

Essential Insight – Practical Guide Unit 1

Accounting and Finance Year 11 ATAR

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<p>Resource Hub Link: https://www.eibooks.com.au/acf</p> <ul style="list-style-type: none"> • Worked solutions to all questions. • Learning and Teaching Resources that align with book chapters. • SCSA Syllabus categorised to align with book chapters. • Current Sponsorship Opportunities • Community Partnership Opportunities • + Much more 	
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Accounting and Finance has components which are theoretically focused, and others which are primarily practically focused with some supporting theory. The table below breaks down what each textbook includes and how these can be used.

Textbook	This textbook includes:	This textbook is useful for:
Course Guide	<ul style="list-style-type: none"> • Theory for the theory-focused chapters of the course. • Student review questions for the theory focused chapters to assist student mastery of theory and useful for revision prior to assessments. • Key summary information from the practically focused chapters. <p>Note: Elaborated step-by-step explanation of practical chapters with practical review questions are included in the Practical Guide.</p>	<ul style="list-style-type: none"> • Student learning and teaching of theory chapters with practice questions. • Revising both theory and practical chapters when completing practice questions or revising prior to assessments. <p>Note: This textbook is similar in nature to a revision guide for the entire course, but it is also adequate for the learning and teaching of the theory chapters.</p>
Practical Guide	<ul style="list-style-type: none"> • All practical and theory for practical-focused chapters. • Step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level. <p>Note: Chapters which are primarily theory-focused are included in the Course Guide.</p>	<ul style="list-style-type: none"> • Student learning and teaching of practical content-adjacent to relevant theory. • Student practice of practical chapters.
Exam Guide	<ul style="list-style-type: none"> • SCSA Year 12 exams categorised to match the chapters of the course and practical guides. 	<ul style="list-style-type: none"> • Student practice of exam questions at the end of all chapters of the textbook and prior to assessments.

These textbooks have been written succinctly whilst also covering all necessary content and skills required from initial concept attainment to exam level. The thorough nature of this book provides confidence that this resource contains all skills and content needed to achieve top ATAR results. The succinct nature of these textbooks is designed to assist with reducing barriers for all students. This succinct nature should also allow students to spend less time taking notes and more time applying higher order skills to gain mastery.

There are several research tasks throughout the textbooks that allow students to develop research skills and the ability to decipher paragraphs of text to apply relevant skills. These can also be adapted to be used as assessment project tasks.

A PDF copy of the textbook is available for teachers for use of projecting the textbook during class. If interested, please contact the email address on the Resource Hub linked on this cover page.

Chapters	
Unit 1	Unit 2
1. Small Business Structures	11. Inventory Costing Methods
2. Bankruptcy and Sources of Finance	12. Professional Associations and Code of Conduct
3. Accounting Introduction	13. Depreciation and Sale of Asset
4. Accounting Principles	14. Balance Day Adjustments
5. Goods and Services Tax	15. Classified Financial Statements with Balance Day Adjustments
6. AASB Conceptual Framework and Financial Statements	16. Ratios
7. General Journal and General Ledger Introduction	17. Electronic Processing
8. Inventory Systems – Perpetual and Periodic Methods	18. Accounting Software (Resources for this chapter are on the Resource Hub)
9. Internal Control	
10. Corporate Social Responsibility	

Chapters highlighted in blue are theory-focused chapters. Chapters highlighted in green are practical-focused chapters.

Foreword from Chartered Accountants Australia & New Zealand To Essential Insight Accounting and Finance Students

What does it mean to be an accountant?

If you're reading this, you already have an aptitude or interest in numbers and problem solving, but accounting careers are about so much more than that.

While the subjects you choose during high school will help you shape your futures, the beauty of accounting is that its relevant to any career you choose.

Accountants are woven throughout the global economy. A career in accounting opens doors in just about every corner of the world, across sectors, industries and businesses of every size.

Indeed, we'd like to tell you that accounting offers you a pathway to turn your passions into a career because it's hard to think of an industry or sector that doesn't have an accountant helping guide the big decisions.

Behind every athlete, every business big or small, every brand you love, every game you lose yourself in, there are financial experts making epic things possible. As an accountant, you're the go-to problem solver, using your money smarts and business skills to help your company or clients reach their goals.

And for the foreseeable future, there's huge demand for accountants. If you're seeking job security, global experiences, excellent earning potential, a dynamic lifestyle, influence, and you thrive on challenges, accounting could be your pathway to a fulfilling, impactful and epic career.

If you're interested in learning more about careers in accounting, we've teamed up with Year 13 to show you there's more to accounting than meets the eye. Visit year13.com.au/academy/business-class to learn more and consider joining our student membership program at cacanz.com/epic-future.

Until we see you in the accounting profession, continue to be passionate about your studies and dream big!

Samantha Wilson FCA
General Manager, CA Program



Why a career in accounting is the ultimate flex



You're at the heart of every business

Behind every athlete, every business big or small, every brand you love, and every game you lose yourself in, there is a financial expert making epic things possible.

As an accountant, you're the go-to problem solver, using your money smarts and business skills to help your company or clients reach their goals. It's about putting together clues to create a plan for the business, looking at the big picture, and coming up with a clever strategy for success.

You can be whatever you want

Accounting can open the door to just about any industry your heart desires. Imagine being the mastermind behind the next big social media sensation, the genius orchestrating live events and music festivals, or a change-maker in a not-for-profit organisation.

Explore exciting fields like sports, entertainment, gaming and tech. You could even roll with big names like Disney, Nike, and YouTube.

The top 10 perks of accounting

- 1. Job security:** You'll always be hot property.
- 2. Awesome earning opportunities:** Live the good life earning the big bucks.
- 3. Travel the world:** With skills as your passport, the world's your oyster.
- 4. Work in any industry:** Pursue your passions.
- 5. Fresh opportunities:** New gigs are always popping up.
- 6. Varied roles:** On the roles buffet, pick your fave flavour.
- 7. Climb high:** Follow the footsteps of big-shot CEOs.
- 8. Earn respect:** This career's got major street cred.
- 9. Transferable skills:** Pack up your skills and take them to any industry you fancy.
- 10. Life-work balance:** Live your best life while enjoying an awesome career.



Unlock a world of opportunities and skills



Accounting is your ticket to freedom

In Australia and New Zealand, accounting is one of the largest professions and is where the cash is at. Grads pull in an average annual salary* of \$60,000. But CA-certified pros? They're cashing in up to \$175,000 (oh yeah!).** The best part? You can work anywhere in the world – in your dream industry.

Less number crunching, more epic

AI's got your back. It's transforming the way modern accountants work. Now you can focus on the exciting stuff – you're a data wizard, insights detective, and strategic mastermind!

Skills that can take you anywhere!

Do you dream of growing a side hustle, becoming an entrepreneur, or a champion for social justice? Accounting skills can make it happen.

- Be a problem-solving pro
- Hone your decision making game
- Polish your people skills
- Level up on logic and fairness
- Be money wise in business and life

* Indicative average only – exact salary will depend on location, industry, and role. Hays Salary Guide FY23/24 Accounting and Finance.

** Data obtained for senior qualified accountants in managerial roles in Queensland, Australia. Hays Salary Guide FY23/24 Accounting and Finance.

TIP: Accounting skills like *problem-solving, negotiation, and analytical thinking, can help you get ahead both in your career and your life.*

Real accountants (CAs) making epic things happen



Meet Amanda Gore CA

Crime Fighter

Founder and Director of The Centre for Global Advancement (C4GA).

- She's a real-life crime fighter based in Kenya.
- Combats wildlife and environmental crime by following money trails.
- Travels globally training authorities to detect and investigate financial crimes.
- Is passionate about helping the planet.



Meet Rishabh Tandon CA

Business Trailblazer

Music Licensing Expert at YouTube.

- He's Aussie-born, and now lives and works in New York City.
- Collaborates with music artists, songwriters, and creators.
- Ensures musicians get rewarded for their creativity.
- Has turned his passion for music and travel into a career.



Meet Rebecca Glover CA

Community Empowerer

Senior Finance Director at World Vision.

- She works for the world's biggest humanitarian organisation.
- Ensures World Vision's resources are put to their best use.
- Finds working in a not-for-profit to be incredibly fulfilling.
- Is driven by her passion to create a brighter, better world.

What's next? Uncover the steps for an epic future

1

Get a head start

There are no prerequisites you need to study in high school. But diving into subjects like business, enterprise studies, accounting, agriculture, maths, technology, economics, and science, can help you get ahead of the game!

2

Explore your interests

Discover the ins and outs of the businesses, brands and causes you're passionate about.

3

Gain practical experience

Ask to do some interning at a local business. Some places take high school students as 'cadets', so you could kick-start your career right from high school.

4

Complete high school

Do your HSC (AU) or NCEA (NZ).

Study accounting

Apply for and complete an undergraduate qualification, such as a Bachelor of Accounting, Bachelor of Business or Commerce with a major in accounting. Or consider an accounting or business diploma from a Polytech or TAFE, or other government-registered higher education provider.

5

6

Start your career

Make epic things happen in an industry you love.

Boost your career

In today's fast-paced world, professionals need an edge, and the CA Program's globally recognised qualification provides exactly that.

7

TIP: Look into programs like the Year13's Virtual Work Experiences to get a taste of the business world and the skills that'll help you succeed.

Top tips from accounting students



Mitchell

"It's remarkable how many CEOs and directors of large companies are Chartered Accountants. Studying accounting can lead you to incredible opportunities."

Bachelor of Business and Accounting student at Monash University, Australia.

"I understand the pressure of making a career choice in high school. Gather as much information as possible to make an informed decision. Attend information nights or networking events. Now's the best time to explore all your options."

Bachelor of Commerce (Accounting and Finance) student at the University of Auckland, New Zealand.



Kjirsti

"With accounting skills you could work in London in a big corporate firm, or stay local and support small businesses. Clarify your goals, dreams and ambitions, then pursue your degree and work hard. When you look up, you'll find you have all you want and more."

Bachelor of Commerce (Accounting and Taxation) student at the University of Canterbury, New Zealand.



Benjamin



TIP: Have questions? Ask us anything or request a school visit from our awesome speaker squad (CAs and accounting students) to share their real-world stories and insights.

How to become Financially Independent and Retire Early (FIRE) for Essential Insight Accounting and Finance Students



Dave Gow, author of Strong Money Australia.

Who am I?

Hi, my name is Dave Gow from Perth, Western Australia. I became financially independent and retired at the age of 28. My partner and I achieved financial independence whilst working regular jobs with yearly incomes of around \$75,000 and without going to university. What allowed us to achieve FIRE was the application of strong, tried and tested, financial principles. Now that I'm financially independent I have the freedom to pursue my passions such as environmental volunteering and helping others learn about how to use their money to create freedom. I do this through my book, blogs and podcasts, and articles written for leading investment platforms.

Tim Coveney, the author of the ACF ATAR book you are reading, told me that many ACF ATAR students are interested in the idea of becoming financially independent and possibly having the option to retire early. Whilst the ACF ATAR course doesn't specifically teach financial independence, studying financial independence will help build your financial literacy skills and be useful personally and professionally. I have created a range of resources to share with you on the following links which will help bridge the gap between what you learn while studying ACF ATAR and FIRE.

Resource links

The below resources are designed to help you start your journey learning about FIRE. You may enjoy discussing these concepts with your teachers, parents and friends.

	Beginner's Guide to FIRE	Strong Money Australia Book
QR Code		
Link	https://strongmoneyaustralia.com/beginners/	https://strongmoneyaustralia.com/book/
Description	Here you'll find everything you need to know about how to start working towards financial independence. Articles, podcasts, Q&A, and free eBooks.	Dave's book shares the complete roadmap to reaching financial independence in Australia. Available in paperback, eBook, and audiobook.

How can learning about FIRE help high school Accounting and Finance ATAR students?

There are many reasons why Accounting and Finance students should prioritise learning about financial independence. Achieving financial independence is not just about earning, it is about managing resources wisely and creating a sustainable financial future. Financial independence is essentially the ability to cover your living expenses without relying on a regular paycheck. By understanding the principles of financial independence students can develop a roadmap to achieve their own financial goals, such as buying a home, starting a business, and maybe even early retirement. This knowledge empowers you to take control of your financial future and make thoughtful decisions that give you more control over your life.

As accounting and finance students, the skillset you develop uniquely positions you to navigate the complexities of personal finance with precision and essential insight.

We all have to navigate the complexities of finance, such as loans, investments, superannuation, and money management. Learning about financial independence and wealth creation equips you with the mental and practical skills to make better financial decisions that align with your goals and avoid costly mistakes.

Understanding personal finance puts you way ahead of the game. You're able to move forward with confidence, and make informed decisions based on the knowledge you've gained. And as you build that strong foundation, you ensure a bright future in an area that most people struggle with. You can spot opportunities, overcome financial hurdles, and move through life with greater certainty.

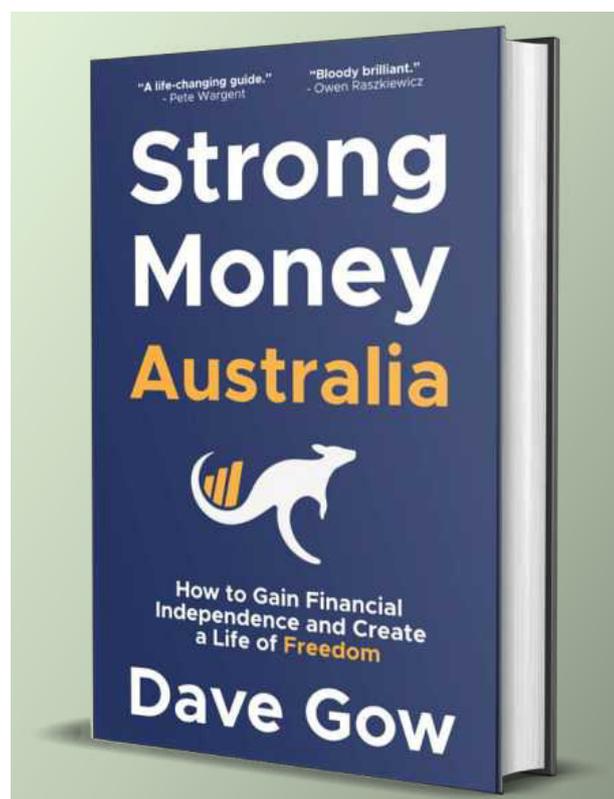
As future professionals in finance, you may be entrusted to advise others on similar matters. Acquiring expertise in the growing field of financial independence equips you to provide valuable guidance to clients, colleagues, or businesses.

But more than that, pursuing financial independence on a personal level gives you a profound sense of security, enabling you to pursue professional and personal goals with confidence. In essence, Integrating financial independence education into your studies benefits you personally, and also prepares you to be a well-rounded and capable financial professional.

Embrace the journey toward financial independence and let your financial acumen serve as a cornerstone for a secure and fulfilling future.

Wishing you all the best for your future studies,

Dave Gow
Strong Money Australia



Strong Money Australia by Dave Gow.
A book on How to Gain Financial Independence and Create a Life of Freedom.



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Syllabus – Unit 1

Syllabus – Unit 1	
Small Business Structures	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • advantages and disadvantages of the main types of small business ownership • characteristics of the main types of small business ownership: sole trader, partnership and small proprietary company, including: <ul style="list-style-type: none"> ▪ number of owners ▪ liability of owners ▪ ability to raise capital or borrow funds ▪ distribution of profits ▪ transfer of ownership ▪ separate accounting or legal entity ▪ continuity of existence • different types and characteristics of business undertakings, including: <ul style="list-style-type: none"> ▪ manufacturing ▪ trading/retailing ▪ service providing <p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • legislation relating to the formation of sole traders and partnership, including: <ul style="list-style-type: none"> ▪ Business Names Registration Act 2011 (Cth) ▪ Partnership Act 1895 (WA)
Bankruptcy and Sources of Finance	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • the concept of bankruptcy as defined by the <i>Bankruptcy Act 1966</i> (WA) <p>Financial institutions</p> <ul style="list-style-type: none"> • sources of finance, other than equity, available to small businesses • advantages and disadvantages of these sources of finance • factors considered by financial institutions when approving finance <ul style="list-style-type: none"> ▪ risk <ul style="list-style-type: none"> ○ collateral ○ liquidity ○ history ○ guarantors ▪ return <ul style="list-style-type: none"> ○ interest rate ○ future business
Accounting Introduction	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ the accounting cycle: documents, journals, ledger, adjusting entries, closing entries and financial statements
Accounting Principles	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • accepted accounting principles and conventions, including: <ul style="list-style-type: none"> ▪ accounting entity ▪ monetary ▪ historical cost ▪ materiality ▪ accounting period ▪ going concern
Goods and Services Tax	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • legislation relating to the formation of sole traders and partnership, including: <ul style="list-style-type: none"> ▪ GST Act 1999 (WA) • the impact of GST legal requirements on small businesses, including: <ul style="list-style-type: none"> ▪ registering for GST ▪ Australian Business Number (ABN) <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • principles and features of the GST, including: <ul style="list-style-type: none"> ▪ taxable supplies, GST-free supplies and input taxed supplies ▪ accounting and reporting for the GST, including the business activity statement (BAS) <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • calculation of the GST receivable or payable

Syllabus – Unit 1

AASB Conceptual Framework and Financial Statements	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ the accounting equation • simple definition of the elements of financial statements <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ equity ▪ income ▪ expenses • purpose of financial statements, including: <ul style="list-style-type: none"> ▪ performance ▪ financial position ▪ liquidity <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of simple classified financial statements for a sole trader excluding balance day adjustments <ul style="list-style-type: none"> ▪ income statements ▪ balance sheet (statement of financial position) for a trading/merchandising/service business <p><i>Note: The below syllabus points are in Unit 2 but are included in this section as these are relevant for this chapter.</i></p> <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • accrual basis of accounting as per the <i>Conceptual Framework for Financial Reporting</i> (the <i>Conceptual Framework</i>) • the distinction between cash and accrual methods of accounting • definition, as per the <i>Conceptual Framework</i>, of: <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ equity ▪ income ▪ expenses • recognition criteria, as per the <i>Conceptual Framework</i>, for: <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ income ▪ expenses • classification of income, expenses, assets and liabilities by nature and function
General Ledger and General Journal Introduction	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ double entry accounting • purpose of trial balance <ul style="list-style-type: none"> ▪ errors disclosed by the trial balance ▪ errors not disclosed by the trial balance <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ entries to commence business ▪ cash and credit transactions to include cash receipts, cash payments ▪ purchase of non-current assets ▪ withdrawal of inventory or cash by the proprietor ▪ correction of errors ▪ closing entries • manual preparation of trial balance
Inventory Systems – Periodic and Perpetual Methods	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ principles of the perpetual inventory system • perpetual versus periodic inventory methods <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ cash and credit transactions to include cash receipts, cash payments, sales, purchases, sales returns, purchases returns, discount allowed, discount received ▪ perpetual inventory system given the cost of sales (NOTE: No requirement to teach inventory costing systems, such as Last-in First-out, First-in First-out and weighted average) ▪ write-off bad debts
Internal Control	<p>Evaluating financial information for planning, coordinating, controlling and investing</p> <ul style="list-style-type: none"> • principles of internal control • application of the principles of internal control over cash, inventory, accounts receivable, accounts payable and non-current assets • limitations of internal control
Corporate Social Responsibility	<p>The influence of social, environmental and ethical factors</p> <ul style="list-style-type: none"> • costs and benefits for small business of engaging in socially, environmentally and ethically responsible behaviour, including: <ul style="list-style-type: none"> ▪ sponsorship ▪ resource conservation ▪ taxation responsibility

School Curriculum and Standards Authority. (2020). Accounting and Finance ATAR course Year 11 syllabus. The School Curriculum and Standards Authority does not endorse this publication or product.

5. Goods and Services Tax



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Why do governments collect taxes?</p>	
<p>Should businesses record the amount of taxes they pay? Why?</p>	
<p>Under what circumstances might a business receive a tax refund? Why?</p>	

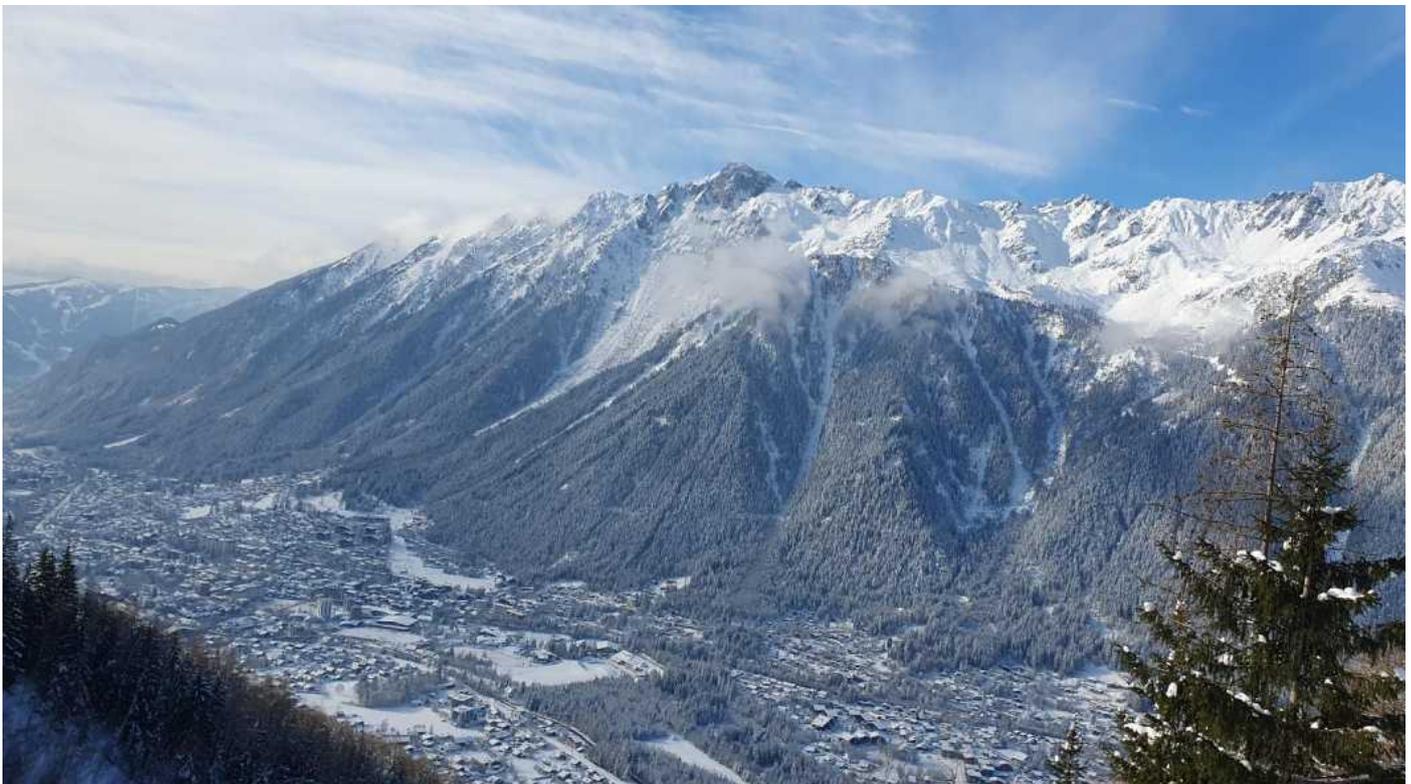
Goods and Services Tax – Syllabus

Syllabus – Unit 1	
Goods and Services Tax	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none">• legislation relating to the formation of sole traders and partnership, including:<ul style="list-style-type: none">▪ <i>GST Act 1999 (WA)</i>• the impact of GST legal requirements on small businesses, including:<ul style="list-style-type: none">▪ registering for GST▪ Australian Business Number (ABN) <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• principles and features of the GST, including:<ul style="list-style-type: none">▪ taxable supplies, GST-free supplies and input taxed supplies▪ accounting and reporting for the GST, including the business activity statement (BAS) <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none">▪ calculation of the GST receivable or payable

Goods and Services Tax – Introduction

The GST is a broad-based consumption tax of 10% on most goods and services sold or consumed in Australia. There are several legal requirements for small business regarding GST which include registration for GST, reporting of GST, preparation of tax invoices and the different types of GST supplies.

