brought forward as shown below:

Bank			
Dr.		Cr.	
Capital	50,000	Computer	5,000
Sales	600	Purchases	15,000
Debtors	1,000	Rent	550
		Drawing	250
		Power	200
		Van	15,000
		Balance	15,600
	51,600		51,600
Bal B/f	15,600		

Once an account has been closed and reports have been created, it is common to remove the old entries above the double line from the system. These old entries are usually archived for reference and a new account (page) is established with the balance brought forward to the new page. At the end of the year, the revenue and expense accounts are closed off to the Profit and Loss account, and Assets and Liabilities are carried forward in a Balance Sheet Account. It is very much like setting up your accounts on a blackboard and rubbing out the entries above the double line.



<b>Bank</b>			
	Dr.		Cr.
Capital	50,000	Computer	5,000
Sales	600	Purchases	15,000
Debtors	1,000	Rent	550
		Drawing	250
		Power	200
		Van	15,000
		Balance	15,600
	51,600		51,600
Bal B/f	15,600		

After rubbing out the entries you are left with just the balance brought forward.

<b>Bank</b>			
	Dr.		Cr.
Bal B/f	15,600		

## Trial Balance

This is probably the easiest part of accounting, as the accountant simply collects the balance from each account and transcribes them to another account. A Trial Balance is simply transcription where the totals are added up and if the debits equal the credits, then in all probability the accounts are substantially correct. That is to say the rule where for every debit there is a corresponding credit has been met.

The accounts below have been marked as an Asset (A), Liability (L) etc. to assist with the preparation of the Profit & Loss Statement and Balance Sheet.

<b>Trial Balance</b>			
	Dr.		Cr.
Bank (A)	15,600	Sales (R)	2,100
Debtors (A)	500	Creditor (L)	5,000
Power (E)	200	Capital (P)	50,000
Computer (A)	5,000		
Purchases (E)	20,000		
Rent (E)	550		
Drawing (P)	250		
Van (A)	15,000		
	57,100		57,100

## The Reports

Although a myriad of accounting conventions dictate the look, feel and content of the Profit & Loss Statement and Balance Sheet, they follow common sense more closely than many would expect. In a full manual accounting system, the accountant would close off his ALPER accounts to a Profit & Loss and Balance Sheet accounts, and then create readable reports. Here we will take our figures straight to the reports.

## The Profit & Loss Statement

To create a Profit & Loss Statement we transcribe the Revenue and Expense account balances as given by our Trial Balance to a report, but we must remember to enter the figure for Stock at End.

<b>Profit &amp; Loss Statement</b>		
<b>Sales</b>		2,100
less Cost of Goods Sold		
Stock at Start	0	
plus Purchases	20,000	
less Stock at End	19,000	1,000
<b>Gross Profit</b>		1,100
<b>Less Expenses</b>		
Rent	550	
Power	200	750
<b>Net Profit (Loss)</b>		350

## The Balance Sheet

The Balance Sheet is also a simple case of transcribing the balances in our Asset, Liability and Proprietorship accounts as given by the Trial Balance, but we must remember to enter the Stock figure along with our Profit.

<b>Balance Sheet</b>			
	<b>Dr.</b>		<b>Cr</b>
<b>Current Assets</b>		<b>Current Liabilities</b>	
Bank	15600	Creditors	5000
Stock	19000		
Debtors	500	<b>Proprietorship</b>	
	35100	Capital	50000
<b>Non Current Assets</b>		less Draw	250
Computer	5000		49750
Van	15000	Plus Profit	350
			50100
	55100		55100

## More Accounting Concepts

### Accrual vs. Cash Accounting

When do you consider the money yours?

Cash accounting records receipts and payments when they are received and made. To many businesses this is quite acceptable as the time lag between the sale and payment is short.

Accrual accounting attempts to match income and expenses in the same period and works on the principle that a sale is recorded when the purchaser has a legal obligation to pay. This is usually on delivery and acceptance of the consignment.

A good example to illustrate both systems is the Real Estate industry. Estate Agents can choose to record a sale and commission earned upon signing of a contract of sale: when the deposit is paid<sup>4</sup>, after the expiry of the 3 day cooling off period, when requisitions on title have been completed and the deposit can be released to the vendor (owner) of the property, or upon final settlement of the property.

Upon signing & payment of deposit	+ 1 days
After the 3 day cooling off period	+ 3 days
Upon Release of Deposit	+ 30 - 45 days
Upon Settlement	+ 30 - 120 days (usually 60 days)

The accrual method suggests sale recognition would occur after the 3 day cooling off period. The cash method suggests sale recognition occur upon release of the deposit - if at that time the agent can deduct commission, or upon settlement.

In January a business paid an annual insurance premium of \$360. The cash method would accept the \$360 as a deduction for January, whereas the accrual method would accept only  $\$360 \div 12 = \$30$  as a deduction.

In reality businesses mix both methods, but you need to be aware of the Tax Department requirements for your business and make adjustments as required.

---

<sup>4</sup> The deposit may be paid a day or two after signing the contract.