A business will collect GST credits when purchasing goods and services and pay GST payable when selling goods and services. At the end of a given period of time the difference between the GST credits and GST payable is calculated and the business will either receive a GST refund or owe the government a GST debt. This chapter will demonstrate the calculation of GST refund or debt. The recording and processing of GST is covered in other chapters of this book.



View from Mer de Glace train, Chamonix.

Goods and Services Tax (GST) – Legal requirements for small businesses

	GST Legal requirements
Legislation	GST Act 1999 (WA).
GST Nature	A broad-based consumption tax of 10% on most goods and services sold or consumed in Australia. <ul style="list-style-type: none"> • GST is charged at all stages of the supply chain (supplier, manufacturer, distributor, retailer). • The tax is ultimately passed on to the consumer.
GST Registration	<ul style="list-style-type: none"> • A business must register for GST if it has a GST turnover (gross income minus GST) of \$75,000 or more. • A business can voluntarily register for GST if GST turnover is less than \$75,000. • To register for GST a business must have an Australian Business Number (ABN).
Reporting GST	A business reports GST by lodging a Business Activity Statement (BAS) to the Australian Taxation Office (ATO). <ul style="list-style-type: none"> • BAS is completed and lodged monthly, quarterly or annually. The BAS can only be completed annually by businesses with GST turnover under \$75,000 which are voluntarily registered for GST. • Includes details of GST credits and GST payable (among other details). • Details the net GST refund or debt.
Tax Invoices	Businesses must provide invoices to customers for transactions within 28 days unless it is for a sale worth \$82.50 (including GST) or less. Information included on a tax invoice includes: <p><i>Note: Below numbers are demonstrated on the following tax invoice example.</i></p> <ol style="list-style-type: none"> 1. The document is intended to be a tax invoice. 2. The seller's identity. 3. The seller's Australian business number (ABN). 4. The date the invoice was issued. 5. A brief description of items sold, including quantity and price. 6. The GST amount. This can be shown: <ul style="list-style-type: none"> o Separately or o As a statement which says total price includes GST (this is only an option if the total sale is less than \$1000). 7. The extent that each sale on the invoice is a taxable sale. A sale is identified as taxable with the words: 'Total price includes GST.' 8. The buyer's identity (only required on sales of \$1000 or more).

Tax Invoice Example

Tax Invoice [1]				
Connor's Computer Supplies [2]			Address: 1 Smith Street,	
ABN: 32 111 111 111 [3]			South Perth WA 6151	
Date: 1/1/2042 [4]				
To: Buyer Name Here [8]				
Quantity [5]	Description	Unit price	GST [6]	Total
1	Computer keyboard	\$100	\$10	\$110
5	Computer mouse	\$10	\$1	\$55
Total price includes GST [6 + 7]				\$165

Note: Numbers in [brackets] refer to the relevant tax invoice summary in the above Legislation requirements summary table.

Example

Sam's Sports sells sporting goods and has turnover of more than \$75,000.

Sam sold soccer balls for \$110 inclusive of GST.

Sam has an upcoming sale of baseball bats. The GST exclusive price of this sale is \$200.

Required task:

Calculate the GST component included in the sales figure inclusive of GST.

Calculate the GST component to be added to sales figure exclusive of GST.

Solution**Step 1 – GST when sales figure is inclusive of GST.**

If a sales figure provided is inclusive of GST, the GST component can be found by dividing the sales figure by 11.

$$\text{GST} = \frac{\text{Sales figure inclusive of GST}}{11}$$

$$\begin{aligned} \text{GST} &= 110 / 11 \\ &= \$10 \end{aligned}$$

The sales figure exclusive of GST can be found by subtracting the Sales figure inclusive of GST by the GST component.

$$\text{Sales figure exclusive of GST} = \text{Sales figure inclusive of GST} - \text{GST}$$

$$\begin{aligned} \text{Sales figure exclusive of GST} &= 110 - 10 \\ &= \$100 \end{aligned}$$

Alternatively, the sales figure exclusive of GST can be found by multiplying the GST component by 10.

$$\text{Sales figure exclusive of GST} = \text{GST} \times 10$$

$$\begin{aligned} \text{Sales figure exclusive of GST} &= 10 \times 10 \\ &= \$100 \end{aligned}$$

Therefore, the GST component is \$10 and the GST exclusive sales figure is \$100.

Step 2 – GST when sales figure is exclusive of GST.

If a sales figure provided is exclusive of GST, the cost including GST can be found by multiplying the sales figure exclusive of GST by 1.1.

$$\text{Sales figure inclusive of GST} = \text{Sales figure exclusive of GST} \times 1.1$$

$$\begin{aligned} \text{Sales figure inclusive of GST} &= 200 \times 1.1 \\ &= \$220 \end{aligned}$$

Now that the sales figure inclusive of GST has been found, the GST component can be found using the method in Step 1. Two alternative methods are also shown below.

$$\text{GST} = \frac{\text{Sales figure inclusive of GST}}{11}$$

$$\begin{aligned} \text{GST} &= 220 / 11 \\ &= \$20 \end{aligned}$$

$$\text{GST} = \text{Sales figure inclusive of GST} - \text{Sales figure exclusive of GST}$$

$$\begin{aligned}\text{GST} &= 220 - 200 \\ &= \$20\end{aligned}$$

$$\text{GST} = \text{Sales figure exclusive of GST} \times 0.1$$

$$\begin{aligned}\text{GST} &= 200 \times 0.1 \\ &= \$20\end{aligned}$$

Therefore, the GST component is \$20 and the sales figure inclusive of GST is \$220.



Hōkan-ji Temple, Kyoto.

Practice Questions

Questions 1-5: Calculating the GST component of a sale and GST Legal Requirements.

Tip	<u>Course Guide</u>
	While completing this chapter you may find it useful to refer to the relevant chapter in the Essential Insight Course Guide. The Course Guide summarizes all theory relevant for each practical guide chapter. This saves time flipping through multiple pages in the Practical Guide while revising. The Course Guide can be found by navigating to the Resource Hub link on the front page.

Question 1

Calculate the amount of GST from the figures inclusive of GST.

	Sales figure inclusive of GST	GST Component	Sales figure exclusive of GST
a	330	$= 330 / 1.1$ $= 30$	$= 330 - 30$ $= 300$
b	110		
c	88		
d	2200		
e	450		
f	390		
g	1560		

Question 2

Calculate the amount of GST from the figures exclusive of GST.

	Sales figure exclusive of GST	Sales figure inclusive of GST	GST Component
a	300	$= 300 \times 1.1$ $= 330$	$= 300 \times 0.1$ $= 30$
b	600		
c	1300		
d	2500		
e	470		
f	80		
g	129		

Question 3

Describe the nature of GST.

Question 4

Describe when a business register must for GST.

Question 5

Describe how a business reports GST.

Calculation of GST Receivable or GST Payable

	Nature
GST payable	GST collected/included during sales.
GST credits	GST paid by the business to suppliers.
GST receivable / refund	When GST credits is greater than GST payable. The business receives the difference as a refund from the ATO.
GST payable / debt	When GST payable is greater than GST credits. The business must pay the difference to the ATO.

GST and Accrual Accounting

GST payable or receivable is reported to the ATO every month or quarter via a Business Activity Statement (BAS). Most businesses use the accrual method of accounting. Accrual accounting is covered in more detail throughout Unit 1 and Unit 2.

Financial Statements	Cash Accounting	Accrual Accounting
GST credits recognised / recorded	GST credits recognised when the cash is received.	GST credits recognised when the transaction occurs (income earned). The cash may or may not have been received yet.
GST payable recognised / recorded	GST payable recognised when the cash is paid.	GST payable recognised when the transaction occurs (expense incurred). The cash may or may not have been paid yet.

Example 1

Artisan Timber buys and sells furniture and has provided the following information for the months of March and April 2032.

- On 1 March, the business received \$200 + \$20 GST = \$220 for a that was sold on credit in February.
- On 5 March the business purchased a chair for cash \$300 + \$30 GST = \$330.
- On 10 March the business purchased a table on credit for \$620 + \$62 GST = \$682.
- On 20 March the business sold the chair on credit for \$550 + \$55 GST = \$605.
- On 13 April the business sold the table for on credit \$860 + \$86 GST = \$946.

Required task:

Calculate the GST receivable or payable for the month ended 31 March 2032 using the accrual method of accounting.

Solution

Step 1 – Calculation of total GST payable and total GST credits.

The total GST payable is found by adding together the total GST paid by the business to suppliers. The total GST credits is found by adding together total GST collected by the business during sales.

- The cash received on 1 March for the sale on credit in February is not relevant for the March GST calculation as this would have been recorded in the month of February. This is due to accrual accounting.
- The sale of the table on 13 April is not recorded in the month of March as this will be recorded in the following month.

GST Credits		GST Payable	
Purchase of chair	\$30	Sale of chair	\$55
Purchase of table	\$62		
Total GST Credits	\$92	Total GST Payable	\$55

Therefore, the total GST credits is \$92 and the total GST payable is \$55.

Step 2 – Calculation of GST debt or refund.

The total GST payable is subtracted from the total GST credits.

- Positive result = GST refund
 - When GST credits are greater than GST payable. The business receives the difference between GST credits and GST payable as a refund from the ATO.
- Negative result = GST debt
 - When GST payable is greater than GST credits. The business must pay the difference between GST payable and GST credits to the ATO.

$$\text{GST refund or debt} = \text{GST credits} - \text{GST payable}$$

$$\begin{aligned} \text{GST refund or debt} &= 92 - 55 \\ &= \$37 \end{aligned}$$

As the result is a positive figure, the GST receivable (refund) from the ATO for the month ended 31 March 2032 is \$37.

Practice Questions

Questions 6-10: Calculation of GST receivable or payable.

Question 6

The following information has been supplied by Coogee Coffee Works.

- On 4 February 2030, sold one coffee machine for cash \$400 + \$40 GST = \$440 GST.
- On 6 February 2030, received cash owing from a credit sale that occurred on 18 Jan of \$1250 + \$125 GST.
- On 14 February 2030, purchased three coffee machines on credit for \$280 + \$28 GST = \$318.
- On 24 February 2030, sold one coffee machine on credit for \$510 + \$51 GST = \$561.

Required task:

Calculate the GST receivable or payable for the month ended 28 February 2030 using the accrual method of accounting.

GST Credits		GST Payable	
Total GST Credits		Total GST Payable	

GST debt or refund calculation

Question 7

The following information has been received from Slick's Graphic Designs.

- On 15 January 2053, sold services for cash \$1800 + \$180 GST = \$1980.
- On 15 January 2053, received cash from credit sale of services of \$1560 + 156 GST = \$1,716. The tax invoice was sent to the customer in November 2052.
- On 15 February 2053, sold services on credit for \$4180 + \$418 GST = \$4,598.
- On 15 March 2053, purchased a printed on credit for \$2,900 + \$290 GST = \$3,190.
- On 15 March 2053, paid cash for advertising \$800 + \$80 GST = \$880.

Required task:

Calculate the GST receivable or payable for the quarter ended 31 March 2053 using the accrual method of accounting.

GST Credits		GST Payable	
Total GST Credits		Total GST Payable	

GST debt or refund calculation

Question 8

The following information has been provided by Protea Wholesalers.

- On 4 November 2047, Purchased a motor vehicle for cash \$20,500 + \$2,050 GST.
- On 7 November 2047, paid for cleaning services provided on credit last month \$450 + \$45 GST = \$495.
- On 9 November 2047, Cash received from credit inventory sale \$3,200 + \$320 GST. The invoice was sent last month.
- On 15 November 2047, paid cash for services from a contractor \$2,100 + \$210 + \$2,310.
On 16 November 2047, inventory was purchased on credit for \$5,380 + \$538 GST = \$5,918.
- On 21 November 2047, inventory was sold on credit for \$9,250 + \$925 GST = \$10,175.

Required task:

Calculate the GST receivable or payable for the month ended 30 November 2047 using the accrual method of accounting.

GST Credits		GST Payable	
Total GST Credits		Total GST Payable	

GST debt or refund calculation

Question 9

Spotless Cleaning Services has provided the following financial information.

- On 4 January 2039, performed services for cash \$2,200 inclusive of GST.
- On 9 January 2039, received cash from services provided on credit last month. \$4,400 GST inclusive.
- On 12 January 2039, purchased equipment on credit for \$900 exclusive of GST.
- On 21 January 2039, performed services on credit for \$6200 GST exclusive.
- On 28 January 2039, purchased cleaning products for cash \$400 + \$40 GST = \$440.

Required task:

Calculate the GST receivable or payable for the month ended 31 January 2039 using the accrual method of accounting.

Note: for transaction figures provided as inclusive or exclusive of GST, the GST component will need to be calculated.

Workings

GST Credits		GST Payable	
Total GST Credits		Total GST Payable	

GST debt or refund calculation

Question 10

Orange Computers has provided the following information.

- On 7 September 2029, purchased computers on credit for \$18,700 exclusive of GST.
- On 12 September 2029, provided computer repair services for cash \$770 inclusive of GST.
- On 19 September 2029, paid for stationery purchased on credit during July 2029 \$500 + \$50 = \$550 GST.
- On 21 September 2029, sold computers for cash \$5,200 GST exclusive.
- On 30 September 2029, sold computers for cash \$8,550 GST inclusive.

Required task:

Calculate the GST receivable or payable for the month ended 30 September 2029 using the accrual method of accounting.

Note: for transaction figures provided as inclusive or exclusive of GST, the GST component will need to be calculated.

Workings

GST Credits		GST Payable	
Total GST Credits		Total GST Payable	

GST debt or refund calculation

Types of GST Supplies

Type of Supply	Principle	Examples	Features	
			Can the business collect GST Payable?	Can the business collect GST Credits?
Taxable supply	A GST registered business makes a taxable sale when the sale is: <ul style="list-style-type: none"> • For payment of some kind. • Made during business operations. • Connected with Australia. 	In Australia a GST registered business sells: <ul style="list-style-type: none"> • Inventory. • Land. • Vehicles. 	Yes	Yes
GST-free supply	<ul style="list-style-type: none"> • GST is not included in the sale price of a product or service. • GST credits can be claimed for the GST included in purchases used to make GST-free sales. 	<ul style="list-style-type: none"> • Most basic food. • Some education courses. • Some medical services and medicines. • Exports. 	No	Yes
Input-taxed supply	Sales that do not include GST in the selling price. GST credits cannot be claimed for the GST included in the price of inputs.	Financial supplies: <ul style="list-style-type: none"> • Lending of money. • Providing credit for a fee. Residential premises: <ul style="list-style-type: none"> • Rent. • Sale. 	No	No

Practice Questions

Questions 11-14: Types of GST Supplies.

Question 11

a. Describe the principle of Taxable Supplies.

b. Can the business collect GST payable on Taxable Supplies?

Yes	No
-----	----

c. Can the business collect GST credits Taxable Supplies?

Yes	No
-----	----

Question 12

a. Describe the principle of GST-free Supplies.

b. Can the business collect GST payable on GST-free Supplies?

Yes	No
-----	----

c. Can the business collect GST credits GST-free Supplies?

Yes	No
-----	----

Question 13

a. Describe the principle of Input-Taxed Supplies.

b. Can the business collect GST payable on Input-Taxed Supplies?

Yes	No
-----	----

c. Can the business collect GST credits Input-Taxed Supplies?

Yes	No
-----	----

Question 14

Classify the following GST Supplies.

	Taxable Supply	GST-free	Input-Taxed Supplies
Basic food			
Purchase of furniture			
Sale of a residential house			
Sale of machinery			
TAFE Course			
Credit card			
Exports of iron ore			
Sale of stationery			
Sale of coffee			
Renting an apartment			
Purchase of land			
Sale of a suit			
Doctor appointment			
Mortgage			



Taxation

Number Ninja

Make epic things happen working in taxation. You'll ensure businesses stay on the right side of the law, and be their tax-savvy sidekick, providing guidance on strategic business choices, asset acquisitions and operational matters.

Is it a good match for me?

If you are a master of both people and numbers, an excellent listener, and possess an eagle-eyed attention to detail, then you're a seamless fit.

Where could I work?

Accounting firms of every size, whether they are big players, small teams, or even if you are the mastermind behind your very own business.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



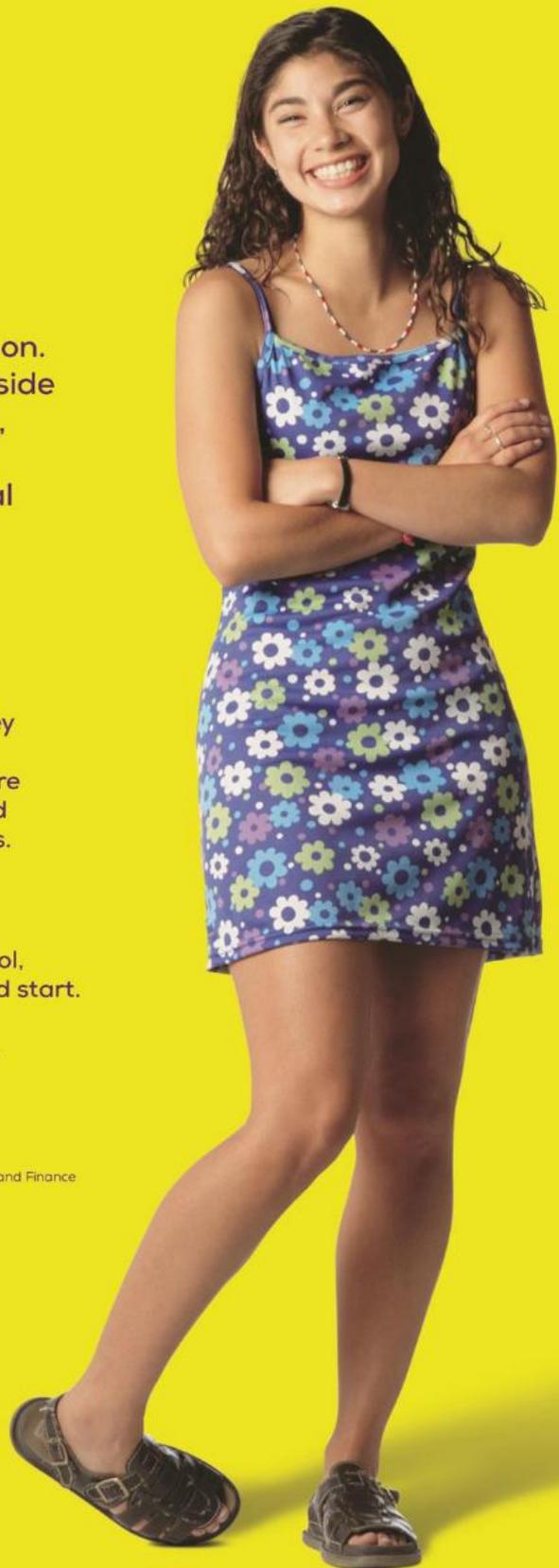
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Government Accounting

Public Guardian

Be the financial superhero who wears the government cape managing the money of public organisations. Use your powers to shape decisions that impact us all, and ensure taxpayers' funds are used wisely and ethically, all while advancing the greater good and making epic things happen.

Is it a good match for me?

If you're a common good fighter, a curious and impartial explorer, a team collaborator with a strong moral compass, and a master communicator, negotiator, and problem solver, then you're a perfect fit.

Where could I work?

At all levels of government – federal, state, and local and at numerous departments such as education, health and human services, agriculture, transport, defence. Or at the United Nations managing funds for international humanitarian and development projects.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



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Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance



make epic things happen

6. AASB Conceptual Framework and Financial Statements



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>What would be the impact of businesses producing financial statements using different accounting standards?</p>	
<p>Why would potential investors benefit from consistent accounting standards?</p>	
<p>Would the cash owned by a business be categorised in the same way as money that the business owes? Why?</p>	

AASB Conceptual Framework and Financial Statements – Syllabus

Syllabus – Unit 1	
AASB Conceptual Framework and Financial Statements	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• fundamental concepts and conventions of financial accounting, including:<ul style="list-style-type: none">▪ the accounting equation• simple definition of the elements of financial statements<ul style="list-style-type: none">▪ assets▪ liabilities▪ equity▪ income▪ expenses• purpose of financial statements, including:<ul style="list-style-type: none">▪ performance▪ financial position▪ liquidity <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none">• manual preparation of simple classified financial statements for a sole trader excluding balance day adjustments<ul style="list-style-type: none">▪ <i>income statements</i>▪ <i>balance sheet (statement of financial position) for a trading/merchandising/service business</i> <p><i>Note: The below syllabus points are in Unit 2 but are included in this section as these are relevant for this chapter.</i></p> <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• accrual basis of accounting as per the <i>Conceptual Framework for Financial Reporting (the Conceptual Framework)</i>• the distinction between cash and accrual methods of accounting• definition, as per the <i>Conceptual Framework</i>, of:<ul style="list-style-type: none">▪ <i>assets</i>▪ <i>liabilities</i>▪ <i>equity</i>▪ <i>income</i>▪ <i>expenses</i>• recognition criteria, as per the <i>Conceptual Framework</i>, for:<ul style="list-style-type: none">▪ <i>assets</i>▪ <i>liabilities</i>▪ <i>income</i>▪ <i>expenses</i>▪ <i>classification of income, expenses, assets and liabilities by nature and function</i>

AASB Conceptual Framework and Financial Statements – Introduction

The Australian Accounting Standards Board (AASB) Conceptual Framework provides guidance and structure for accountants to prepare financial statements. This chapter will introduce two types of financial statements and the elements of these statements:

- The balance sheet that presents information about a business's:
 - Assets.
 - Liabilities.
 - Equity.
- The income statement and its elements that presents information about a business's:
 - Income.
 - Expenses.

Conceptual Framework – Elements

- Provide definitions for key terms such as assets, liabilities, equity, income and expenses.
- Outlines Qualitative Characteristics of financial statements.
- Objective of financial statements.

Conceptual Framework – Purpose

Purpose	Describe (Assists 'X' to...)
Assist AASB	<ul style="list-style-type: none"> Develop Australian Accounting Standards based on consistent concepts.
Assist preparers of financial statements	<ul style="list-style-type: none"> Develop consistent accounting processes when: <ul style="list-style-type: none"> No standard applies to a given event, or A standard allows choice.
Assist users of financial statements	<ul style="list-style-type: none"> Increase confidence and transparency. Understand standards which guide the preparation of financial statements.
Assist auditors	<ul style="list-style-type: none"> Determine whether financial statements align with AAS.

AASB stands for: Australian Accounting Standards Board. AAS stands for: Australian Accounting Standards.

Financial statements – Purpose

Purpose / Provide information about entity's	Discuss (Information about the entities...)	This information is found in
Financial position	<ul style="list-style-type: none"> Assets, liabilities, and equity (economic resources). 	Balance sheet.
Financial performance	<ul style="list-style-type: none"> Ability to use economic resources to generate profit. 	Income statement.
Liquidity / cash flows	<ul style="list-style-type: none"> Ability to pay debts as they fall due i.e., liquidity and solvency. Ability to generate future new cash inflows. 	Balance sheet.

Fundamental Qualitative Characteristics of Financial Information

	Definition
Relevance	<p>Adapted from 2.6: Information that can make a difference in the decisions made by users. Information could make a difference if it has:</p> <ul style="list-style-type: none"> Predictive value: information can be used to predict future outcomes. Confirmatory value: information provides feedback about (confirms or changes) previous evaluations.
Faithful Representation	<p>Adapted from 2.12-2.18: To be perfectly faithful, information is complete, neutral, and free from error.</p> <ul style="list-style-type: none"> Complete: includes all information necessary for a user to understand events depicted, including all necessary descriptions and explanations. Neutral: no bias in financial information selection or presentation. Free from error: no errors or omissions in the description of the events, and the process used to produce the reported information has been selected and applied with no errors in the process. <p>Perfection is rarely (if ever) achievable. Above qualities should be maximized as much as possible.</p>

Practice Questions

Questions 1-8: AASB Conceptual Framework and Financial Statements Introduction.

Tip	<p><u>Course Guide</u> While completing this chapter you may find it useful to refer to the relevant chapter in the Essential Insight Course Guide. The Course Guide summarizes all theory relevant for each practical guide chapter. This saves time flipping through multiple pages in the Practical Guide while revising. The Course Guide can be found by navigating to the Resource Hub link on the front page.</p>
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Question 1

A purpose of the AASB Conceptual Framework for Financial Statements does not include:

- Assist auditors to assess whether reports are prepared in line with accounting standards.
- Assist the AASB develop accounting standards.
- Assist preparers of financial statements to mitigate tax responsibility.
- Assist users of financial statements to have confidence financial reports are comparable.

Question 5

Describe three purposes of the AASB Conceptual Framework.

Question 6

Describe the elements of the conceptual framework.

Question 7

A fundamental qualitative characteristic of financial information is relevance. Define relevance, predictive value and confirmatory value.

Question 8

A fundamental qualitative characteristic of financial information is faithful information. Describe information that is complete, neutral and free from error.

Balance Sheet Introduction

During this section we will cover the elements included in a business's balance sheet, followed by the preparation of a balance sheet. A balance sheet presents information about a business's assets, liabilities and equity.

Asset Definition and Recognition Criteria

Asset	
Simple Definition	An item that provides benefit to a business.
Examples	<ul style="list-style-type: none"> • Cash at Bank. • Accounts Receivable. • Inventory. • GST Credits. • Office Furniture. • Motor Vehicle.
Conceptual Framework Definition	<p>A present economic resource controlled by the entity as a result of past events.</p> <p>An economic resource is a right that has the potential to produce economic benefits.</p>
Aspects of definition	<ul style="list-style-type: none"> • Right. • Potential to produce economic benefits. • Control.
Recognition Criteria	<ul style="list-style-type: none"> • An asset is only recognized in financial statements if it: <ul style="list-style-type: none"> ○ Meets aspects of the definition. ○ Provides users of financial statements with information that is useful, i.e., with: <ul style="list-style-type: none"> ▪ Relevant information. ▪ Faithful representation.

Aspects of the Conceptual Framework Definition of Asset

Aspect of definition	Description of aspect	Examples
Right	Rights that have the potential to produce economic benefits.	<p>Rights that correspond to an obligation of another party:</p> <ul style="list-style-type: none"> • Rights to receive cash. • Rights to receive goods or services. <p>Rights that do not correspond to an obligation of another party:</p> <ul style="list-style-type: none"> • Rights over physical objects, such as property, plant and equipment or inventories. • Rights to use intellectual property.
Potential to produce economic benefits	An economic resource is a right that has the potential to produce economic benefits.	<ul style="list-style-type: none"> • Receive cash or other economic resources by selling the economic resource. • Produce goods or provide services. • Using the economic resource to enhance the value of other economic resources.
Control	Control links an economic resource to an entity.	<p>An entity controls an economic resource if it has the present ability to:</p> <ul style="list-style-type: none"> • Direct the use of the economic resource and • Obtain the economic benefits that may flow from it.

Example

A business owns \$5,000 of inventory which it intends to sell for a profit in the future.

Required task:

Determine if inventory of the business meets the aspects of the Conceptual Framework definition.
Determine if inventory should be included in the financial statements of the business.

Solution**Step 1 – Aspects of the definition of an asset.**Right:

The business has the right to use or sell the inventory.

Potential to produce economic benefits:

The inventory can be sold which will result in cash inflows for the business. The inventory therefore has the potential to produce economic benefits for the business.

Control:

The business owns the inventory.

Therefore, inventory meets the aspects of the definition of an asset.

Step 2 – Recognition Criteria.

The recognition criteria determines whether an item should be included in financial statements.

Aspects of the definition:

The aspects of the definition were met in the previous step.

Relevance:

The inclusion of inventory in financial statements has the ability to influence the decision of users of the financial statements.

Faithful Representation:

The inventory was purchased for \$5,000 and this was recorded correctly.

Therefore, inventory meets the recognition criteria and should be included in financial statements.

Practice Questions

Questions 9-14: Assets.

Question 9

Provide a simple definition of assets.

Question 10

Define asset according to the Conceptual Framework.

Question 11

List the three aspects of the definition of asset.

Question 12

Identify which of the following are assets.

Item	Asset?
Loan from Bank	
Cash at bank	
GST Payable	
GST Credits	
Inventory	
Accounts Payable	
Accounts Receivable	
Prepaid Insurance (Insurance paid in advance for the next 6 months)	
Motor Vehicle	
Mortgage	
Bank overdraft (a bank account with a negative balance that is owed to the bank)	

Question 13

Identify which of the following are assets.

Item	Asset?
Mortgage	
Motor Vehicle	
GST Payable	
Land	
Office furniture	
GST Credits	
Accounts Payable	
Cash at Bank	
Bank overdraft	
Prepaid Advertising (Advertising paid in advance for the next 3 months)	

Question 14

Calculate the total value of assets.

Item	Value
Cash at bank	\$3,000
Motor vehicle	\$15,000
GST Payable	\$3,000
Accounts Receivable	\$2,000
Accounts Payable	\$1,000
Machinery	\$10,000
Loan from bank	\$5,000
GST Credits	\$1,000
Office equipment	\$2,000

Workings

Liability Definition and Recognition Criteria

	Liability
Simple Definition	Money owing by a business.
Examples	<ul style="list-style-type: none"> • Accounts Payable. • Loan from Bank. • Mortgage. • GST Payable.
Conceptual Framework Definition	A present obligation of the entity to transfer an economic resource as a result of past events.
Aspects of definition	<ul style="list-style-type: none"> • Obligation. • Entity to transfer an economic resource. • Result of past events.
Recognition Criteria	<ul style="list-style-type: none"> • A liability is only recognized in financial statements if it: <ul style="list-style-type: none"> ○ Meets aspects of the definition. ○ Provides users of financial statements with information that is useful, i.e., with: <ul style="list-style-type: none"> ▪ Relevant information. ▪ Faithful representation.

Aspects of the Conceptual Framework Definition of Liability

Aspect of definition	Description of aspect	Examples
Obligation	An obligation is a duty or responsibility that an entity has no practical ability to avoid.	<ul style="list-style-type: none"> • Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed.
Entity to transfer an economic resource	The obligation must have the potential to require the entity to transfer an economic resource to another party (or parties).	<ul style="list-style-type: none"> • Obligations to pay cash. • Obligations to deliver goods or provide services.
Result of past events	<p>A present obligation exists as a result of past events only if:</p> <ul style="list-style-type: none"> • The entity has already obtained economic benefits; and • As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer. 	<ul style="list-style-type: none"> • The economic benefits obtained could include, for example, goods or services. • The economic resources the entity would have to transfer includes cash or goods and services.

Example

A business takes out a loan for \$10,000 which it must repay in the future.

Required task:

Determine if this loan meets the aspects of the Conceptual Framework definition.

Determine if this loan should be included in the financial statements of the business.

Solution**Step 1 – Aspects of the definition of a liability.**Obligation:

The business has an obligation to repay the loan.

Entity to transfer an economic resource:

The business will repay the loan using cash. The payment of this cash to the bank is a transfer of an economic resource.

Result of past events:

The loan was taken out at a previous date.

Therefore, the loan meets the aspects of the definition of a liability.

Step 2 – Recognition Criteria.

The recognition criteria determines whether an item should be included in financial statements.

Aspects of the definition:

The aspects of the definition were met in the previous step.

Relevance:

The inclusion of the loan in financial statements has the ability to influence the decision of users of the financial statements.

Faithful Representation:

The loan was purchased for \$10,000 and this was recorded correctly.

Therefore, the loan meets the recognition criteria and should be included in financial statements.

Practice Questions

Questions 15-20: Liabilities.

Question 15

Provide a simple definition of liabilities.

Question 16

Define liabilities according to the Conceptual Framework.

Question 17

List the three aspects of the definition of asset.

Question 18

Identify which of the following are liabilities.

Item	Liability?
Loan from Bank	
Cash at bank	
GST Payable	
GST Credits	
Inventory	
Accounts Payable	
Accounts Receivable	
Prepaid Insurance	
Motor Vehicle	
Mortgage	
Bank overdraft	

Question 19

Identify which of the following are liabilities.

Item	Liability?
Mortgage	
Motor Vehicle	
GST Payable	
Land	
Office furniture	
GST Credits	
Accounts Payable	
Cash at Bank	
Bank overdraft	
Prepaid Advertising	

Question 20

Calculate the total value of assets.

Item	Value
Cash at bank	\$3,000
Motor vehicle	\$15,000
GST Payable	\$3,000
Accounts Receivable	\$2,000
Accounts Payable	\$1,000
Machinery	\$10,000
Loan from bank	\$5,000
GST Credits	\$1,000
Office equipment	\$2,000

Workings

Equity Definition and Recognition Criteria

	Equity
Simple Definition	Owner contributions to a business.
Examples	<ul style="list-style-type: none">• Capital.• Drawings.• Profit.
Conceptual Framework Definition	The residual interest in the assets after deducting all its liabilities.
Aspects of definition	N/A.
Recognition Criteria	<ul style="list-style-type: none">• Equity is only recognized in financial statements if it:<ul style="list-style-type: none">◦ Provides users of financial statements with information that is useful, i.e., with:<ul style="list-style-type: none">▪ Relevant information.▪ Faithful representation.

Example

A business has \$15,000 in assets and \$9,000 of liabilities.

Required tasks:

Determine the equity of the owners of the business according to the Conceptual Framework definition. Determine if this loan should be included in the financial statements of the business.

Solution

Step 1 – Equity of the owners of the business according to the Conceptual Framework definition.

$$\begin{aligned}\text{Equity} &= \text{Assets} - \text{Liabilities} \\ &= 15,000 - 9,000 \\ &= \$6,000\end{aligned}$$

Therefore, the equity of the owners of the business is \$6,000.

Step 2 – Recognition Criteria.

The recognition criteria determines whether an item should be included in financial statements.

Relevance

The inclusion of capital in financial statements has the ability to influence the decision of users of the financial statements.

Faithful Representation

The capital was valued at \$6,000 and this was recorded correctly.

Therefore, the equity meets the recognition criteria and should be included in financial statements.

Practice Questions

Questions 21-26: Equity.

Question 21

Provide a simple definition of equity.

Question 22

Define equity according to the Conceptual Framework.

Question 23

The balance sheet of the business includes the following information:

- Assets: \$20,000
- Liabilities: \$12,000

Required task:

Calculate the equity of the business.

Workings

Question 24

The balance sheet of the business includes the following information:

- Assets: \$15,000
- Liabilities: \$5,000

Required task:

Calculate the equity of the business.

Workings

Question 25

The balance sheet of the business includes the following information:

Item	Value
Cash at bank	\$3,000
Motor vehicle	\$15,000
GST Payable	\$3,000
Accounts Receivable	\$2,000
Accounts Payable	\$1,000
Machinery	\$10,000
Loan from bank	\$12,000

Required task:

Calculate the equity of the business.

Workings

Question 26

The balance sheet of the business includes the following information:

Item	Value
GST Credits	\$3,000
GST Payable	\$2,000
Bank overdraft	\$1,000
Accounts Receivable	\$3,000
Inventory	\$8,000
Office Equipment	\$5,000
Accounts Payable	\$4,000

Required task:

Calculate the equity of the business.

Workings

Simple Accounting Equation

The simple accounting equation is:

- Assets = Liability + Equity

This equation is always true for the financial information of any business.

Example – Business Start Up

The following transactions were recorded by a business.

On 5 October 2032, a business commences with the owner contributing \$10,000 to the business.

On 12 October 2032, the business purchases \$2,000 of inventory on credit.

Required task:

Verify the accounting equation for the contribution of capital by the owner to start the business.

Verify the accounting equation for the credit purchase of inventory.

Solution

Step 1 – Commencement of business.

The contribution by the business owner:

- Increases equity (capital) by \$10,000.
- Increases assets (cash at bank) by \$10,000.

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Equity} \\ \mathbf{10,000} & = & 0 & + & \mathbf{10,000} \end{array}$$

Therefore, the accounting equation is correct.

Step 2 – Purchase of inventory on credit.

The purchase of inventory on credit:

- Increases assets (inventory) by \$2,000.
- Increases liability (accounts payable) by \$2,000.

$$\begin{array}{rclcl} \text{Assets} & = & \text{Liabilities} & + & \text{Equity} \\ 10,000 + \mathbf{2,000} & = & 0 + \mathbf{2,000} & + & 10,000 \\ \mathbf{12,000} & = & \mathbf{2,000} & + & \mathbf{10,000} \end{array}$$

Therefore, the accounting equation is correct.

Practice Questions

Questions 27-28: Simple Accounting Equation.

Question 27

The balance sheet of the business includes the following information:

Item	Value
Accounts Payable	\$3,000
Accounts Receivable	\$6,000
Cash at Bank	\$2,000
Motor Vehicle	\$20,000
Loan from Bank	\$7,000
Capital (Equity)	\$18,000

Required task:

Calculate the value of assets, liabilities and equity.

Workings

Assets	=	Liabilities	+	Equity
	=		+	

Question 28

The balance sheet of the business includes the following information:

Item	Value
Capital (Equity)	\$15,000
GST Payable	\$2,000
Mortgage	\$25,000
Building	\$30,000
GST Credits	\$1,000
Inventory	\$4,000
Machinery	\$10,000
Accounts Payable	\$3,000

Required task:

Calculate the value of assets, liabilities and equity.

Workings

Assets	=	Liabilities	+	Equity
	=		+	

Simplified Balance Sheet Preparation

A Simplified Balance Sheet presents information about a business's assets, liabilities and equity at a given point in time. This presented information allows users to make economics decisions regarding the company. A Balance Sheet is also known as a "Statement of Financial Position."

Example

The following information has been provided by Serpentine Traders during the first month of business.

On 5 June 2035, the owner commenced business by contributing \$10,000 of capital and taking out a \$5,000 loan. This money was used to purchase \$4,000 of office equipment and place \$11,000 in the business bank account.

On 12 June 2035, the business purchased \$6,000 + \$600 GST of inventory. \$2,200 was paid for with cash, the remaining \$4,400 was on credit.

On 18 June 2035, the owner of the business contributed a motor vehicle to the business worth \$12,000.

Required task:

Prepare a simplified balance sheet to present the assets, liabilities and equity of the business after each of the above transactions.

Solution

Step 1 – Commencement of business transaction.

On 5 June 2035, the owner commenced business by contributing \$10,000 of capital and taking out a \$5,000 loan. This money was used to purchase \$4,000 of office equipment and place \$11,000 in the business bank account.

The top of the balance sheet details the name of the business, the name of the statement and the date which it was prepared.

The assets of the business are entered and totalled on the left side of the simplified balance sheet.

- Cash at Bank \$11,000.
- Office Equipment \$4,000.

The liabilities and equity are entered and totalled on the right side of the balance sheet.

- Loan from Bank \$5,000.
- Capital \$10,000.

Serpentine Traders Simplified Balance Sheet as at 5 June 2035			
Assets		Liabilities	
Cash at Bank	11,000	Loan from Bank	5,000
Office Equipment	4,000	Equity	
		Capital	10,000
	\$15,000		\$15,000

Step 2 – Purchase of inventory.

On 12 June 2035, the business purchased \$6,000 + \$600 GST of inventory. \$2,200 was paid for with cash, the remaining \$4,400 was on credit.

The assets of the business are updated and totalled:

- Inventory \$6,000
- GST Credits \$600
- Cash at bank \$11,000 – \$2,200 = \$8,800

The liability of the business is updated and totalled:

- Accounts Payable \$4,400

**Serpentine Traders
Simplified Balance Sheet
as at 12 June 2035**

Assets		Liabilities	
Cash at Bank	8,800	Loan from Bank	5,000
Inventory	6,000	Accounts Payable	4,400
GST Credits	600		
Office Equipment	4,000	Equity	
		Capital	10,000
	\$19,400		\$19,400

Step 3 – Contribution of motor vehicle.

On 18 June 2035, the owner of the business contributed a motor vehicle to the business worth \$12,000.

The assets of the business are updated and totalled:

- Motor Vehicle = \$12,000

The equity of the business is updated and totalled:

- Capital = \$10,000 + \$12,000

**Serpentine Traders
Simplified Balance Sheet
as at 18 June 2035**

Assets		Liabilities	
Cash at Bank	8,800	Loan from Bank	5,000
GST Credits	6,000	Accounts Payable	4,400
Inventory	600		
Office Equipment	4,000	Equity	
Motor Vehicle	12,000	Capital	22,000
	\$31,400		\$31,400

Practice Questions

Questions 29-32: Simplified Balance Sheet.

Tips

Example Statement

An example simplified balance sheet has been provided as a reference whilst completing the practice questions.

Labelling the question

When reading questions, it is helpful to label each item with either A, L or E. This will help prepare the different sections of the balance sheet.

Keeping track

Tick each item in the question as you enter these to the balance sheet to keep track of which entries have been included.

Balance Sheet / Statement of Financial Position – Simplified Statement Preparation

Key:	<ul style="list-style-type: none"> • Green = assets. • Red = liabilities. • Blue = equity.
-------------	---

Business Name			
Simplified Balance Sheet			
as at X Month 20XX			
Assets		Liabilities	
Cash at Bank	X	Accounts Payable	X
GST Credits	X	GST Payable	X
Accounts Receivable	X	Loan from Bank	X
Office Furniture	X	Equity	
Motor Vehicle	X	Capital	X
	\$TOTAL		\$TOTAL

Note: for the first two questions a template simplified balance sheet has been provided for you to fill in. For the next two questions, practice drawing and completing a simplified balance sheet in your notebook.

Question 29

The following information has been supplied by Fresh As Designs as at 30 September 2029.

Item	Value
Cash at Bank	4,000
GST Payable	2,000
Loan from Bank	6,000
Capital	16,000
Inventory	5,000
Accounts Receivable	3,000
Motor Vehicle	12,000

Required task:

Prepare a simplified balance sheet as at 30 September 2029.

Fresh As Designs			
Simplified Balance Sheet			
as at 30 September 2029			
Assets		Liabilities	
Cash at Bank		Loan from Bank	
Inventory		GST Payable	
Accounts Receivable			
Motor Vehicle		Equity	
		Capital	

Question 30

The following transactions have occurred during the first month of a business operation for Yo-Yo Extreme.

- On 12 August 2029, the owner of a business contributed \$20,000 cash to the business bank account.
- On 15 August 2029, the owner purchased machinery for cash \$9,000 + \$900 GST = \$9,900.
- On 19 August 2029, the owner purchased inventory on credit for \$5,200 + \$520 GST = \$5,720.

Required task:

Prepare a simplified balance sheet as at 31 August 2029.

Workings

Yo-Yo Extreme Simplified Balance Sheet as at 31 August 2029			
Assets		Liabilities	
Cash at Bank		Accounts Payable	
GST Credits			
Inventory		Equity	
Machinery		Capital	

Question 31

The following information has been supplied by Logical Technology as at 30 April 2048.

Item	Value
Cash at Bank	5,000
GST Payable	2,000
Loan from Bank	21,000
Office Furniture	8,000
Inventory	10,000
Accounts Receivable	5,000
Motor Vehicle	21,000
Accounts Payable	7,000

Required task:

Calculate the capital and prepare a simplified balance sheet as at 30 April 2048.

Workings

Logical Technology Simplified Balance Sheet as at 30 April 2048			

Question 32

At the end of 31 October 2028, Battery Land had the following account balances.

Item	Value
Cash at Bank	1,000
Capital	11,600
GST Payable	2,400
Accounts Payable	4,000
Inventory	3,000
Accounts Receivable	3,000
Motor Vehicle	11,000

During the following month the following transactions took place.

- On 8 November 2028, the business took out a bank loan of \$15,000.
- On 17 November 2028, the business purchased inventory with cash \$6,200 + \$620 GST = \$6,820
- On 23 November 2028, the business purchased machinery with cash for \$2,500 + \$250 GST = \$2,750.