## Periodic & Perpetual Inventory Systems

There are two well-recognised forms of accounting for inventory, the Periodic and Perpetual Inventory Systems. So far we have used the periodic system, which is recognised by the term "Stock at Start" and "Stock at End" in the Profit and Loss statement. With this system, goods purchased are recorded as Debits to the Purchases expense account. Stock is counted at the beginning and end of the period to calculate the amount of stock sold.

### *Example*

At the beginning of the year a business counts its stock to the value of \$50,000. During the year they purchase stock to the value of \$300,000 and find they have stock to the value of \$75,000 at the end of the period. To calculate their cost of goods sold, we add Stock at Start to Purchases and subtract Stock at End:

Purchases	300000
plus	
Stock at Start	50000
Cost of goods available for sale	<u>350000</u>
less Stock at End	75000
Cost of goods sold	<u>275000</u>

The periodic system is most suitable for businesses which have many sales transactions of relatively small unit costs, eg. chemists, milk bars, grocery stores etc. Programs like MYOB First Account, BestBooks and Quicken work with the periodic system, whereas MYOB works with both systems.

Businesses which sell fewer items of higher value may often wish to track stock lines or individual items and have the ability to calculate theoretical stock values at any time. The perpetual system allows for this by debiting the Inventory asset account instead of the Purchases expense account when stock is received. When goods are sold the cost price of the item is transferred to Cost of Goods Sold account.

Many larger firms are moving over to the Perpetual system, as it allows the firm to track individual lines and items on a continual basis. In addition, they can check their theoretical stock levels with actual levels to ascertain any shortages and investigate them if significant. Many companies set up these systems to automatically generate purchase orders when stock falls below a certain level. As you can imagine, computers are playing an important role in this change.

It can be expensive and labour intensive to set up and maintain a Perpetual system. This is why many smaller businesses continue to use the Periodic system. Apart from cost, it is a question of how much detail do you need and how far are you willing to go to obtain this information.

MYOB works on the Perpetual Inventory System as described above. It updates the Asset Inventory account each time something is sold. It deducts from Inventory the number of items

(sold as listed on every invoice) and adds to Inventory every time something is purchased. It also keeps track of the number of items on hand.

MYOB uses this information in conjunction with the prices paid for inventory items to work out the Cost of Sales. This is deducted from Sales to give the Trading profit.

MYOB performs all the debits and credits automatically for a perpetual system. Manual debits and credits are required for the Periodic system. The following example illustrates the difference between the two systems:

## Journal Entries

Periodic Inventory System			Perpetual Inventory System		
	Dr.	Cr.		Dr.	Cr.
1. Purchased \$1,200 of merchandise on account					
Purchases	1200		Inventory	1200	
Creditors		1200	Creditors		1200
2. Returned \$200 worth of merchandise to vendor.					
Creditors	200		Creditors	200	
Purchase Returns		200	Inventory		200
3. Paid for merchandise					
Creditors	1000		Creditors	1000	
Bank		1000	Bank		1000
4. Sold goods costing \$500 for \$800.					
Debtors	800		Debtors	800	
Sales		800	Sales		800
			Cost of Goods Sold	500	
			Inventory		500
*5. Physical count of inventory shows \$19,800, whereas the inventory account under the perpetual system shows \$20,000. Therefore a loss of \$200 has occurred. Starting inventory under the periodic system was \$25,000.					
(Closing entries)					
Profit & Loss	25000		Inventory Shrinkage	200	
Inventory		25000	Inventory		200
Inventory	19800				
Profit & Loss		19800			

\*The closing entries under point 5 adjust a Periodic system's Profit and Loss account in terms of Stock at Start and Stock at End figures. It also adjusts the value of the Inventory as seen in the Assets section of the Balance Sheet. Inventory in the Balance sheet was \$25,000, but is now \$19,800.

## Accounting Problem

Account for the following transactions by writing up the In/decrease tables (Journal Entries), post the entries to the Ledgers (Accounts), perform a Trial Balance and produce a Profit & Loss Statement along with a Balance Sheet.

### December

- 1st You decide to start your own business. You inject \$25,000 into a business bank account.
- 2nd You locate premises to rent and pay the Estate Agent \$2,400 as a Security Deposit (Bond) and one month's rent of \$2,600.
- 3rd You purchase Plant & Equipment to the value of \$5,000.
- 5th You purchase stock to the value of \$8,500.
- 8th You make cash sales to the value of \$1,500.
- 9th You extend credit to customers and sell them goods to the value of \$1,750.
- 10th A friendly supplier extends you credit to purchase stock to the value of \$1,500.
- 11th You pay a telephone bill for \$250.
- 13th Your debtor pays \$1,000 off his account.
- 14th You pay your creditor \$900 off your account.