Required task:

Prepare a simplified balance sheet as at 30 November 2028.

Workings

Battery Land Simplified Balance Sheet as at 30 November 2028			

Classified Balance Sheet Preparation

A classified balance sheet involves the classification of assets and liabilities as either current or non-current.

Current and Non-Current Assets and Liabilities

	Nature	Examples
Current Assets	Short term assets that are used in less than 12 months. Can be sold quickly to be used for short term cash needs.	<ul style="list-style-type: none"> • Cash at Bank. • Inventory. • Accounts Receivable. • GST Credits. • Prepaid expenses (e.g., prepaid rent, prepaid insurance etc.)
Non-Current Assets	Longer term assets have a useful life of more than 12 months. Are more difficult to sell quickly to be used for short term cash needs.	<ul style="list-style-type: none"> • Motor Vehicle. • Machinery. • Office Equipment.
Current Liabilities	Liabilities due for payment in less than 12 months.	<ul style="list-style-type: none"> • Accounts Payable. • GST Payable. • Accrued expenses (e.g., accrued wages, accrued electricity etc.)
Non-Current Liabilities	Liabilities due for payment in more than 12 months.	<ul style="list-style-type: none"> • Mortgage. • Loan from Bank.

Example

The following simplified balance sheet has been prepared in the previous example and solution.

Serpentine Traders Simplified Balance Sheet as at 18 June 2035			
Assets		Liabilities	
Cash at Bank	8,800	Loan from Bank	5,000
GST Credits	6,000	Accounts Payable	4,400
Inventory	600		
Office Equipment	4,000	Equity	
Motor Vehicle	12,000	Capital	22,000
	\$31,400		\$31,400

Required task:

Prepare a classified balance sheet as at 30 June 2035.

Step 3 – Preparation of Classified Balance Sheet.

A classified balance sheet is prepared as demonstrated below.

Serpentine Traders Balance Sheet as at 30 June 2035			
Current Assets		Current Liabilities	
Cash at Bank	8,800	Accounts Payable	5,000
GST Credits	6,000	Non-Current Liabilities	
Inventory	600	Loan from Bank	4,400
Non-Current Assets		Equity	
Office Furniture	4,000	Capital	22,000
Motor Vehicle	12,000		
	\$31,400		\$31,400

Practice Questions

Questions 33-36: Current and Non-Current Assets and Liabilities.

Questions 37-39: Classified Balance Sheet.

Tips

Example statement

An example classified balance sheet has been provided as a reference whilst completing the practice questions.

Labelling the question

When reading questions, it is helpful to label each item with either CA, NCA, CL, NCL, E. This will help prepare the different sections of the balance sheet.

Keeping track

Tick each item in the question as you enter these to the balance sheet to keep track of which entries have been included.

Balance Sheet / Statement of Financial Position – Horizontal Statement Preparation

Business Name			
Balance Sheet			
as at 30 June 20XX			
Current Assets		Current Liabilities	
Cash at Bank	X	Accounts Payable	X
GST Credits	X	GST Payable	X
Accounts Receivable	X	Non-Current Liabilities	
Non-Current Assets		Loan from Bank	X
Office Furniture	X	Equity	
Motor Vehicle	X	Capital	X
	\$TOTAL		\$TOTAL

Question 33

Describe the nature of current and non-current assets.

Question 34

Classify the following assets as either current or non-current.

	Current Asset	Non-Current Asset
GST Credits		
Motor Vehicle		
Prepaid rent		
Cash at Bank		
Land		
Office Equipment		
Inventory		
Accounts Receivable		
Buildings		
Machinery		
Prepaid insurance		

Question 35

Describe the nature of current and non-current liabilities.

Question 36

Classify the following liabilities as either current or non-current.

	Current Liabilities	Non-Current Liability
GST Payable		
Accounts Payable		
Accrued electricity		
Loan from Bank (that will be repaid in 6 years)		
Bank overdraft		
Mortgage		
Accrued wages		

Question 37

The following information has been supplied by Clean Doggos.

Item	Value
Loan from Bank	3,000
Capital	10,890
Cash at Bank	4,900
Inventory	4,800
GST Payable	1,250
Accounts Payable	4,800
GST Credits	540
Office Equipment	6,500
Accounts Receivable	3,200

Required task:

Prepare a classified balance sheet as at 30 June 2024.

Clean Doggos Balance Sheet as at 30 June 2024			
Current Assets		Current Liabilities	
Cash at Bank		Accounts Payable	
GST Credits		GST Payable	
Inventory		Non-Current Liabilities	
Accounts Receivable		Loan from Bank	
Non-Current Assets		Equity	
Office Equipment		Capital	

Question 38

Lux Bags has supplied the following information.

Item	Value
Loan from Bank	13,900
Inventory	6,000
Cash at Bank	3,000
GST Payable	1,500
Office Equipment	4,000
Accounts Receivable	2,900
Machinery	9,000
Capital	9,500

Required task:

Prepare a classified balance sheet as at 30 June 2024.

Lux Bags Balance Sheet as at 30 June 2024			
Current Assets		Current Liabilities	
Cash at Bank		GST Payable	
Inventory		Non-Current Liabilities	
Accounts Receivable		Loan from Bank	
Non-Current Assets		Equity	
Office Equipment		Capital	
Machinery			

Classified Balance Sheet – Vertical Layout Preparation

It is possible to present a balance sheet in vertical format as demonstrated below.

Example

The following classified balance sheet has been prepared in the previous example and solution.

Serpentine Traders Balance Sheet as at 30 June 2035			
Current Assets		Current Liabilities	
Cash at Bank	8,800	Accounts Payable	5,000
GST Credits	6,000	Non-Current Liabilities	
Inventory	600	Loan from Bank	4,400
Non-Current Assets		Equity	
Office Furniture	4,000	Capital	22,000
Motor Vehicle	12,000		
	\$31,400		\$31,400

Required task:

Prepare a vertical classified balance sheet as at 30 June 2035.

Solution

Step 1 – Preparation of Vertical Balance Sheet.

In this vertical layout, the total assets, total liabilities and net assets are separate entries.

- Total Assets = Total Current Assets + Total Non-Current Assets.
- Total Liabilities = Current Liabilities + Total Non-Current Liabilities.
- Net Assets = Total Assets – Total Liabilities.

The vertical balance sheet presents a rearranged version of the accounting equation as:

- Assets – Liabilities = Equity.

Serpentine Traders Balance Sheet as at 30 June 2035	
Current Assets	
Cash at Bank	8,800
GST Credits	6,000
Inventory	600
Total Current Assets	15,400
Non-Current Assets	
Office Furniture	4,000
Motor Vehicle	12,000
Total Non-Current Assets	16,000
Total Assets	31,400
Current Liabilities	
Accounts Payable	5,000
Total Current Liabilities	5,000
Non-Current Liabilities	
Loan from Bank	4,400
Total Non-Current Liabilities	4,400
Total Liabilities	9,400
Net Assets	\$22,000
Equity	
Capital	22,000
Total Equity	\$22,000

Practice Questions

Questions 40-44: Vertical Balance Sheet.

Example statement

An example classified vertical balance sheet has been provided as a reference whilst completing the practice questions.

Tip

Labelling the question

When reading questions, it is helpful to label each item with either CA, NCA, CL, NCL, E. This will help prepare the different sections of the balance sheet.

Keeping track

Tick each item in the question as you enter these to the balance sheet to keep track of which entries have been included.

Balance Sheet / Statement of Financial Position – Vertical Statement Preparation

Key:

- Green = assets.
- Red = liabilities.
- Blue = equity.

Business Name Balance Sheet / Statement of Financial Position As at 30 June 20XX	
Current Assets	
Cash at Bank	X
Inventory	X
Stock of Supplies	X
Accrued Income	X
Prepaid expense (e.g., rent, insurance, advertising)	X
GST Credits	X
Accounts Receivable	X
Total Current Assets	X
Non-Current Assets	
Office Furniture	X
Motor Vehicle	X
Total Non-Current Assets	X
Total Assets	X
Current Liabilities	
Accounts Payable	X
GST Payable	X
Accrued expense (e.g., accrued wages, electricity)	X
Total Current Liabilities	X
Non-Current Liabilities	
Mortgage	X
Loan from Bank	X
Total Non-Current Liabilities	X
Total Liabilities	
Net Assets	X
Equity	
Capital	X
Add Profit	X
	X (C+AP)
Less Drawings	x
Total Equity	X

Question 40

The following horizontal balance sheet has been provided by Millennium Mining.

Millennium Mining Balance Sheet as at 30 June 2036			
Current Assets		Current Liabilities	
Cash at Bank	15,000	Accounts Payable	9,500
GST Credits	2,300	GST Payable	2,800
Inventory	18,000	Non-Current Liabilities	
Accounts Receivable	8,200	Loan from Bank	20,000
Non-Current Assets		Equity	
Motor Vehicle	26,000	Capital	37,200
	\$69,500		\$69,500

Required task:

Prepare a vertical balance sheet as at 30 June 2036.

Millennium Mining Balance Sheet as at 30 June 2036	
Current Assets	
Cash at Bank	
GST Credits	
Inventory	
Accounts Receivable	
Total Current Assets	
Non-Current Assets	
Motor Vehicle	
Total Non-Current Assets	
Total Assets	
Current Liabilities	
Accounts Payable	
GST Payable	
Total Current Liabilities	
Non-Current Liabilities	
Loan from Bank	
Total Non-Current Liabilities	
Total Liabilities	
Net Assets	
Equity	
Capital	
Total Equity	

Question 41

The following vertical balance sheet has been provided by Swan Glass Works.

Serpentine Traders Balance Sheet as at 30 June 2035	
Current Assets	
Cash at Bank	4,500
GST Credits	900
Inventory	6,000
Total Current Assets	11,400
Non-Current Assets	
Equipment	9,000
Machinery	3,200
Total Non-Current Assets	12,200
Total Assets	23,600
Current Liabilities	
Accounts Payable	2,800
Total Current Liabilities	2,800
Non-Current Liabilities	
Loan from Bank	7,000
Mortgage	10,000
Total Non-Current Liabilities	17,000
Total Liabilities	19,800
Net Assets	\$3,800
Equity	
Capital	3,800
Total Equity	\$3,800

Required task:

Prepare a horizontal balance sheet as at 30 June 2027.

Swan Glass Works Balance Sheet as at 30 June 2027			
Current Assets		Current Liabilities	
Cash at Bank		Accounts Payable	
GST Credits		Non-Current Liabilities	
Inventory		Loan from Bank	
Non-Current Assets		Mortgage	
Equipment		Equity	
Machinery		Capital	

Income Statement Introduction

During this section we will cover the elements included in a business's income statement, followed by the preparation of an income statement. An income statement presents information about a business's income and expenses.

Income Definition and Recognition Criteria

	Income
Simple Definition	Cash received by a business by selling goods or services.
Examples	<ul style="list-style-type: none">• Sales or Fees.• Discount received.• Interest income.• Gain on Sale of Investments.
Conceptual Framework Definition	Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
Aspects of definition	N/A.
Recognition Criteria	<ul style="list-style-type: none">• An element is only recognized in financial statements if it:<ul style="list-style-type: none">○ Meets aspects of the definition.○ Provides users of financial statements with information that is useful, i.e., with:<ul style="list-style-type: none">▪ Relevant information.▪ Faithful representation.



Kurashiki, Japan.

Example

A business sells inventory to a customer for \$1,000.

Required task:

Determine if this sale meets the Conceptual Framework definition of income.

Determine if sales should be included in the financial statements of the business.

Solution**Step 1 – Conceptual Framework Definition of Income.**

The AASB Conceptual Framework does not include aspects of the definition for income like it did for assets and liabilities. Instead, the Conceptual Framework definition includes key components that can be checked.

Increases in assets or decreases in liabilities:

The sale of inventory increases the cash at bank of the business by \$1,000.

Result in increases in equity:

The sale of inventory increases cash at bank which is an asset and as a result must increase either liabilities or equity. There is no change in the liabilities of the business as a result of this sale. Equity increases in the form of profit for the owner. Therefore, there is an increase in both assets and equity.

Other than those relating to contributions from the holders of equity claims:

The sale of inventory is not related to equity contributions by the business owner.

Therefore, sales meet the Conceptual Framework definition of income.

Step 2 – Recognition Criteria.

The recognition criteria determines whether an item should be included in financial statements.

Relevance:

The inclusion of sales in financial statements has the ability to influence the decision of users of the financial statements.

Faithful Representation:

The sales were valued at \$1,000 and this was recorded correctly.

Therefore, the sales meet the recognition criteria and should be included in financial statements.

Practice Questions

Questions 45-48: Income.

Question 45

Provide a simple definition of income.

Question 46

Define income according to the Conceptual Framework.

Question 47

Identify which of the following are income.

Item	Income
Cash at bank	
Sales	
Electricity bill	
Fees from customers	
Accounts receivable	
Wages	
Discount received (a discount received for paying a creditor early)	
Discount allowed (a discount given to a debtor for paying early)	
Advertising	
GST Credits	
GST Payable	
Interest on investment	

Question 48

Identify which of the following are income.

Item	Income
Sales	
Accounts Payable	
Fees from customers	
Accounts receivable	
Interest on investment	
Telephone bill	
Discount allowed	
GST Payable	
Discount received	
Wages	
Interest on bank deposit	

Expense Definition and Recognition Criteria

	Expense
Simple Definition	Cash spent during business operations.
Examples	<ul style="list-style-type: none">• Cost of Sales.• Discount allowed.• Rent.• Wages.
Conceptual Framework Definition	Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
Aspects of definition	N/A.
Recognition Criteria	<ul style="list-style-type: none">• An element is only recognized in financial statements if it:<ul style="list-style-type: none">○ Meets aspects of the definition.○ Provides users of financial statements with information that is useful, i.e., with:<ul style="list-style-type: none">▪ Relevant information.▪ Faithful representation.

Example

A business pays \$2,500 for the wages of staff.

Required task:

Determine if wages meet the Conceptual Framework definition.

Determine if wages should be included in the financial statements of the business.

Solution

Step 1 – Conceptual Framework Definition of Expense.

The AASB Conceptual Framework does not include aspects of the definition for expenses like it did for assets and liabilities. Instead, the Conceptual Framework definition includes key components that can be checked.

Decreases in assets or decreases in liabilities:

The payment of staff wages decreases the cash at bank of the business by \$2,500.

Result in decreases in equity:

The cost of wages decreases cash at bank which is an asset and as a result must decrease either liabilities or equity. There is no change in the liabilities of the business as a result of this sale. Equity decreases in the form of a decrease in profits (loss). Therefore, there is a decrease in both assets and equity.

Other than those relating to distributions to holders of equity claims:

The wages are not a distribution to the business owner.

Therefore, wages meet the Conceptual Framework definition of expense.

Step 2 – Recognition Criteria.

The recognition criteria determines whether an item should be included in financial statements.

Relevance:

The inclusion of wages in financial statements has the ability to influence the decision of users of the financial statements.

Faithful Representation:

The wages were valued at \$2,500 and this was recorded correctly.

Therefore, the wages meet the recognition criteria and should be included in financial statements.

Practice Questions

Questions 49-52: Expenses.

Question 49

Provide a simple definition of expenses.

Question 50

Define expense according to the Conceptual Framework.

Question 51

Identify which of the following are expenses.

Item	Expenses
Discount received	
Sales	
Wages of office staff	
Discount allowed	
Accounts Payable	
Loan from Bank	
Electricity bill	
Advertising	
GST Payable	
Internet bill	
Telephone bill	
GST Credits	

Question 52

Identify which of the following are expenses.

Item	Expenses
GST Credits	
GST Payable	
Wages of sales staff	
Legal fees	
Accounts Receivable	
Administration costs	
Mortgage	
Interest on loan	
Rent	
Cost of sales	
Motor Vehicle	
Petrol cost	

Expanded Accounting Equation

The simple accounting equation can be expanded to include income and expenses.

- **Assets + Expenses = Liability + Equity + Income**

Example

A business owner is preparing financial statements for the first time and is not sure how to account for income and expenses.

Required task:

Demonstrate how income and expenses are added to the accounting equation.

Solution

Step 1 – Profit increases owner's equity.

The profit of a business belongs to the owner. Therefore, profit increases the equity side of the simple accounting equation.

$$\text{Assets} = \text{Liability} + \text{Equity} + \text{Profit}$$

Step 2 – Components of Profit.

Profit is made up of income less expenses and can be broken down on the equation.

$$\text{Assets} = \text{Liability} + \text{Equity} + \text{Income} - \text{Expenses}$$

Step 3 – Rearrangement of the equation.

The equation can be rearranged as below.

$$\text{Assets} + \text{Expenses} = \text{Liabilities} + \text{Equity} + \text{Income}$$

This equation will be applied when preparing general ledger and general journal entries in future chapters.



Burano, Venice.

Income Statement Preparation

The income statement presents information about a business's income and expenses. The income statement is presented differently for a trading business or service business. Preparation of an income statement for a trading business and service business will both be covered in this section. Income statements can either be prepared using the cash or accrual method of accounting. Most businesses will use the accrual method of accounting and that is the method used during this section.

Cash and Accrual Accounting

Businesses can use either cash accounting or accrual accounting. Most businesses will use the accrual accounting method. Cash and accrual accounting is covered in more detail during unit 2.

Financial Statements	Cash Accounting	Accrual Accounting
Income recognised / recorded	Income recognized when the cash is received.	Income recognised when the transaction occurs (income earned). The cash may or may not have been received yet.
Expenses recognised / recorded	Expenses recognised when the cash is paid.	Expenses recognised when the transaction occurs (expense incurred). The cash may or may not have been paid yet.

Note: the main difference between these accounting methods is the timing that income and expenses are recognized. The balance sheet and income statement are prepared using the accrual method of accounting, in year 12 a statement of cash flows is prepared using the cash method of accounting.

Income Statement Preparation for a Trading Business

An income statement for a trading business classifies expenses into the following categories.

- Selling and Distribution Expenses.
- General and Administration Expenses.
- Financial Expenses.

Expense Classification

	Define	Examples
Selling and distribution	Costs associated with the sale, marketing and distribution of goods and services.	<ul style="list-style-type: none">• Advertising.• Freight Outwards.• Distribution vehicle service costs.• Petrol & oil.• Salaries of salespeople.
General and Administration expenses	Costs incurred by a business that are not directly related to the sale of goods and services.	<ul style="list-style-type: none">• Office supplies.• Rent.• Telephone.• Insurance.• Salaries of office staff.
Financial expenses	Costs associated with the borrowing of funds from lenders or creditors.	<ul style="list-style-type: none">• Bank fees.• Interest (e.g., on Loan/Mortgage).

Example

Outdoor Explorers supplied the following information for the year ended 30 June 2039.

Item	\$
Sales	120,000
Sales Returns	2,500
Discount Allowed	3,000
Cost of Sales	32,000
Freight (or cartage) Inwards	700
Customs Duty	400
Discount Received	1,200
Gain on Sale of Land	12,000
Gain on Sale of Investments	7,000
Interest (income)	900
Advertising	2,100
Freight Outwards	600
Distribution vehicle service costs	800
Petrol & oil	300
Salaries of salespeople	6,400
Office supplies	600
Rent	6,200
Telephone	700
Prepaid insurance	5,000
Salaries of office staff	4,000
Bank fees	250
Interest on loan	1,400

Additional information:

- Insurance expense for the year was \$2,000.
- Accrued salespeople wages (wages owing) on balance day was \$1,500.
- The owner withdrew \$40,000 from the business.

Required task:

Prepare an income statement for Outdoor Explorers for the period ended 30 June 2039.

Note: There are many steps in the solution for this example. This example may seem overwhelming at first but will make more sense as you complete the practice questions. When initially completing practice questions it is recommended to refer to this worked example.

Solution

Step 1 – Calculation of Net Sales.

Income Statements are prepared for a period. This is seen at the top of the income statement where it will state, "for the year ended 30 June 20XX". On the other hand, balance sheets are prepared at a specific point in time.

AASB15 Revenue from Contracts with Customers requires that:

- Net Sales = Sales – Sales Returns – Discount Allowed

This is laid out as demonstrated as below with the values in the far right column.

Outdoor Explorers Income Statement for the year ended 30 June 2039			
Sales			120,000
Less Sales Returns			2,500
Less Discount Allowed			3,000
Net Sales			114,500

Step 2 – Calculation of Gross Profit.

Gross Profit = Net Sales – Cost of Sales

AASB 102 Inventories requires that:

- Freight inwards and customs duty are added to the cost of sales as separate entries.
- Discount received is subtracted from the cost of sales as a separate entry.

It is important for the values to be in the correct column as demonstrated below. Each time a calculation is required the numbers move one column to the left.

Net Sales			114,500
Less Cost of Sales	32,000		
Freight (or cartage) Inwards	700		
Customs Duty	400	33,100	
Less Discount Received		1,200	31,900
Gross Profit			82,600

Step 3 – Calculation of Total Income.

Total Income = Gross Profit + Other Income

Other income is made up of:

- Gain on Sale of Land.
- Gain on Sale of Investments.
- Interest income.

These values are entered in the middle column because there is multiple other income entries. If there was only one type of other income then no additional calculation would be required and this value would be in the far right hand column.

Gross Profit			82,600
Add Other Income			
Gain on Sale of Land		12,000	
Gain on Sale of Investments		7,000	
Interest (income)		900	19,900
Total Income			102,500

Note: This space has deliberately left blank so the next step can be demonstrated on the same page.

Step 4 – Calculation of Other Expenses.

Relevant information in the additional information must be used to adjust entries if they are relevant to the income statement. Balance day adjustments are covered in detail during unit 2 of this course.

The initial entries included prepaid insurance of \$5,000. The additional information stated: Insurance expense for the year was \$2,000. Therefore, the insurance expense is \$2,000 and the prepaid insurance would need to be reduced by \$2,000 on the balance sheet ($5000 - 2000 = \$3,000$ prepaid insurance).

The initial entries included salespeople wages of \$6,400. The additional information stated: Accrued sales staff wages (wages owing) on balance day was \$1,500. These owing sales staff wages are added to the wages expense to make the salaries of salespeople \$7,900. The accrued salespeople wages are included on the balance sheet as a liability.

Now the 'Less Other Expenses' section of the Income Statement can be prepared. Each relevant item is individually listed under the relevant 'Other Expenses' category with the value in the far left column. Once all items in a category are listed these are totalled in the middle column. After totalling all three 'Less Other Expenses' categories, these are all totalled in the far right column.

<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising	2,100		
Freight Outwards	600		
Distribution vehicle service costs	800		
Petrol & oil	300		
Salaries of salespeople	7,900	11,700	
General & Administration Expenses			
Office supplies	600		
Rent	6,200		
Telephone	700		
Insurance	2,000		
Salaries of office staff	4,000	13,500	
Financial Expenses			
Bank fees	250		
Interest (e.g., on Loan/Mortgage)	1,400	1,650	26,850

Note: This space has deliberately left blank so the next step can be demonstrated on the same page.

Step 5 – Statement Preparation.

The income statement sections prepared in previous steps are combined. The final entry in the statement is Net Profit.

Net Profit = Total Income – Other Expenses

If the net profit is a negative figure, then this is a loss and is written in brackets.

Outdoor Explorers Income Statement for the year ended 30 June 2039			
Sales			120,000
Less Sales Returns			2,500
Less Discount Allowed			3,000
Net Sales			114,500
Less Cost of Sales	32,000		
Freight (or cartage) Inwards	700		
Customs Duty	400	33,100	
Less Discount Received		1,200	31,900
Gross Profit			82,600
Add Other Income			
Gain on Sale of Land		12,000	
Gain on Sale of Investments		7,000	
Interest (income)		900	19,900
Total Income			102,500
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising	2,100		
Freight Outwards	600		
Distribution vehicle service costs	800		
Petrol & oil	300		
Salaries of salespeople	7,900	11,700	
General & Administration Expenses			
Office supplies	600		
Rent	6,200		
Telephone	700		
Insurance	2,000		
Salaries of office staff	4,000	13,500	
Financial Expenses			
Bank fees	250		
Interest on loan	1,400	1,650	26,850
Net Profit			\$75,650

Step 6 – Profit and Owner Withdrawal in the Balance Sheet.

The profit (or loss) is included in the balance sheet in the Equity section.

The additional information stated: The owner withdrew \$40,000 from the business. When a business owner withdraws profit from a business this is recorded in the balance sheet as 'Drawings,' which is a negative figure.

Outdoor Explorers Balance Sheet (extract) as at 30 June 2039	
Equity	
Capital	80,000
Add Profit	75,650
Less Drawings	(40,000)
Total Equity	115,650

Practice Questions

Questions 53-59: Income Statement Preparation for a Trading Business.

Tips

Example statement

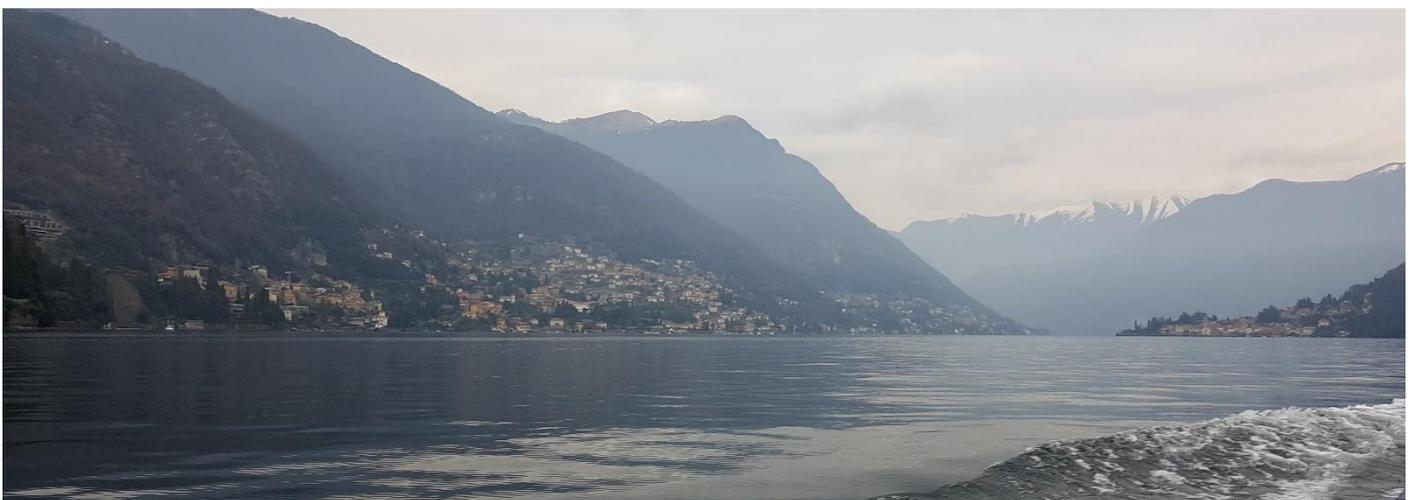
An example income statement has been provided as a reference whilst completing the practice questions.

Labelling the question

When reading questions, it is helpful to label each item with either GP, gross profit, OI, other income, SD, selling and distribution expenses, GA, general and administration expenses, FE, financial expenses. This will help with preparing the different sections of the income statement. You may also find it helpful to keep track of the items which have a negative impact on gross profit by placing the GP notation in brackets for these e.g., cost of sales, sales returns etc.

Keeping track

Tick each item in the question as you enter these to the income statement to keep track of which entries have been included.



Lake Como, Italy.

Income Statement – Statement Preparation

Key:	<ul style="list-style-type: none"> • Green = positive figure. • Red = negative figure. • Blue = Total sum.
-------------	---

Business Name Income Statement for the year ended 30 June 20XX			
Sales or Fees			X
Less Sales Returns			X
Less Discount Allowed			X
Net Sales			X
Less Cost of Sales	X		
Freight (or cartage) Inwards	X		
Customs Duty	X	X	
Less Discount Received		X	X
Gross Profit			X
Add Other Income			
Gain on Sale of Land		X	
Gain on Sale of Investments		X	
Interest (income)		X	
Total Income			X
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising	X		
Freight Outwards	X		
Distribution vehicle service costs	X		
Petrol & oil	X		
Salaries of salespeople	X	SD TOTAL	
General & Administration Expenses			
Office supplies	X		
Rent	X		
Telephone	X		
Insurance	X		
Salaries of office staff	X	GA TOTAL	
Financial Expenses			
Bank fees	X		
Interest (e.g., on Loan/Mortgage)	X	FE TOTAL	SD+GA+FE
Net Profit			TI – OE

Tips	<ul style="list-style-type: none"> • Each time a calculation is required the values are entered in a column one to the left. • If there is only one type of 'Other Income', no calculation is required and this sole value would be entered in the far right column.
-------------	--

Question 53

Classify the following expenses as either selling and distribution, general and administration or financial expenses.

	S&D Expenses	G&A Expenses	F Expenses
Sales staff wages			
Interest on loan			
Petrol			
Insurance			
Freight outwards			
Office staff wages			
Rent			
Bank Fees			

Question 54

Classify the following expenses as either selling and distribution, general and administration or financial expenses.

	S&D Expenses	G&A Expenses	F Expenses
Cartage outwards			
Office rent			
Advertising			
Sales staff wages			
Insurance			
Electricity			
Bank fees			
Office staff wages			
Office supplies			
Sales vehicle maintenance			
Mortgage interest			

Question 55

The following information has been supplied by Outdoor Oasis for the year ended 30 June 2031.

Item	\$
Cost of Sales	32,000
Cartage Inwards	600
Sales	90,200
Sales Returns	1,500
Discount Allowed	1,200
Prepaid advertising	4,600
Discount received	1,300
Advertising	2,900
Cartage Outwards	700
Sales staff wages	16,400
Rent	17,000
Insurance	1,800
Office staff wages	14,200
Interest on loan	1,400
Interest (income)	550

Additional information:

- Advertising expense at balance day was \$2,900.
- Office staff wages owing was \$1,200.

Required task:

Prepare an income statement for the year ended 30 June 2031.

Outdoor Oasis Income Statement for the year ended 30 June 2031			
Sales			
Less Sales Returns			
Less Discount Allowed			
Net Sales			
Less Cost of Sales			
Cartage Inwards			
Less Discount Received			
Gross Profit			
Add Other Income			
Interest (income)			
Total Income			
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising			
Cartage Outwards			
Sales staff wages			
General & Administration Expenses			
Rent			
Insurance			
Office staff wages			
Financial Expenses			
Interest on loan			
Net Profit			

Question 56

Timeless Clocks has provided the following information for the year ended 30 June 2038.

Item	\$
Office supplies	600
Rent	12,000
Advertising	1,900
Interest on loan	300
Freight inwards	300
Sales	43,200
Bank fees	150
Wages	15,300
Sales Returns	800
Prepaid insurance	1,400
Bank fees	150
Cost of sales	18,900
Interest on loan	300
Discount received	900
Freight outwards	1,400
Telephone	1,200
Gain on Sale of Land	8,100

Additional information:

- Insurance expense at 30 June 2038 was \$900.
- Accrued wages was \$500.

Required task:

Prepare an income statement for the year ended 30 June 2038.

Timeless Clocks Income Statement for the year ended 30 June 2038			
Sales			
Less Sales Returns			
Net Sales			
Less Cost of Sales			
Freight Inwards			
Less Discount Received			
Gross Profit			
Add Other Income			
Gain on Sale of Land			
Total Income			
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising			
Freight Outwards			
General & Administration Expenses			
Office supplies			
Rent			
Telephone			
Insurance			
Wages			
Financial Expenses			
Bank fees			
Interest on loan			
Net Loss			

Question 57

Bling Bling Sparkle has supplied the following information for the year ended 30 June 2043.

Item	\$
Discount Received	100
Maintenance of Delivery Vehicle	400
Petrol	900
Prepaid Rent	8,100
Cartage Inwards	550
Discount Allowed	1,420
Salaries of Sales Staff	8,100
Sales	39,550
Customs Duty	120
Cost of Sales	10,200
Salaries of Office Staff	6,800
Interest Income	1,300
Interest on Loan	900
Advertising	1,300
Office supplies	1,200
Capital	13,000
Accounts Payable	4,200
Accounts Receivable	5,400
Cash at Bank	13,000

Additional information:

- Accrued salaries of sales staff was \$2,800.
- Rent expense at 30 June 2043 was \$4,200.
- The owner withdrew \$1,200 from the business.

Required tasks:

a. Prepare an income statement for the year ended 30 June 2043.

b. Complete the following balance sheet extracts.

Current assets	
Cash at Bank	13,000
Accounts Receivable	5,400
Prepaid Rent	
Total current assets	

Current liabilities	
Accounts Payable	4,200
Accrued Salaries of Sales Staff	
Total current liabilities	

Equity	
Capital	13,000
Profit	
Drawings	
Total Equity	

Question 58

The following information has been provided by Battery Life for the year ended 30 June 2029.

Item	\$
Bank fees	190
Cartage Outwards	600
Advertising	1,900
Sales	63,200
Sales Returns	1,600
Wages	15,300
Prepaid Insurance	4,300
Gain on Sale of Investments	7,100
Interest income	1,200
Cost of Sales	29,100
Cartage Inwards	700
Discount Received	600
Rent	7,300
Electricity	2,300
Cash at Bank	9,400
Accounts Receivable	1,900
Accounts Payable	4,200
Capital	18,000

Additional information:

- Insurance expense at 30 June 2029 was \$2,500.
- Wages owing was \$1,900.
- The owner withdrew \$6,500 from the business.

Required tasks:

a. Prepare an income statement for the year ended 30 June 2029.

b. Complete the following balance sheet extracts.

Current assets	
Cash at Bank	9,400
Accounts Receivable	1,900
Total current assets	

Current liabilities	
Accounts Payable	4,200
Total current liabilities	

Equity	
Capital	18,000
Total Equity	

Question 59

The following information has been supplied by Worm's Book Store for the year ended 30 June 2056.

Item	\$
Insurance	700
Sales	39,500
Freight Outwards	500
Cost of Sales	21,000
Sales Returns	600
Discount Allowed	900
Advertising	1,800
Prepaid telephone	900
Office supplies	300
Staff Wages	13,200
Interest on loan	800
Discount Received	400
Interest Income	600
Freight Inwards	1,200
Rent	6,800

Additional information:

- Telephone expense was \$400.
- Accrued staff wages was \$1,200.

Required task:

Prepare an income statement for the year ended 30 June 2056.

Income Statement Preparation for a Service Business

The income statement of a service business will classify expenses based on what is relevant for the specific nature of the business.

Example

Fremantle Boat Tours has supplied the following information for the year ended 30 June 2034.

Item	\$
Fees	72,000
Advertising	4,000
Sales office rent	5,000
Salaries of sales staff	7,000
Petrol	2,000
Boat maintenance	3,500
Tour operator salaries	9,000
Insurance	2,400
Loan Interest	1,100

The business categorises expenses as selling expenses, tour expenses and financial expenses.

Required task:

Prepare an income statement for the year ended 30 June 2034.

Solution

Step 1 – Preparation of Income Statement.

The income statement for this service business is prepared as below.

Fremantle Boat Tours Income Statement for the year ended 30 June 2034			
Fees			72,000
<i>Less Other Expenses</i>			
Selling Expenses			
Advertising	4,000		
Sales office rent	5,000		
Salaries of sales staff	7,000	16,000	
Tour Expenses			
Petrol	2,000		
Boat maintenance	3,500		
Tour operator salaries	9,000		
Insurance	2,400	16,900	
Financial Expenses			
Loan Interest	1,100	1,100	34,000
Net Profit			\$38,000

Practice Questions

Questions 60-62: Income Statement Preparation for a Service Business.

Question 60

Top ATAR Tutors has provided the following information for the year ended 30 June 2036.

Item	\$
Tutor travel costs	1,300
Office rent	3,600
Fees	64,500
Tutor wages	19,200
Office staff wages	5,300
Prepaid telephone expenses	4,500
Office supplies	1,600

Additional information:

- Accrued tutor wages on 30 June 2036 was \$1,800.
- Telephone expense was \$3,200.
- The business categorizes expenses as either general and administration expenses or tutor expenses.

Required task:

Prepare an income statement for the year ended 30 June 2036.

Top ATAR Tutors Income Statement for the year ended 30 June 2036			
Fees			
<i>Less Other Expenses</i>			
General and Administration Expenses			
Telephone			
Office rent			
Office supplies			
Office staff wages			
Tutor Expenses			
Tutor wages			
Tutor travel costs			
Net Profit			



Audit

Financial Sleuth

As an auditor, you're not just a number-cruncher, you're a truth-seeker on a mission to uphold accuracy. You'll make epic things happen as a true number detective dedicated to unraveling financial mysteries.

Is it a good match for me?

If you're naturally curious, teamwork is your second nature, and excel at both communication and finding creative solutions, then you're a perfect match.

Where could I work?

Any accounting firm or most large corporates like banks, or multinational consumer companies like Xbox, YouTube, Coca-Cola, L'Oreal. Or even in a charity like Children International.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



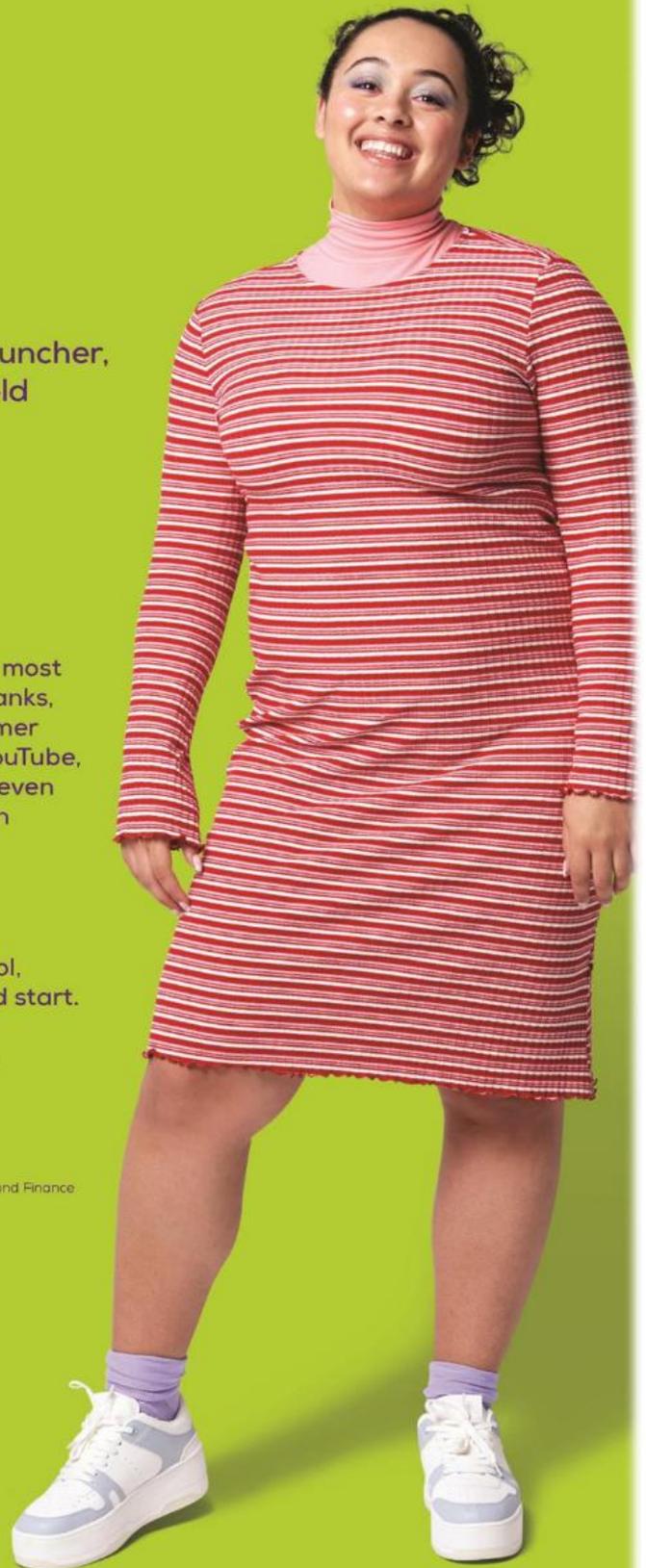
Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance

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7. General Journal and General Ledger Introduction



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>What information would be important to take note of when recording business transactions?</p>	
<p>How would a business calculate how much cash they have spent and received during a given accounting period?</p>	
<p>What information would a business need to prepare financial reports?</p>	

General Journal and General Ledger Introduction – Syllabus

Syllabus – Unit 1	
<p>General Ledger and General Journal Introduction</p>	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ double entry accounting • purpose of trial balance <ul style="list-style-type: none"> ▪ errors disclosed by the trial balance ▪ errors not disclosed by the trial balance <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ entries to commence business ▪ cash and credit transactions to include cash receipts, cash payments ▪ purchase of non-current assets ▪ withdrawal of inventory or cash by the proprietor ▪ correction of errors ▪ closing entries ▪ manual preparation of trial balance

General Journal and General Ledger – Introduction

This chapter will introduce the practical use of the general ledger and general journal in accounting. This chapter will cover:

- Recording and processing a range of transactions in the general ledger and general journal.
- Preparation of a trial balance.

General Journal Introduction

Transactions are recorded in the general journal before being posted to the general ledger. The information for these transactions comes from source documents such as invoices, receipts and bank statements. An example layout of general journal is provided below.

Date	Details	Debit	Credit
1 Jan 2050	Account A Account B Description of transaction	\$100	\$100

Each transaction in the general journal will feature a date, the names of two or more accounts associated with the transaction, a description of the description beneath the names of the associated accounts and a debit and credit value for each account. There will always be a debit component and credit component to each transaction and the total of the debits and credits for each transaction will be equal. This is the double entry accounting principle.



Ogimachijoato, Shirakawa-Go.

General Ledger Introduction

A business will have a general ledger account for each of the business's assets, liabilities, equity, income and expenses. The entries in the general ledger reflect the transactions recorded in the general journal. An example general ledger layout is provided below.

General Ledger Account					
Date	Description	\$	Date	Description	\$
	Debit side			Credit side	

There are two sides to a ledger account, the debit and credit side. For each of these sides the date of a transaction is recorded as well as its value. Each debit entry has a corresponding credit entry to a different ledger account and the values of each side are equal. This is the double entry accounting principle in practice. For any transaction on either side the following is recorded: the date of the transaction, the corresponding account that has been debited or credited during the transaction and the value of the transaction. The final value of each ledger at the end of an accounting period is used to prepare financial statements.

Assets and Expense ledgers						Liability, Equity and Income ledgers					
Increase on the left (debit) side and decrease on the right (credit) side.						Increase on the right (debit) side and decrease on the left (debit) side.					
Asset and Expense Accounts						Liability, Equity and Income Accounts					
A + E = L + Eq + I						A + E = L + Eq + I					
Date	Description	\$	Date	Description	\$	Date	Description	\$	Date	Description	\$
	↑			↓			↓			↑	
	Increase on the debit side			Decrease on the credit side			Decrease on the debit side			Increase on the credit side	

Double entry accounting principle

This principle states that each financial transaction will be recorded in two or more accounts. The total value of the debits and credits for each transaction are opposite and equal.



Jaigarh Fort, Jaipur, India.

General Ledger and General Journal Entries Introduction

This section demonstrates the following transactions being recorded and processed in the general journal and general ledger:

- Entry to commence business
- Purchase of Non-Current Assets
- Withdrawal of cash or inventory by the owner
- Income for a service business (The sale of inventory for a trading business are covered in a separate chapter).
- Expenses (with and without GST)
- Error Correction
- GST Control (GST Debt or Refund)
- Closing entries and preparation of a trial balance

Recording and processing transactions – Assets, Liabilities and Equity

During this first section, the following transactions will be recorded and processed in the general journal and general ledger:

- Entry to Commence Business.
- Purchase of Non-Current Assets.
- Withdrawal of cash or inventory by the owner.

Entry to Commence Business

A business often commences with the owner contribution of cash and potentially non-current assets to a business. This may also be accompanied by a bank loan. This business commencement is recorded in both the general journal and general ledger.

Example 1 – Business Commencement with owner investment

A business commences with the following transaction.

- On 3 January 2027, the owner of a business contributed \$8,000 to the business bank account.

Required task:

Prepare the general journal and general ledger to record the business commencement.

Solution

Step 1 – Entry to commence business.

The cash at bank for the business and the amount owing the business owner both increase by \$8,000.

- Debit Cash at Bank \$8,000 to increase this asset account.
- Credit Capital \$8,000 to increase this equity account.

Date	Details	Debit	Credit
3 Jan 2027	Cash at Bank Capital Business commencement with owner investment	8,000	8,000

Cash at Bank					
Date	Description	\$	Date	Description	\$
3 Jan 2027	Capital	8,000			

Capital					
Date	Description	\$	Date	Description	\$
			3 Jan 2027	Cash at Bank	8,000

Practice Questions

Questions 1-4: Entry to Commence Business Part 1.

Tip	<u>Course Guide</u>
	While completing this chapter you may find it useful to refer to the relevant chapter in the Essential Insight Course Guide. The Course Guide summarizes all theory relevant for each practical guide chapter. This saves time flipping through multiple pages in the Practical Guide while revising. The Course Guide can be found by navigating to the Resource Hub link on the front page.