**Additional Information:** Stock at the end of the trading period totals \$9,000.

**Note:** The following pages are already formatted for your use and included in the workbook.



**Exercise 27.1 - Worksheet - Journals**

Date	Account	Type	In/decrease	Dr	Cr
1/12	Bank	Asset	Increase	25,000	
	Capital	Prop	Increase		25,000
2/12	Security Dep.	Asset	Increase	2,400	
	Bank	Asset	Decrease		2,400
2/12					
3/12					
5/12					
8/12					
9/12					
10/12					
11/12					
13/12					
14/12					

## Exercise 27.1 - Worksheet - Ledgers

<b>Bank (A)</b>			
Capital	25000	Bond	2400
Balance B/f			
<b>Capital (P)</b>			
		Bank	25000
<b>Security Deposit (Bond) (A)</b>			
Bank	2400		
<b>Rent (E)</b>			
<b>Plant &amp; Equipment (A)</b>			

<b>Purchases (E)</b>	
Balance B/f	
<b>Sales (R)</b>	
	Balance B/f
<b>Debtors (A)</b>	
Balance B/f	
<b>Creditors (L)</b>	
	Balance B/f
<b>Phone (E)</b>	

Debit	Credit
Bank (A)	Capital (P)
Security Deposit (A)	Sales (R)
Rent (E)	Creditors (L)
Plant & Equipment (A)	
Purchases (E)	
Debtors (A)	
Phone (E)	
28,850	28,850

### Exercise 2.1 - Worksheet - Profit & Loss Statement

<b>Sales</b>	
less Cost of Goods Sold	
Stock at Start	
plus Purchases	
less Stock at End	-9,000
<b>Gross Profit</b>	
Less Expenses	
Rent	
Phone	
<b>Net Profit (Loss)</b>	-600

Note: Figures in (Brackets) are negative

### Exercise 27.1 - Worksheet - Balance Sheet

Dr.	Cr
<b>Current Assets</b>	<b>Current Liabilities</b>
Bank	Creditors
Security Dep	
Stock	<b>Proprietorship</b>
Debtors	Capital
	Plus Profit (600)
<b>Non Current Assets</b>	
Plant & Equipment	
25,000	25,000

Note: Figures in (Brackets) are negative

**Exercise 27.1 Solution - Journals**

Date	Account	Type	In/decrease	D r	C r
1/12	Bank	Asset	Increase	25,000	
	Capital	Prop	Increase		25,000
2/12	Security Depo	Asset	Increase	2,400	
	Bank	Asset	Decrease		2,400
2/12	Rent	Expense	Increase	2,600	
	Bank	Asset	Decrease		2,600
3/12	Plant & Equip	Asset	Increase	5,000	
	Bank	Asset	Decrease		5,000
5/12	Purchases	Expense	Increase	8,500	
	Bank	Asset	Decrease		8,500
8/12	Bank	Asset	Increase	1,500	
	Sales	Revenue	Increase		1,500
9/12	Debtors	Asset	Increase	1,750	
	Sales	Revenue	Increase		1,750
10/12	Purchases	Expense	Increase	1,500	
	Creditors	Liability	Increase		1,500
11/12	Phone	Expense	Increase	250	
	Bank	Asset	Decrease		250
13/12	Bank	Asset	Increase	1,000	
	Debtors	Asset	Decrease		1,000
14/12	Creditors	Liability	Decrease	900	
	Bank	Asset	Decrease		900

**Exercise 27.1 Solution - Ledgers**

<b>Bank (A)</b>		<b>Capital (P)</b>	
Capital	25000	Bond	2400
Sales	1500	Rent	2600
Debtors	1000	Plant & Equipr	5000
		Purchases	8500
		Phone	250
		Creditors	900
		Balance	7850
	27500		27500
Balance B/f	7850		
<b>Rent (E)</b>		<b>Plant &amp; Equipment (A)</b>	
Bank	2600	Bank	5000
<b>Purchases (E)</b>		<b>Sales</b>	
Bank	8500		
Creditors	1500	Balance	3250
	10000		3250
Balance B/f	10000		
<b>Creditors (L)</b>		<b>Debtors (A)</b>	
Bank	900	Sales	1750
Balance	600		
	1500		1750
		Balance B/f	750
<b>Phone</b>			
Bank	250		

### Exercise 27.1 Solution - Trial Balance

Debit		Credit	
Bank (A)	7,850	Capital (P)	25,000
Security Deposit	2,400	Sales (R)	3,250
Rent (E)	2,600	Creditors (L)	600
Plant & Equipmer	5,000		
Purchases (E)	10,000		
Debtors (A)	750		
Phone (E)	250		
	28,850		28,850

### Exercise 27.1 Solution - Profit & Loss Statement

<b>Sales</b>		3,250
less Cost of Goods Sold		
Stock at Start	0	
plus Purchases	10,000	
less Stock at End	<u>(9,000)</u>	1,000
<b>Gross Profit</b>		2,250
Less Expenses		
Rent	2,600	
Phone	<u>250</u>	2,850
<b>Net Profit (Lo</b>		-600

### Exercise 27.1 Solution - Balance Sheet

Dr.		Cr	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Bank	7,850	Creditors	600
Security Dep	2,400		
Stock	9,000		
Debtors	<u>750</u>		
	20,000		
<b>Non Current Assets</b>		<b>Proprietorship</b>	
Plant & Equipment	5,000	Capital	25,000
		Plus Profit	<u>(600)</u>
			24,400
	25,000		25,000