Question 1

A business commenced with the following transaction.

- On 18 October 2031, the owner of a business contributed \$12,000 to the business bank account.

Required tasks:

a. Complete the missing information in the general journal.

Date	Details	Debit	Credit
18 Oct 2031	Capital Business commencement with owner investment	12,000	

b. Complete the missing information in the general ledgers.

Cash at Bank					
Date	Description	\$	Date	Description	\$
	Capital				

Date	Description	\$	Date	Description	\$
					12,000

Question 2

The commencement of a business was recorded in the general journal below.

Date	Details	Debit	Credit
5 Jun 2045	Cash at Bank Capital Business commencement with owner investment	15,200	15,200

Required task:

Complete the general ledger entries associated with this general journal entry.

Cash at Bank					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

Question 3

The commencement of a business was recorded in the general ledgers below.

Cash at Bank					
Date	Description	\$	Date	Description	\$
8 May 2037	Capital	9,800			

Capital					
Date	Description	\$	Date	Description	\$
			8 May 2037	Cash at Bank	9,800

Required task:

Complete the general journal entry associated with these general ledger entries.

Date	Details	Debit	Credit

Question 4

A business commenced with the following transaction.

- On 15 April 2030, the owner of a business contributed \$5,000 to the business bank account.

Required task:

Complete the general journal and general ledger entries to record and process this transaction.

Date	Details	Debit	Credit

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Example 2 – Business commencement with loan and NCA purchase

A business commences with the following transaction:

- On 10 October 2033, a business owner contributes machinery worth \$5,000 and \$7,000 to the business bank account. The business owner also takes out a loan of \$3,000 to contribute to the business bank account.

Required task:

Prepare the general journal and general ledger to record the business commencement.

Solution

Step 1 – Entry to commence business.

The amount the business bank account increases can be found by adding the amount of cash contributed by the owner and the value of the loan. $\$7,000 + \$3,000 = \$10,000$.

The value of capital contributed by the owner to the business can be found by adding together the value of the cash and the machinery. $\$5,000 + \$7,000 = \$12,000$.

The cash at bank and machinery accounts of the business increase whilst simultaneously increasing the loan and capital accounts of the business.

- Debit Cash at bank \$10,000 to increase this asset account.
- Debit Machinery \$5,000 to increase this asset account.
- Credit Loan \$3,000 to increase this liability account.
- Credit Capital \$12,000 to increase this equity account.

The reference in the cash at bank general ledger is for both cash at bank and loan given it came from these two accounts.

The reference in the capital ledger account is for both cash at bank and machinery given capital was contributed to these two accounts.

Note: this is an owner contribution of machinery, not a purchase of machinery. The purchase of non-current assets such as machinery are covered in a future section.

Date	Details	Debit	Credit
10 Oct 2033	Cash at Bank	10,000	
	Machinery	5,000	
	Loan		3,000
	Capital		12,000
	Business commencement with owner investment and bank loan		

Cash at Bank					
Date	Description	\$	Date	Description	\$
10 Oct 2033	Capital / Loan	10,000			

Machinery					
Date	Description	\$	Date	Description	\$
10 Oct 2033	Capital	5,000			

Loan					
Date	Description	\$	Date	Description	\$
			10 Oct 2033	Cash at Bank	3,000

Capital					
Date	Description	\$	Date	Description	\$
			10 Oct 2033	Cash at Bank / Machinery	12,000

Practice Questions

Questions 5-9: Entry to Commence Business Part 2.

Question 5

A business commenced with the following transaction.

- On 13 November 2042, the owner of a business contributed \$6,000 to the business bank account and office equipment worth \$2,500. The business also took out a loan for \$2,000.

Required tasks:

a. Complete the missing information in the general journal.

Date	Details	Debit	Credit
13 Nov 2042	_____	_____	
	_____	_____	
	Capital		8,500
	Loan from Bank		2,000
	Business commencement with owner investment and bank loan		

b. Complete the missing information in the general ledgers.

Date	Description	\$	Date	Description	\$
_____	Capital / Loan from Bank	8,000			

Office Equipment					
Date	Description	\$	Date	Description	\$
_____	_____	2,500			

Capital					
Date	Description	\$	Date	Description	\$
			13 Nov 2042	_____	8,500

Date	Description	\$	Date	Description	\$
			_____	Cash at Bank	_____

Question 6

The following general journal entry recorded the commencement of a business.

Date	Details	Debit	Credit
23 Jan 2056	Cash at Bank	8,300	
	Machinery	9,200	
	Capital		12,000
	Loan from Bank		5,500
	Business commencement with owner investment and bank loan		

Required task:

Prepare the general ledger entries to record the transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 7

A business commenced with the following transaction.

- On 21 Feb 2038, the owner of a business contributed a \$15,000 motor vehicle and \$6,000 cash to a business.

Required task:

Prepare the general journal to record this transaction.

Date	Details	Debit	Credit

Question 8

The following transaction commenced business operations.

- On 9 December 2035, a business owner contributes office equipment worth \$3,000 and \$7,000 to the business bank account. The business owner also takes out a loan of \$5,000 to contribute to the business bank account.

Required task:

a. Prepare the general journal entry to record the transaction.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process the business commencement.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 9

The following took place to commence business operations.

- On 20 August 2038, the owner contributes to the business \$6,800 cash and \$4,500 of office furniture. The business also acquires \$4,700 through a bank loan.

Required tasks:

a. Prepare the general journal entry to record the transaction.

Workings

Date	Details	Debit	Credit

b. Prepare the general ledgers to process the business commencement.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Purchase of Non-Current Assets

Businesses purchase non-current assets to expand operations and generate profits. Businesses can purchase non-current assets with cash or on credit. Credit purchases allow a business to defer the outflow of cash from the business. The purchase of non-current assets increases the GST credits of a business.

Example 1 – Purchase of NCA with cash

On 17 Sep 2029, a business purchased a motor vehicle with cash for \$20,000 + \$2,000 GST = \$22,000.

Required task:

Prepare the general journal and general ledger to record the cash purchase of the motor vehicle.

Solution

Step 1 – Purchase of NCA with cash.

The purchase of the non-current asset increases the motor vehicle and GST credits of the business whilst decreasing cash at bank.

- Debit Motor Vehicle \$20,000 to increase this asset account.
- Debit GST Credits \$2,000 to increase this asset account.
- Credit Cash at Bank \$22,000 to decrease this asset account.

Date	Details	Debit	Credit
17 Sep 2029	Motor Vehicle	20,000	
	GST Credits	2,000	
	Cash at Bank		22,000
	Cash Purchase of Motor Vehicle		

Motor Vehicle					
Date	Description	\$	Date	Description	\$
17 Sep 2029	Cash at Bank	20,000			

GST Credits					
Date	Description	\$	Date	Description	\$
17 Sep 2029	Cash at Bank	2,000			

Cash at Bank					
Date	Description	\$	Date	Description	\$
			17 Sep 2029	Motor Vehicle / GST Credits	22,000

Example 2 – Purchase of NCA on credit

On 5 Nov 2032, a business purchased fixtures and fittings on credit for \$8,000 + \$800 GST = \$8,800.

Required task:

Prepare the general journal and general ledger to record the credit purchase of the fixtures and fittings.

Solution

Step 1 – Purchase of NCA on credit.

The purchase of the asset increases the fixtures and fittings and GST credits of the business whilst decreasing cash at bank.

- Debit Fixtures and Fittings \$8,000 to increase this asset account.
- Debit GST Credits \$800 to increase this asset account.
- Credit Accounts Payable \$8,800 to increase this liability account.

Date	Details	Debit	Credit
5 Nov 2032	Fixtures and Fittings	8,000	
	GST Credits	800	
	Accounts Payable		8,800
	Credit Purchase of Fixture and Fittings		

Fixtures and Fittings					
Date	Description	\$	Date	Description	\$
5 Nov 2032	Accounts Payable	8,000			

GST Credits					
Date	Description	\$	Date	Description	\$
5 Nov 2032	Accounts Payable	800			

Accounts Payable					
Date	Description	\$	Date	Description	\$
			5 Nov 2032	Fixtures and Fittings / GST Credits	8,800

Practice Questions

Questions 10-13: Purchase of NCAs.

Question 10

On 28 July 2028, a business purchased a motor vehicle for cash \$18,000 + \$1,800 GST = \$19,800.

Date	Details	Debit	Credit
28 Jul 2028	Motor Vehicle	18,000	
	GST Credits	1,800	
	Cash at Bank		19,800
	Cash Purchase of Motor Vehicle		

Required task:

Complete the general ledger entries based on this purchase.

Motor Vehicle					
Date	Description	\$	Date	Description	\$
28 Jul 2028					

GST Credits					
Date	Description	\$	Date	Description	\$
	Cash at Bank				

Date	Description	\$	Date	Description	\$
			28 Jul 2028	Motor Vehicle / GST Credits	

Question 11

On 29 May 2041, a business purchased machinery on credit for \$9,000 + \$900 GST = \$9,900.

Required task:

Prepare the general journal entry to record this purchase.

Date	Details	Debit	Credit

Question 12

On 13 August 2037, a business purchased office furniture for cash \$11,000 inclusive of GST.

Required task:

a. Prepare general journal to record this transaction.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 13

On 5 June 2034, a business purchased a motor vehicle on credit for \$16,000 exclusive of GST.

Required task:

a. Prepare general journal to record this transaction.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Withdrawal of inventory or cash by the owner

Withdrawals of inventory or cash by the owner are known as drawings. Drawings are recorded in the general journal and general ledger.

Example 1 – Drawings of cash

- On 1 March 2031, a business had \$5,000 cash.
- On 14 March 2031, the owner withdrew \$750 cash from the business.

Required task:

Prepare the general journal and general ledger to record the withdrawal of cash by the owner.

Solution

Step 1 – Drawings of cash.

The withdrawal of cash by an owner decreases cash and capital. The decrease in capital is recorded in the drawings account.

- Debit Drawings \$750 to increase this contra equity account.
- Credit Cash \$750 to decrease this asset account.

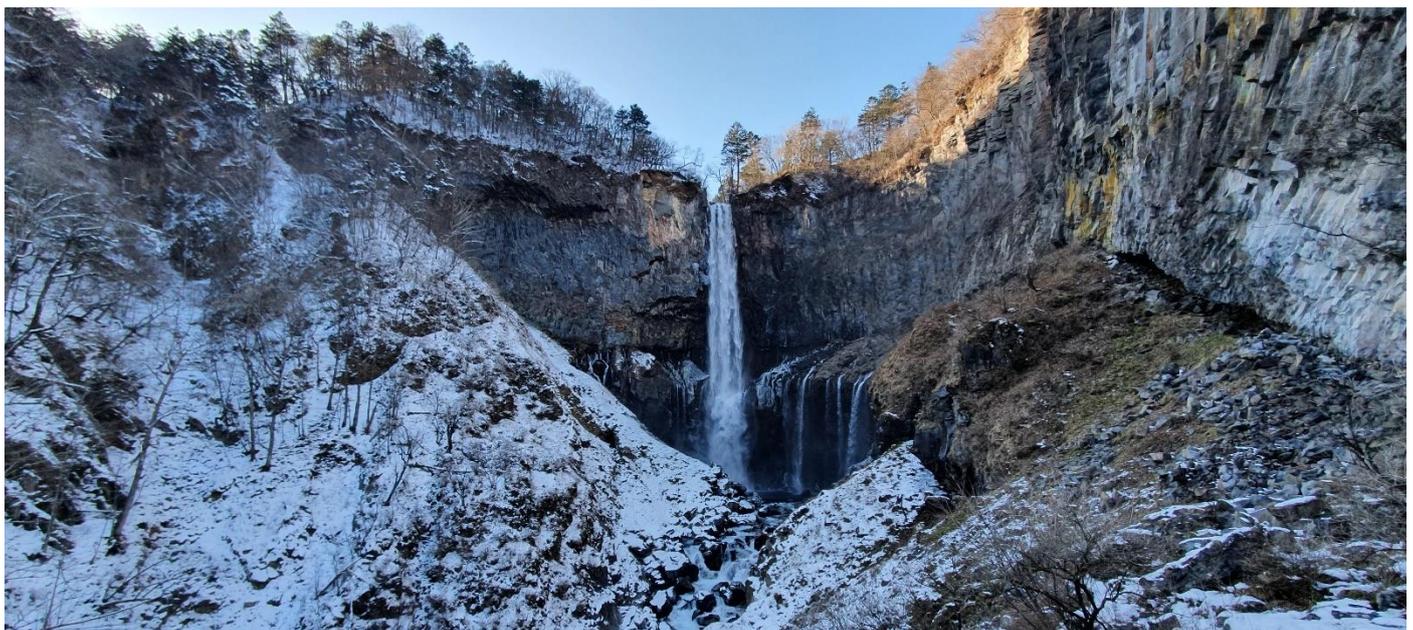
Note: think of the word 'contra' as meaning opposite. In this instance Drawings behaves in the opposite way to a regular equity account because credit entries decrease the value of equity rather than causing an increase in equity.

Note: the debit cash at bank entry on 1 March 2031 is the opening balance of this account. The opening balance is also referred to as 'balance b/d,' as it is the balance that has been brought down (b/d) from the previous period.

Date	Details	Debit	Credit
14 Mar 2031	Drawings	750	
	Cash		750
	Cash drawings		

Drawings					
Date	Description	\$	Date	Description	\$
14 Mar 2031	Cash at Bank	750			

Cash at Bank					
Date	Description	\$	Date	Description	\$
1 Mar 2031	Balance b/d	5,000	14 Mar 2031	Drawings	750



Kegon Falls, Nikko.

Example 2 – Drawings of inventory

- On 1 April 2038, a business had \$8,000 of inventory.
- On 8 April 2038, the owner withdrew \$500 + \$50 GST worth of inventory from the business.

Required task:

Prepare the general journal and general ledger to record the withdrawal of inventory by the owner.

Solution

Step 1 – Drawings of inventory.

The withdrawal of inventory by an owner decreases inventory and GST credits as well as capital. The decrease in capital is recorded in the drawings account. GST Credits needs to decrease to reverse the GST credits that were previously recorded when this inventory was purchased.

- Debit Drawings \$550 to increase this contra equity account.
- Credit Inventory \$500 to decrease this asset account.
- Credit GST Credits \$50 to decrease this asset account.

Note: the debit inventory entry on 1 April 2038 is the opening balance of this account. The opening balance is also referred to as 'balance b/d,' as it is the balance that has been brought down (b/d) from the previous period.

Note: In a real-world example there would normally be a debit entry in the GST Credits ledger account which represents the GST credits previously recorded. The credit entry in the GST Credits account represents the reversal of the GST Credits that was previously recorded.

Date	Details	Debit	Credit
8 Apr 2038	Drawings	550	
	Inventory		500
	GST Credits		50
	Inventory drawings		

Drawings					
Date	Description	\$	Date	Description	\$
8 Apr 2038	Inventory / GST Credits	550			

Inventory					
Date	Description	\$	Date	Description	\$
1 Apr 2038	Balance b/d	8,000	8 Apr 2038	Drawings	500

GST Credits					
Date	Description	\$	Date	Description	\$
			8 Apr 2038	Drawings	50



Colosseum, Rome, Italy.

Practice Questions

Questions 14-17: Withdrawal of inventory or cash by the owner.

Question 14

The following general journal entry has been provided by a business.

Date	Details	Debit	Credit
25 Dec 2039	Drawings Cash at Bank Cash drawings	2,500	2,500

Required task:

Prepare the general ledger entries to process this transaction.

Drawings					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Question 15

- On 1 May 2038, a business had \$12,000 of inventory.
- On 4 May 2038, the owner withdrew \$800 + \$80 GST worth of inventory from the business.

Required tasks:

a. Prepare the general journal entry to record the withdrawal of inventory.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process the withdrawal of inventory.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 16

- On 1 October 2031, a business had a bank balance of \$9,300.
- On 12 October 2031, the owner withdrew \$3,100 cash from the business.

Required tasks:

a. Prepare the general journal entry to record this entry.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process this entry.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 17

- On 1 July 2045, a business had inventory of \$6,200.
- On 12 July 2045, the owner withdrew inventory worth \$3,100 GST exclusive.

Required tasks:

a. Prepare the general journal entry to record this entry.

Date	Details	Debit	Credit

b. Prepare the general ledgers to process this entry.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Recording and processing transactions – Income and Expenses

Income and expenses are recorded in the general journal and general ledger.

Income

In this section, income for a service business is covered. The sale of inventory for a trading business is covered in a separate chapter.

Example 1 – Income

On 19 July 2026, a business received income for cleaning provided of \$300 + \$30 GST = \$330.

Required task:

Prepare the general journal and general ledger to record the fees received.

Solution

Step 1 – Income.

The income from fees increases the cash at bank, GST payable and fees account.

- Debit Cash at Bank \$330 to increase this asset account.
- Credit GST Payable \$30 to increase this liability account.
- Credit Fees \$300 to increase this income account.

Date	Details	Debit	Credit
19 Jul 2026	Cash at Bank	330	
	GST Payable		30
	Fees		300
	Fees received		

Cash at Bank					
Date	Description	\$	Date	Description	\$
19 Jul 2026	Fees / GST Payable	330			

GST Payable					
Date	Description	\$	Date	Description	\$
19 Jul 2026	Cash at Bank				30

Fees					
Date	Description	\$	Date	Description	\$
19 Jul 2026	Cash at Bank				300



Azenhas do Mar, Portugal.

Expenses

There are many types of expenses a business may pay for. Some expenses will be subject to GST and others will not. See the chapter on GST for more information. Examples of expenses include wages, advertising, insurance, telephone, electricity, rent etc.

Example 1 – Wages expense

On 3 Nov 2041, a business paid \$1,200 in wages with cash.

Required task:

Prepare the general journal and general ledger to record the payment of wages.

Solution

Step 1 – Payment of wages expense.

The wages expense is paid from the cash at bank account.

- Debit Wages \$1,200 to increase this expense account.
- Credit Cash at Bank \$1,200 to decrease this asset account.

Note: Employee wages are not subject to GST and therefore there is no GST Credits account referenced.

Date	Details	Debit	Credit
3 Nov 2041	Wages Cash at Bank Wages payment	1,200	1,200

Wages					
Date	Description	\$	Date	Description	\$
3 Nov 2041	Cash at Bank	1,200			

Cash at Bank					
Date	Description	\$	Date	Description	\$
			3 Nov 2041	Wages	1,200

Example 2 – Advertising expense

On 10 Feb 2039, a business paid advertising with cash of \$900 plus \$90 GST.

Required task:

Prepare the general journal and general ledger to record the payment of advertising.

Solution

Step 1 – Payment of advertising expense.

The advertising expense is paid from the cash at bank account. As GST is paid by the business, this increases the GST credits account.

- Debit Advertising \$900 to increase this expense account.
- Debit GST Credits \$90 to increase this asset account.
- Credit Cash at Bank \$990 to decrease this asset account.

Note: Advertising is subject to GST and therefore the GST Credits account is referenced.

Date	Details	Debit	Credit
10 Feb 2039	Advertising GST Credits Cash at Bank Advertising payment	900 90	990

Advertising					
Date	Description	\$	Date	Description	\$
10 Feb 2039	Cash at Bank	900			

GST Credits					
Date	Description	\$	Date	Description	\$
10 Feb 2039	Cash at Bank	90			

Cash at Bank					
Date	Description	\$	Date	Description	\$
			10 Feb 2039	Advertising / GST Credits	990

Practice Questions

Questions 18-21: Recording and processing transactions – Income and Expenses.

Question 18

The following general journal entry has been recorded.

Date	Details	Debit	Credit
12 Oct 2042	Cash at Bank	803	
	GST Payable		73
	Fees		730
	Cash drawings		

Required task:

Prepare the general ledger entries to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 19

The following general journal entry has been recorded.

Date	Details	Debit	Credit
12 Oct 2042	Rent GST Credits Cash at Bank Rent Payment	5,200 520	5,720

Required task:

Prepare the general ledger entries to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 20

On 8 July 2037, a business paid a telephone bill for \$430 + \$43 GST = \$473.

Required task:

a. Prepare the general journal entry to record this transaction.

Date	Details	Debit	Credit

b. Prepare the general ledger accounts to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 21

On 3 August 2044, an accountant receives fees income of \$220 + \$22 GST = \$242

Required task:

a. Prepare the general journal entry to record this transaction.

Date	Details	Debit	Credit

b. Prepare the general ledger accounts to process this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Recording and processing transactions – Error Correction

During the recording and processing of transactions, it is possible for errors to be made. If errors occur and are found, these should be corrected in both the general journal and general ledger.

Example

The following errors have been found by a business accountant at the end of March.

- On 12 March 2031, a \$300 payment for electricity was made. This was incorrectly recorded as rent payment.
- On 27 March 2031, a motor vehicle was purchased for \$11,000, this was incorrectly recorded as the purchase of machinery.

Required task:

Prepare the general journal and general ledger to record the error correction.

Solution

Step 1 – Correction of electricity payment.

Errors are corrected by a with an entry in the correct account and an opposite entry in the account where the incorrect entry was made. This error is corrected with:

- Debit electricity \$300 to increase the electricity expense account.
- Credit rent \$300 to decrease the rent expense account.

The error correction is recorded with the date the error was corrected. This will usually be the end of the month or period.

The rent ledger account displays the incorrect entry. This is the \$300 debit entry on 12 March 2031.

Date	Details	Debit	Credit
31 Mar 2031	Electricity	300	
	Rent		300
	Error correction		

Electricity					
Date	Description	\$	Date	Description	\$
31 Mar 2031	Rent	300			

Rent					
Date	Description	\$	Date	Description	\$
12 Mar 2031	Cash at Bank	300	31 Mar 2031	Electricity	300

Step 2 – Correction of motor vehicle purchase.

Errors are corrected by a with an entry in the correct account and an opposite entry in the account where the incorrect entry was made. This error is corrected with:

- Debit motor vehicle \$11,000 to increase the motor vehicle account.
- Credit machinery \$11,000 to decrease the machinery account.

The error correction is recorded with the date the error was corrected. This will usually be the end of the month or period.

The machinery ledger account includes the incorrect entry. This is the \$11,000 debit entry on 27 March 2031.

Date	Details	Debit	Credit
31 Mar 2031	Motor Vehicle	11,000	
	Machinery		11,000
	Error correction		

Motor Vehicle					
Date	Description	\$	Date	Description	\$
31 Mar 2031	Machinery	11,000			

Machinery					
Date	Description	\$	Date	Description	\$
27 Mar 2031	Cash at Bank	11,000	31 Mar 2031	Motor Vehicle	11,000

Practice Questions

Questions 22-23: Recording and processing transactions – Error Correction.

Question 22

The following errors were detected by a business's accountant.

- On 12 May 2031, office equipment purchased for \$1,200 had incorrectly been recorded as machinery.
- On 15 May 2031, a \$300 payment for advertising had been recorded in the rent account.

Required tasks:

a. Prepare the general journal entries to correct these errors on 31 May 2031.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to correct these errors on 31 May 2031.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 23

The following errors were detected by a business's accountant.

- On 9 August 2036, a \$500 payment for rent was incorrectly recorded in the electricity account.
- On 18 August 2036, the purchase of a motor vehicle for \$12,000 was incorrectly recorded as office equipment.

Required tasks:

a. Prepare the general journal entries to correct these errors on 31 August 2036.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to correct these errors on 31 August 2036.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Recording and processing transactions – GST Debt or Refund

Businesses report and pay GST either monthly, quarterly or annually based on GST turnover and other eligibility requirements. To calculate the amount of GST refund or debt, a GST control account is created. The amount of GST refund or debt is the difference between GST credits and GST payable.

Example – GST Debt

On 30 June 2034, a business calculates its annual GST debt or refund. The business has \$3,500 GST credits and \$4,200 GST payable.

On 19 July 2034, the business transfers \$700 (\$3,500 – \$4,200) to the Australian Taxation Office.

Required task:

Prepare the general journal and general ledger to record the GST Debt.

Solution

Step 1 – Transfer of GST Credits to GST Control.

The GST Credits account is transferred to GST control to close the GST credits account.

- Debit GST Control \$3,500 to this working account.
- Credit GST Credits \$3,500 to close this asset account.

The GST control account is a working account used to calculate the GST debt or refund to or from the Australian Taxation Office.

The \$3,500 in the debit side of the GST Credits account represents the balance of GST Credits prior to the transfer to GST Control.

Date	Details	Debit	Credit
30 Jun 2034	GST Control	3,500	
	GST Credits		3,500
	Balance transfer		

GST Control					
Date	Description	\$	Date	Description	\$
30 Jun 2034	GST Credits	3,500			

GST Credits					
Date	Description	\$	Date	Description	\$
30 Jun 2034	Balance	3,500	30 Jun 2034	GST Control	3,500

Step 2 – Transfer of GST Payable to GST Control.

The GST Payable account is transferred to GST Control account to close the GST payable account.

- Debit GST Payable \$4,200 to close this liability account.
- Credit GST Control \$4,200 to this working account.

Note: the entry from the GST Credits transfer to GST Control is present from the previous step on the debit side of the GST Control Account.

The \$4,200 in the credit side of the GST Payable account represents the balance of GST Credits prior to the transfer to GST Control.

Date	Details	Debit	Credit
30 Jun 2034	GST Payable	4,200	
	GST Control		4,200
	Balance transfer		

GST Payable					
Date	Description	\$	Date	Description	\$
30 Jun 2034	GST Control	4,200	30 Jun 2034	Balance	4,200

GST Control					
Date	Description	\$	Date	Description	\$
30 Jun 2034	GST Credits	3,500	30 Jun 2034	GST Payable	4,200

Step 3 – Payment of Balance.

The GST Control account is totalled on both sides using the highest value on either the debit or credit side. In this instance the credit value of \$4,200 is the highest and used as the account total on both sides. The difference between the total and the lower value side is transferred to the bank.

$$\begin{aligned} \text{GST refund or debt} &= \text{GST Credits} - \text{GST Payable} \\ &= 3,500 - 4,200 \\ &= -\$700 \end{aligned}$$

If the figure from this calculation is:

- Negative = GST debt.
- Positive = GST refund.

Another way to think of this is that if Cash at Bank figure in GST Control account is on the:

- Debit side = GST debt.
- Credit side = GST refund.

Therefore, the business pays a GST debt of \$700 to the ATO.

Date	Details	Debit	Credit
19 Jul 2034	GST Control	700	
	Cash at Bank		700
	GST debt paid to ATO		

GST Control					
Date	Description	\$	Date	Description	\$
30 Jun 2034	GST Credits	3,500	30 Jun 2034	GST Payable	4,200
19 Jul 2034	Cash at Bank	700			
		4,200			4,200

Cash at Bank					
Date	Description	\$	Date	Description	\$
			19 Jul 2034	GST Control	700



Initiation Well, Sintra.

Example – GST Refund

On 31 March 2027, a business calculates its quarterly GST debt or refund. The business has \$6,200 GST credits and \$5,100 GST payable.

On 9 Apr 2027, the business receives a GST refund of \$900 (\$6,200 – \$5,100) from the Australian Taxation Office.

Required task:

Prepare the general journal and general ledger to record the GST refund.

Solution

Step 1 – Transfer of GST Credits to GST Control.

The GST Credits account is transferred to GST control to close the GST credits account.

- Debit GST Control \$6,200 to this working account.
- Credit GST Credits \$6,200 to close this asset account.

The GST control account is a working account used to calculate the GST debt or refund to or from the Australian Taxation Office.

The \$6,200 in the debit side of the GST Credits account represents the balance of GST Credits prior to the transfer to GST Control.

Date	Details	Debit	Credit
31 Mar 2027	GST Control GST Credits Balance transfer	6,200	6,200

GST Control					
Date	Description	\$	Date	Description	\$
31 Mar 2027	GST Credits	6,200			

GST Credits					
Date	Description	\$	Date	Description	\$
31 Mar 2027	Balance	6,200	31 Mar 2027	GST Control	6,200

Step 2 – Transfer of GST Payable to GST Control.

The GST Payable account is transferred to GST control to close the GST payable account.

- Debit GST Payable \$5,100 to close this liability account.
- Credit GST Control \$5,100 to this working account.

Note: the entry from the GST Credits transfer to GST Control is present from the previous step on the debit side of the GST Control Account.

The \$5,100 in the credit side of the GST Payable account represents the balance of GST Credits prior to the transfer to GST Control.

Date	Details	Debit	Credit
31 Mar 2027	GST Payable GST Control Balance transfer	5,100	5,100

GST Payable					
Date	Description	\$	Date	Description	\$
31 Mar 2027	GST Control	5,100	31 Mar 2027	Balance	5,100

GST Control					
Date	Description	\$	Date	Description	\$
31 Mar 2027	GST Credits	6,200	31 Mar 2027	GST Payable	5,100

Step 3 – Payment of Balance.

The GST Control account is totalled on both sides using the highest value on either the debit or credit side. In this instance the debit value of \$6,200 is the highest and used as the account total on both sides. The difference between the total and the lower value side is transferred to the bank.

$$\begin{aligned} \text{GST refund or debt} &= \text{GST Credits} - \text{GST Refund} \\ &= 6,200 - 5,100 \\ &= \$900 \end{aligned}$$

If the figure from this calculation is:

- Negative = GST debt.
- Positive = GST refund.

Another way to think of this is that if Cash at Bank figure in GST Control account is on the:

- Debit side = GST debt.
- Credit side = GST refund.

Therefore, the business receives a GST refund of \$900 from the ATO.

Date	Details	Debit	Credit
9 Apr 2027	Cash at Bank GST Control GST refund from the ATO	900	900

GST Control					
Date	Description	\$	Date	Description	\$
30 Jun 2034	GST Credits	6,200	30 Jun 2034	GST Payable	5,100
			9 Apr 2027	Cash at Bank	900
		6,200			6,200

Cash at Bank					
Date	Description	\$	Date	Description	\$
9 Apr 2027	GST Control	900			



Champagne region, France.

Practice Questions

Questions 24-26: Recording and processing transactions – GST Debt or Refund.

Questions 27-29: Recording and processing transactions – GST Debt or Refund extended questions.

Question 24

A business had the below general ledger account balances on 31 July 2038.

GST Credits					
Date	Description	\$	Date	Description	\$
31 Jul 2038	Balance	600			

GST Payable					
Date	Description	\$	Date	Description	\$
			31 Jul 2038	Balance	900

GST Control					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$
31 Jul 2038	Balance	12,000			

Required task:

- Prepare the above general ledger entries to record the GST debt paid to the ATO on 31 July 2038.
- Prepare the general journal entries to record the GST debt paid to the ATO on 31 July 2038.

Date	Details	Debit	Credit

Question 25

A business had the below general ledger account balances on 31 July 2038.

GST Credits					
Date	Description	\$	Date	Description	\$
31 Jul 2038	Balance	580			

GST Payable					
Date	Description	\$	Date	Description	\$
			31 Jul 2038	Balance	430

GST Control					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$
31 Jul 2038	Balance	5,600			

Required task:

- a. Prepare the above general ledger entries to record the GST refund from the ATO on 31 July 2038.
- b. Prepare the general journal entries to record the GST refund from the ATO on 31 July 2038.

Date	Details	Debit	Credit

Question 26

A business had the below general ledger account balances on 28 Feb 2032.

GST Credits					
Date	Description	\$	Date	Description	\$
28 Feb 2032	Balance	1,200			

GST Payable					
Date	Description	\$	Date	Description	\$
			31 Jul 2038	Balance	1,600

GST Control					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$
28 Feb 2032	Balance	8,000			

Required task:

- a. Prepare the above general ledger entries to record the GST debt paid to the ATO on 28 Feb 2032.
- b. Prepare the general journal entries to record the GST debt paid to the ATO on 28 Feb 2032.

Date	Details	Debit	Credit

Closing Entries and Preparation of a Trial Balance

A trial balance is a financial statement showing the closing balances of all accounts. The total debits and credits should be equal due to the double entry accounting principle. The trial balance can be prepared at any point in time.

Trial Balance – Summary Table

Trial Balance	
Purpose	A financial report that lists the debit and credit balance of all accounts. The trial balance allows: <ul style="list-style-type: none"> An indication that financial statements use correct information. Convenient preparation of the balance sheet and other financial statements.
Errors disclosed by the trial balance	<ul style="list-style-type: none"> Incomplete double entry i.e., recording only one entry. Incorrect balancing of an account. Incorrect totalling of an account. Not transferring an account to the trial balance. Recording an amount on the wrong side of the trial balance. Recording the same transaction on one ledger twice. A correct account balance being incorrectly recorded in the trial balance.
Errors not disclosed by the trial balance	<ul style="list-style-type: none"> Transactions that were not recorded at all. Similar errors that cancel each other out. Recording a transaction in the wrong account but the correct side. Recording a transaction in the correct account but the incorrect amount.

Example

The following ledgers have been prepared by Tech Sound Speakers as at 31 October 2023.

Cash at Bank					
Date	Description	\$	Date	Description	\$
10 Oct 2023	Capital	7,000	18 Oct 2023	Wages	2,400
15 Oct 2023	Fees / GST Payable	3,300			

Machinery					
Date	Description	\$	Date	Description	\$
10 Oct 2023	Capital	5,000			

Capital					
Date	Description	\$	Date	Description	\$
			10 Oct 2023	Cash at Bank / Machinery	12,000

Fees					
Date	Description	\$	Date	Description	\$
			15 Oct 2023	Cash at Bank	3,000

Wages					
Date	Description	\$	Date	Description	\$
18 Oct 2023	Cash at Bank	2,400			

GST Payable					
Date	Description	\$	Date	Description	\$
			15 Oct 2023	Cash at Bank	300

Required task:

Prepare the entries to close the accounts as 31 October 2029.

Prepare a trial balance as at 31 October 2029.

Solution

Step 1 – Closing Entries.

Each account is closed by totalling the account with the highest value debit or credit side. The difference between the total and the sum of the lower value credit or debit side is the balance that will be carried down (Balance c/d). The balance is brought down (balance b/d) to the same ledger but on the opposite side as demonstrated below for each account. In this example, a demonstration of an account with both debit and credit entries that are balanced is the cash at bank account.

- The balance c/d entry is dated on the last day of the month.
- The balance b/d entry is dated on the first day of the following month.

Cash at Bank					
Date	Description	\$	Date	Description	\$
10 Oct 2033	Capital	7,000	18 Oct 2033	Wages	2,400
15 Oct 2033	Fees / GST Payable	3,300	31 Oct 2033	Balance c/d	7,900
		10,300			10,300
1 Nov 2033	Balance b/d	7,900			

Machinery					
Date	Description	\$	Date	Description	\$
10 Oct 2033	Capital	5,000	31 Oct 2033	Balance c/d	5,000
		5,000			5,000
1 Nov 2033	Balance b/d	5,000			

Capital					
Date	Description	\$	Date	Description	\$
31 Oct 2033	Balance c/d	12,000	10 Oct 2033	Cash at Bank / Machinery	12,000
		12,000			12,000
			1 Nov 2033	Balance b/d	12,000

Fees					
Date	Description	\$	Date	Description	\$
31 Oct 2033	Balance c/d	3,000	15 Oct 2033	Cash at Bank	3,000
		3,000			3,000
			1 Nov 2033	Balance b/d	3,000

Wages					
Date	Description	\$	Date	Description	\$
18 Oct 2033	Cash at Bank	2,400	31 Oct 2033	Balance c/d	2,400
		2,400			2,400
1 Nov 2033	Balance b/d	2,400			

GST Payable					
Date	Description	\$	Date	Description	\$
31 Oct 2033	Balance c/d	300	15 Oct 2033	Cash at Bank	300
		300			300
			1 Nov 2033	Balance b/d	300

Step 2 – Preparation of a Trial Balance.

The closing balance for each account is entered into the trial balance.

- Asset and expense accounts are on the debit side.
- Liability, equity and income accounts are on the credit side.

The total for the debit and credit side is added together and each side should be equal.

Tech Sound Speakers Trial Balance as at 31 October 2033		
Ledger Account	Debit	Credit
Cash at Bank	7,900	
Machinery	5,000	
Capital		12,000
Fees		3,000
Wages	2,400	
GST Payable		300
	15,300	15,300

Practice Questions

Questions 30-32: Trial Balance Theory.

Questions 33-36: Preparation of a Trial Balance.

Questions 37-40: Closing Entries and Preparation of a Trial Balance.

Tips

- An example trial balance has been provided to assist with initial question practice.
- The total debit and credit figures must match to be in balance.
- If the cash at bank account is in credit, this is a bank overdraft which is a liability.

Trial Balance – Statement Preparation

Business Name		
Trial Balance		
as at X Month 20XX		
Ledger Account	Debit	Credit
Asset accounts	X	
Expense accounts	X	
Liability accounts		X
Equity accounts		X
Income accounts		X
	TOTAL	TOTAL

Question 30

Describe the purpose of a trial balance.

Question 31

List errors disclosed by a trial balance.

Question 32

List errors not disclosed by a trial balance.

Practice Questions

Questions 33-36: Preparation of a Trial Balance.

Question 33

A business has provided the following closing account balances.

Woo Tang Clan Trial Balance as at 30 June 2067			
Ledger Account	\$	Debit	Credit
Cash at Bank	3,000	3,000	
Equity	24,700		24,700
Insurance paid	900	900	
Mortgage	24,000		
Office Furniture	6,000		
Accounts Receivable	2,500		
Sales	13,000		
Freight outwards	200		
Accounts Payable	1,900		
Rent paid	6,000		
Motor Vehicle	34,000		
Inventory	11,000		

Required task:

Record the value of each account in the correct debit or ledger column. Once the debit and credit values have been recorded for each account, total the debits and credits. The first few accounts have been completed to help get you started.

Question 34

A business has provided the following closing account balances.

Big Boy Billy Bob Trial Balance as at 30 June 2091			
Ledger Account	\$	Debit	Credit
Accounts Payable	3,600		
Equity	6,600		
Accounts Receivable	2,900		
Loan from Bank	8,900		
Machinery	4,600		
Inventory	7,900		
Cash at Bank	2,700		
Advertising	4,300		
Electricity paid	1,200		
Wages	14,500		
Fees income	31,000		
Fixtures and fittings	12,000		

Required task:

Record the value of each account in the correct debit or ledger column. Once the debit and credit values have been recorded for each account, total the debits and credits.

Question 35

A business has provided the following closing account balances.

Ramen Samurai Trial Balance as at 30 June 2049			
Ledger Account	\$	Debit	Credit
Cash at Bank	19,000		
Accounts Payable	8,320		
Interest received	160		
Fees income	68,800		
Equity	28,310		
Motor Vehicle	35,600		
Rent paid	14,890		
Accounts Receivable	5,300		
Mortgage interest	3,000		
Accountant fees	800		
Mortgage	14,000		
Wages	47,000		

Required task:

Record the value of each account in the correct debit or ledger column. Once the debit and credit values have been recorded for each account, total the debits and credits.

Question 36

A business has provided the following closing account balances.

Sha-maemae Lay Lay Trial Balance as at 30 June 2038			
Ledger Account	\$	Debit	Credit
Wages	15,700		
Interest on loan	900		
Loan from Bank	16,000		
Laptop	1,200		
Interest received	900		
Accounts Receivable	12,100		
Cash at Bank	17,500		
Equity	15,000		
Telephone Bill	650		
Term Deposit	27,650		
Fees income	37,000		
Accounts Payable	6,800		

Required task:

Record the value of each account in the correct debit or ledger column. Once the debit and credit values have been recorded for each account, total the debits and credits.

Practice Questions

Questions 33-36: Preparation of a Trial Balance.

Question 37

The following information was supplied by Clear Mind Plumbing.

- On 3 July 2038, a business receives fees income of \$4,200 + \$420 GST = \$4,620.
- On 19 July 2038, a business paid cash for a cleaning fee of \$300 + \$30 GST = \$330.
- On 23 July 2038, paid wages of \$2,100 cash.

Required tasks:

a. Prepare the general ledger accounts to record these transactions and close the accounts.

Cash at Bank					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Fees					
Date	Description	\$	Date	Description	\$

Cleaning					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

b. Prepare a trial balance as at 31 July 2038.

Clear Mind Plumbing Trial Balance as at 31 July 2038		
Ledger Account	Debit	Credit

Question 38

Lightning Couriers has provided the following information.

- On 18 January 2034, the owner of the business contributed \$17,000 cash to the business.
- On 22 January 2034, the business purchased a motor vehicle for \$6,000 + \$600 GST.
- On 29 January 2034, performed a service for fees on credit of \$2,100 GST exclusive. Note: As this on credit, this will increase accounts receivable rather than cash at bank.

Required tasks:

a. Prepare the general ledger accounts to record these transactions and close the accounts.

Cash at Bank					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

Motor Vehicle					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Fees					
Date	Description	\$	Date	Description	\$

Accounts Receivable					
Date	Description	\$	Date	Description	\$

b. Prepare a trial balance as at 31 January 2034.

Lightning Couriers Trial Balance as at 31 January 2034		
Ledger Account	Debit	Credit

Question 39

The following information has been provided by Better Life Consulting.

- On 4 December 2042, the owner contributed \$6,000 cash to the business bank account.
- On 7 December 2042, the business purchased office equipment for \$1,300 + \$130 GST.
- On 12 December 2042, received cash fees of \$2,800 exclusive of GST.
- On 18 December 2042, paid wages of \$1,900.
- On 29 December 2042, received cash fees of \$1,100 inclusive of GST.

Required tasks:

a. Prepare the general ledger accounts to record these transactions and close the accounts.

Cash at Bank					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

Office Equipment					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Fees					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

b. Prepare a trial balance as at 31 December 2042.

Better Life Consulting Trial Balance as at 31 December 2042		
Ledger Account	Debit	Credit

Question 40

Smooth Earth Paving has supplied the following information.

- On 1 July 2038, the owner contributed office equipment worth \$4,300 and \$7,000 cash to the business. The business also took out a loan for \$5,000.
- On 7 July 2038, the business purchased machinery on credit for \$2,000 exclusive of GST.
- On 12 July 2038, received cash fees of \$3,500 + \$350 GST = \$3,850.
- On 16 July 2038, paid maintenance costs of \$300 + \$30 GST.
- On 23 July 2038, received fees on credit of \$5,500 inclusive of GST.

Required tasks:

a. Prepare the general ledger accounts to record these transactions and close the accounts.

Cash at Bank					
Date	Description	\$	Date	Description	\$

Office Equipment					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

Loan from Bank					
Date	Description	\$	Date	Description	\$

Machinery					
Date	Description	\$	Date	Description	\$

Accounts Payable					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Fees					
Date	Description	\$	Date	Description	\$

Maintenance					
Date	Description	\$	Date	Description	\$

Accounts Receivable					
Date	Description	\$	Date	Description	\$

8. Inventory Systems – Perpetual and Periodic Methods



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Why do businesses perform stocktakes?</p>	
<p>What do you see as the pros and cons of a business using software to record stock levels?</p>	
<p>What are the pros and cons of a business manually recording stock levels?</p>	

Inventory Systems – Syllabus

Syllabus – Unit 1	
Inventory Systems – Periodic and Perpetual Methods	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ principles of the perpetual inventory system • perpetual versus periodic inventory methods <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ cash and credit transactions to include cash receipts, cash payments, sales, purchases, sales returns, purchases returns, discount allowed, discount received ▪ perpetual inventory system given the cost of sales (NOTE: No requirement to teach inventory costing systems, such as Last-in First-out, First-in First-out and weighted average) ▪ write-off bad debts

Inventory Systems – Introduction

A trading business purchases inventory from suppliers and then sells this inventory to customers. Businesses will use either the periodic or perpetual inventory method. The theory for both systems is relevant to the syllabus and covered in this chapter. Only the practical for the perpetual system is relevant to the syllabus and covered in this chapter. Each of these methods has a different nature and their own advantages and disadvantages.

Inventory Systems – Summary Table

	Perpetual Inventory System	Periodic Inventory System
Nature	Inventory and cost of sales are recorded constantly. Requires the use of software. The sale price and cost of each item sold is recorded.	Inventory and cost of sales are recorded with manual stock takes throughout the year, not constantly. Does not require software. The sale price of each item sold is recorded. The cost of each item sold is not recorded.
Advantages	<ul style="list-style-type: none"> • Stock level updates in real time with software. • Income sheet and balance sheet are more easily prepared at regular intervals with software. • Identification of fast and slow moving stock to assist business planning through software. • Assists management to keep stock levels within upper and lower limits through automatic software alerts/ordering i.e., avoid overstocking or understocking. 	<ul style="list-style-type: none"> • Cheaper to set up and use as no complex software systems required. • Simple to set up and use. • Ideal for smaller businesses.
Disadvantages	<ul style="list-style-type: none"> • Software can be expensive to setup and update. • Requires stock check to identify broken, missing or stolen items as these are not identified by software. 	<ul style="list-style-type: none"> • Stock levels can only be found through regular stock checks. • Labour intensive to regularly stock check. • Stock checks can be expensive. • Difficult to identify fast and slow moving stock as these must be calculated manually without software. • Difficult to keep stock within lower and upper limits due to need for regular stock checks.

Practice Questions

Questions 1-5: Inventory Systems Introduction Theory.

Tip	<u>Course Guide</u> While completing this chapter you may find it useful to refer to the relevant chapter in the Essential Insight Course Guide. The Course Guide summarizes all theory relevant for each practical guide chapter. This saves time flipping through multiple pages in the Practical Guide while revising. The Course Guide can be found by navigating to the Resource Hub link on the front page.
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Question 1

An advantage of the perpetual inventory system is:

- Requires stock check to identify broken, missing or stolen items.
- Requires the use of software.
- Identification of fast and slow moving stock.
- Simple to set up and use.

Question 2

A disadvantage of the periodic inventory system is:

- Income sheet and balance sheet are more easily prepared.
- Difficult to identify fast and slow moving stock.
- Simple to set up and use.
- Can be expensive to setup.

Question 3

Which of the following is true about the perpetual inventory system:

- The cost of each item sold is not recorded.
- Does not require software.
- Inventory and cost of sales are recorded with manual stock takes throughout the year.
- The sale price of each item sold is recorded.

Question 4

Describe three main differences between the perpetual and periodic inventory system.

Question 5

A small business has expanded and is now much larger in size with large amounts of inventory. Previously the business used a periodic inventory system. An accountant has recommended the business switch to using a perpetual inventory system. Describe two advantages and disadvantages of this type of inventory system.

Recording and Processing Transactions – Perpetual Inventory System

During this section the following transactions will be demonstrated within the perpetual inventory system:

- Cash and Credit Purchase of Inventory, Payment of Accounts Payable and Discount Received.
- Purchases Returns.
- Cash Sales, Credit Sales, Collection of Accounts Receivable and Discount Allowed.
- Sales returns.
- Write-off of Bad debts.

Cash and Credit Purchase of Inventory, Payment of Accounts Payable and Discount Received

Cash payments refers to payments made with cash. This is demonstrated in Example 1.

Credit purchases refers to payments made on credit. Credit purchases are recorded in the accounts payable account. Often suppliers will offer a discount for prompt payment, this requires adjustment of the GST credits account. When the credit amount owing is paid, a separate transaction is recorded. These are demonstrated in Example 2.

Example 1 – Cash Purchase of Inventory

On 26 April 2045, a business purchased inventory with cash for \$3,600 plus \$360 GST.

Required task:

Prepare the general journal and general ledger to record the payment of inventory with cash.

Solution

Step 1 – Cash Purchase of Inventory.

The transaction is recorded and processed with entries to the inventory, GST credits and cash at bank accounts.

- Debit Inventory \$3,600 to increase this asset account.
- Debit GST Credits \$360 to increase the asset account.
- Credit Cash at Bank \$3,960 to decrease this asset account.

Date	Details	Debit	Credit
26 Apr 2045	Inventory	3,600	
	GST Credits	360	
	Cash at Bank		3,960
	Inventory purchased with cash		

Inventory					
Date	Description	\$	Date	Description	\$
26 Apr 2045	Cash at Bank	3,600			

GST Credits					
Date	Description	\$	Date	Description	\$
26 Apr 2045	Cash at Bank	360			

Cash at Bank					
Date	Description	\$	Date	Description	\$
			26 Apr 2045	Inventory / GST Credits	3,960

Example 2 – Credit Purchase of Inventory, Payment of Accounts Payable and Discount Received

On 18 September 2039, a business purchased inventory on credit for \$4,400 plus \$440 GST.

On 7 Oct 2039, the business paid the amount owing for the inventory purchased on credit. The business received a 10% discount for prompt payment.

Required task:

Prepare the general journal and general ledger to record the payment of inventory with cash.

Solution**Step 1 – Credit Purchase of inventory.**

The transaction is recorded and processed with entries to the inventory, GST credits and accounts payable accounts.

- Debit Inventory \$4,400 to increase this asset account.
- Debit GST Credits \$440 to increase this asset account.
- Credit Accounts Payable \$4,840 to increase this liability account.

Date	Details	Debit	Credit
18 Sep 2039	Inventory	4,400	
	GST Credits	440	
	Accounts Payable		4,840
	Inventory purchased on credit		

Inventory					
Date	Description	\$	Date	Description	\$
18 Sep 2039	Accounts Payable	4,400			

GST Credits					
Date	Description	\$	Date	Description	\$
18 Sep 2039	Accounts Payable	440			

Accounts Payable					
Date	Description	\$	Date	Description	\$
			18 Sep 2039	Inventory / GST Credits	4,840

Step 2 – Payment of Accounts Payable and Discount Received.

A 10% discount is received for prompt payment of accounts payable. Discount received is classified as income for the buyer that receives the discount.

Discount received = Original cost x Discount Rate

$$= 4,840 \times 0.10$$

$$= \$484$$

Accounts payable paid = Original cost – Discount Received

$$= 4,840 - 484$$

$$= \$4,356$$

The transaction is recorded and processed with entries to the accounts payable, cash at bank and discount received accounts.

- Debit Accounts Payable \$4,840 to increase this asset account.
- Credit Cash at Bank \$4,356 to decrease this asset account.
- Credit Discount Received \$484 to increase this income account.

Date	Details	Debit	Credit
7 Oct 2039	Accounts Payable	4,840	
	Cash at Bank		4,356
	Discount Received		484
	Payment of Accounts Payable		

Accounts Payable					
Date	Description	\$	Date	Description	\$
7 Oct 2039	Cash at Bank / Discount Received	4,840	18 Sep 2039	Inventory / GST Credits	4,840

Cash at Bank					
Date	Description	\$	Date	Description	\$
			7 Oct 2039	Accounts Payable	4,356

Discount Received					
Date	Description	\$	Date	Description	\$
			7 Oct 2039	Accounts Payable	484

Step 3 – GST Credits Adjustment for Discount Received.

The discount received for prompt payment has decreased the original purchase price of the inventory and therefore the associated GST Credits.

$$\begin{aligned} \text{Amount to decrease GST Credits} &= \text{Original GST Credits} \times \text{Discount Rate} \\ &= 440 \times 0.10 \\ &= \$44 \end{aligned}$$

Therefore, the GST credits account is reduced by \$44 given the discount received.

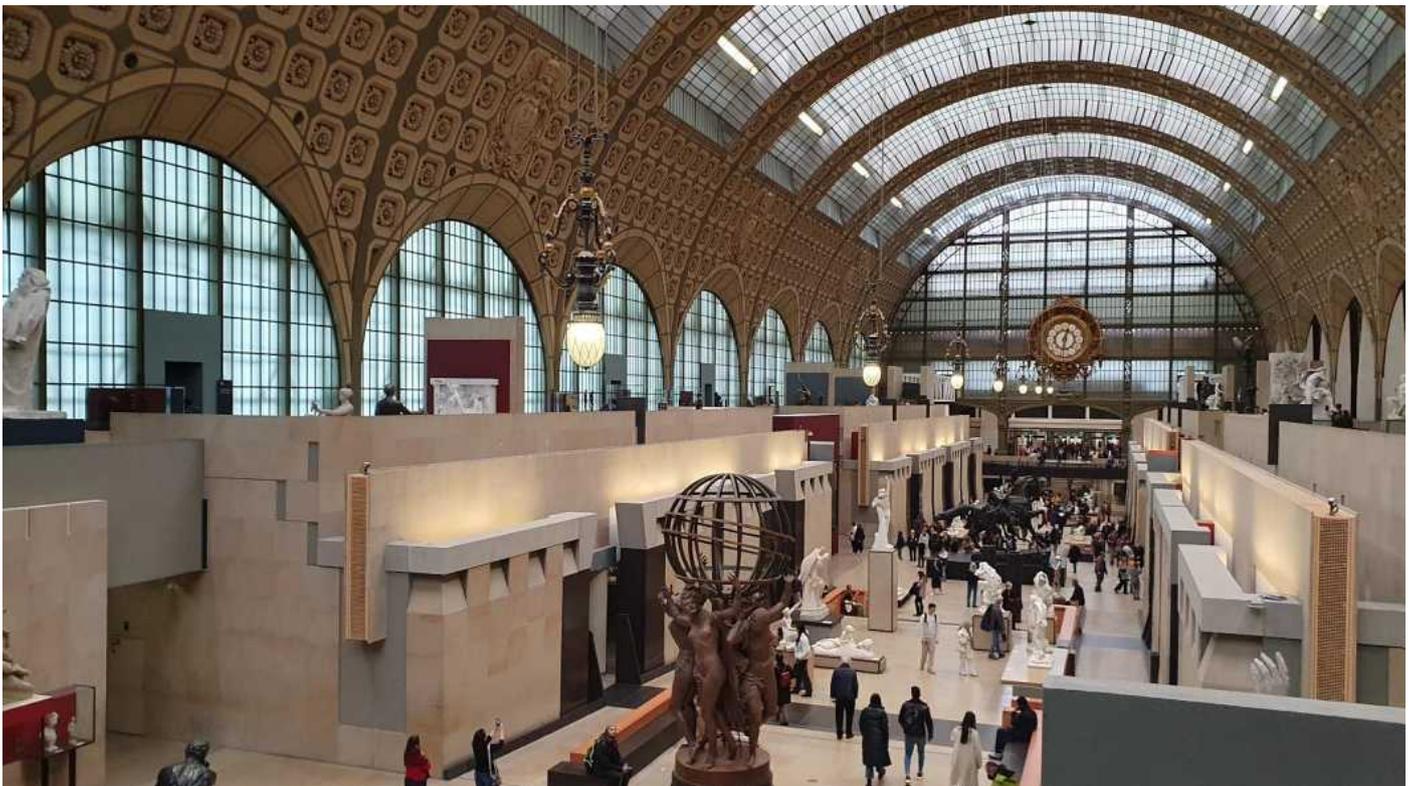
The transaction is recorded and processed with entries to the discount received and GST credits account.

- Debit Discount Received \$44 to decrease this income account.
- Credit GST Credits \$44 to decrease this asset account.

Date	Details	Debit	Credit
7 Oct 2039	Discount Received	44	
	GST Credits		44
	GST Credits Adjustment		

Discount Received					
Date	Description	\$	Date	Description	\$
7 Oct 2039	GST Credits	44	7 Oct 2039	Accounts Payable	484

GST Credits					
Date	Description	\$	Date	Description	\$
18 Sep 2039	Accounts Payable	440	7 Oct 2039	Discount Received	44



Musée d'Orsay, Paris.

Practice Questions

Questions 6-8: Cash Purchase of Inventory.

Questions 9-13: Credit Purchase of Inventory, Payment of Accounts Payable and Discount Received.

Question 6

A business has provided the following information.

- On 4 March 2029, the business purchased inventory for cash \$3,000 + \$300 GST.

Required task:

a. Prepare the general journal entry to record the purchase of inventory.

Date	Details	Debit	Credit
4 Mar 2029	Inventory	3,000	
	_____	300	
	Cash at Bank		_____

b. Prepare the general ledger entries to record the purchase of inventory.

Inventory					
Date	Description	\$	Date	Description	\$
4 Mar 2029	_____	_____			

GST Credits					
Date	Description	\$	Date	Description	\$
_____	Cash at Bank	300			

Date	Description	\$	Date	Description	\$
			4 Mar 2029	_____	3,300

Question 7

A business has provided the following information.

- On 18 July 2032, the business purchased inventory for cash \$2,450 exclusive of GST.

Required task:

a. Prepare the general journal entry to record the purchase of inventory.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the purchase of inventory.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 8

The following information has been supplied by a business.

- On 12 December 2045, the business purchased inventory for cash worth \$1,650 inclusive of GST.

Required task:

a. Prepare the general journal entry to record the purchase of inventory.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the purchase of inventory.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 9

The following information has been provided by a business.

- On 8 August 2042, the business purchased inventory of credit for \$1,800 + \$180 GST.

Required task:

a. Prepare the general journal entry to record the purchase of inventory.

Date	Details	Debit	Credit
	_____ GST Credits Accounts Payable Credit purchase of inventory	_____ _____	1,980

b. Prepare the general ledger entries to record the purchase of inventory.

Date	Description	\$	Date	Description	\$
8 Aug 2042	_____	1,800			

GST Credits					
Date	Description	\$	Date	Description	\$
8 Aug 2042	Accounts Payable	180			

Date	Description	\$	Date	Description	\$
			_____	_____	1,980

Question 10

A business has provided the following information.

- On 15 April 2036, the business paid \$1,100 GST inclusive for inventory that was previously purchased on credit on 4 April 2036. The business received a discount of 6% for prompt payment.

Required task:

a. Prepare the general journal entry to record the payment for inventory purchased on credit.

Workings

Date	Details	Debit	Credit
15 Apr 2036	_____ Cash at Bank Discount Received Payment of Accounts Payable	_____	1,034 66
_____	_____ GST Credits GST Credits Adjustment	_____	6

b. Prepare the general ledger entries to record the payment for inventory purchased on credit.

Date	Description	\$	Date	Description	\$
15 Apr 2036	Cash at Bank / Discount Received	1,100			1,100

Date	Description	\$	Date	Description	\$
			15 Apr 2036	Accounts Payable	1,034

Discount Received					
Date	Description	\$	Date	Description	\$
15 April 2036	GST Credits	6	15 Apr 2036	Accounts Payable	66

GST Credits					
Date	Description	\$	Date	Description	\$
4 April 2036	Accounts Payable	100	15 Apr 2036		

Inventory					
Date	Description	\$	Date	Description	\$
4 April 2036	Accounts Payable	1,000			

Question 11

A business has provided the following information.

- On 28 March 2027, the business paid for inventory that was previously purchased on credit for \$440 on 13 March 2027. The business received a 10% discount for prompt payment.

Required task:

a. Prepare the general journal entry to record the payment for inventory purchased on credit.

Workings

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the payment for inventory purchased on credit.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 12

A business has supplied the following information.

- On 20 May 2036, the business purchased inventory on credit for \$300 exclusive of GST.
- On 25 May 2036, the business paid for inventory purchased on credit and received a 5% discount.

Required task:

a. Prepare the general journal entry to record these transactions.

Workings

Question 13

The following information has been provided by a business.

- On 3 February 2028, the business purchased inventory on credit for \$2,200 inclusive of GST.
- On 29 March 2029, the business paid for inventory purchased on credit for \$2,200 inclusive of GST.
The business did not receive a discount for prompt payment.

Required task:

a. Prepare the general journal entry to record these transactions.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Purchases Returns

A business may return inventory that was purchased for a variety of reasons based on consumer laws and supplier policies. Purchase returns may occur due for reasons such as faulty inventory, change of mind or an incorrect order being made.

Example

On 9 August 2036, a business purchased inventory for \$5,200 + \$520 GST.

On 20 August 2036, the business returned \$1,600 + \$160 GST of inventory that was faulty.

Required task:

Prepare the general journal and general ledger to record the purchase return.

Solution

Step 1 – Return of inventory.

The transaction is recorded and processed with entries to the accounts payable, inventory and GST credits accounts.

- Debit Accounts Payable \$1,760 to decrease this asset account.
- Credit Inventory \$1,600 to decrease this asset account.
- Credit GST Credits \$160 to decrease this asset account.

The original purchase ledger entries are the entries that are not bolded.

Date	Details	Debit	Credit
20 Aug 2036	Accounts Payable	1,760	
	Inventory		1,600
	GST Credits		160
	Return of inventory		

Accounts Payable					
Date	Description	\$	Date	Description	\$
20 Aug 2036	Inventory / GST Credits	1,760	9 Aug 2036	Inventory / GST Credits	5,720

Inventory					
Date	Description	\$	Date	Description	\$
9 Aug 2036	Accounts Payable	5,200	20 Aug 2036	Accounts Payable	1,600

GST Credits					
Date	Description	\$	Date	Description	\$
9 Aug 2036	GST Credits	520	20 Aug 2036	Accounts Payable	160



Amsterdam, Netherlands.

Question 15

A business has supplied the following information.

- On 9 September 2030, the business purchased inventory with cash for \$880 inclusive of GST.
- On 12 September 2030, the business returned inventory worth \$200 exclusive of GST.

Required task:

a. Prepare the general journal entries to record these transactions.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 16

A business has provided the following information.

- On 3 April 2061, an invoice was received for the purchase of stock for \$1,600 plus GST.
- On 7 April 2061, stock that was purchased on 3 April 2061 was returned with a value of \$300 plus GST.
- On 9 April 2061, the business received a receipt for the payment of the invoice on 3 April 2061. The business received a 2.5% discount for prompt payment.

Required tasks:

a. Prepare the general journal entries to record these transactions.

Tip: when calculating the discount received you will need to subtract the value of the return from the initial purchase value. You may find the question makes more sense if you complete accounts payable ledger and GST credits first. This is because the accounts payable ledger will show you the original accounts payable on one side and the value of the return on the other side. The accounts payable paid on 9 April will be the difference between the debit and credit side of the accounts payable ledger. The GST credits discount adjustment is calculated by multiplying the GST credits remaining after the return by the discount rate.

Workings

Date	Details	Debit	Credit
	Inventory	_____	
	GST Credits	_____	
	Accounts Payable		_____
	Purchase of inventory on credit		
	Accounts Payable	_____	
	Inventory	_____	
	GST Credits		_____
	Return of inventory purchased on credit		
	Accounts Payable	_____	
	Cash at Bank	_____	
	Discount Received		_____
	Payment of Accounts Payable		
	Discount Received	_____	
	GST Credits		_____
	GST Credits Adjustment		

b. Prepare the general ledger entries to record these transactions.

Inventory					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

Accounts Payable					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

b. Prepare the general ledger entries to record these transactions.

Inventory					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

Accounts Payable					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

Cash Sales, Credit Sales, Collection of Accounts Receivable and Discount Allowed

Cash sales refers to sales made in cash. This is demonstrated in Example 1.

Credit sales refers to sales made on credit. These credit sales are recorded in the accounts receivable account. Often businesses will offer a discount for prompt payment, this requires adjustment of the GST payable account. When the amount owed is received, a separate transaction is recorded. These are demonstrated in Example 2.

Example 1 – Cash Sale

On 28 July 2032, a business made a cash sale of inventory for \$1,800 + \$180 GST. The original purchase price of the inventory sold was \$600.

Required task:

Prepare the general journal and general ledger to record the sale of inventory for cash.

Solution

Step 1 – Cash Sale of Inventory.

The transaction is recorded and processed with entries to the cash at bank, sales and GST payable accounts.

- Debit Cash at Bank \$1,980 to increase this asset account.
- Credit Sales \$1,800 to increase this income account.
- Credit GST Payable \$180 to increase this liability account.

Date	Details	Debit	Credit
28 Jul 2032	Cash at Bank	1,980	
	Sales		1,800
	GST Payable		180
	Cash sale of inventory		

Cash at Bank					
Date	Description	\$	Date	Description	\$
28 Jul 2032	Sales / GST Payable	1,980			

Sales					
Date	Description	\$	Date	Description	\$
			28 Jul 2032	Cash at Bank	1,800

GST Payable					
Date	Description	\$	Date	Description	\$
			28 Jul 2032	Cash at Bank	180

Step 2 – Cost of Inventory Sold.

It is necessary to record the cost of the inventory that was sold.

- Debit Cost of Sales \$600 to increase this expense account.
- Credit Inventory \$600 to decrease this asset account.

Date	Details	Debit	Credit
28 Jul 2032	Cost of Sales	600	
	Inventory		600
	Cost of inventory sold		

Cost of Sales					
Date	Description	\$	Date	Description	\$
28 Jul 2032	Inventory	600			

Inventory					
Date	Description	\$	Date	Description	\$
			28 Jul 2032	Cost of Sales	600

Example 2 – Credit Sale, Collection of Accounts Receivable and Discount Allowed

On 15 October 2039, a business made a credit sale for \$1,300 + \$130 GST. The original purchase price of the inventory sold was \$400.

On 23 Oct 2039, the debtor paid the amount owing for the inventory purchased on credit. The business allowed a 5% discount for prompt payment.

Required task:

Prepare the general journal and general ledger to record the credit sale, collection of accounts receivable and discount allowed.

Solution**Step 1 – Credit Sale.**

The transaction is recorded and processed with entries to the accounts receivable, sales and GST payable accounts.

- Debit Accounts Receivable \$1,430 to increase this asset account.
- Credit Sales \$1,300 to increase this income account.
- Credit GST Payable to increase this liability account.

Date	Details	Debit	Credit
15 Oct 2039	Accounts Receivable	1,430	
	Sales		1,300
	GST Payable		130
	Credit sale of inventory		

Accounts Receivable					
Date	Description	\$	Date	Description	\$
15 Oct 2039	Sales / GST Payable	1,430			

Sales					
Date	Description	\$	Date	Description	\$
			15 Oct 2039	Accounts Receivable	1,300

GST Payable					
Date	Description	\$	Date	Description	\$
			15 Oct 2039	Accounts Receivable	130

Step 2 – Cost of inventory sold.

It is necessary to record the cost of the inventory that was sold.

- Debit Cost of Sales \$400 to increase this expense account.
- Credit Inventory \$400 to decrease this asset account.

Date	Details	Debit	Credit
15 Oct 2039	Cost of Sales	400	
	Inventory		400
	Cost of inventory sold		

Cost of Sales					
Date	Description	\$	Date	Description	\$
15 Oct 2039	Inventory	400			

Inventory					
Date	Description	\$	Date	Description	\$
			15 Oct 2039	Cost of Sales	400

Step 3 – Collection of Accounts Receivable and Discount Allowed.

A 5% discount is allowed. Discount allowed is classified as an expense for the seller that allows the discount.

$$\begin{aligned} \text{Discount allowed} &= \text{Original cost} \times \text{Discount Rate} \\ &= 1,430 \times 0.05 \\ &= \$71.50 \end{aligned}$$

$$\begin{aligned} \text{Accounts receivable received} &= \text{Original cost} - \text{Discount Allowed} \\ &= 1,430 - 71.5 \\ &= \$1,358.50 \end{aligned}$$

The transaction is recorded and processed with entries to the cash at bank, discount allowed and accounts receivable accounts.

- Debit Cash at Bank \$1,358.50 to increase this asset account.
- Debit Discount Allowed \$71.50 to increase this expense account.
- Credit Accounts Receivable \$1,430 to decrease this asset account.

Date	Details	Debit	Credit
23 Oct 2039	Cash at Bank	1,358.50	
	Discount Allowed	71.50	
	Accounts Receivable		1,430
	Collection from debtor		

Cash at Bank					
Date	Description	\$	Date	Description	\$
23 Oct 2039	Accounts Receivable	1,380.50			

Discount Allowed					
Date	Description	\$	Date	Description	\$
23 Oct 2039	Accounts Receivable	71.50			

Accounts Receivable					
Date	Description	\$	Date	Description	\$
15 Oct 2039	Sales / GST Payable	1,430	23 Oct 2039	Cash at Bank / Discount Allowed	1,430

Step 4 – GST Payable Adjustment for Discount Allowed.

The discount allowed for prompt payment has decreased the original price the inventory was sold for and therefore the associated GST Payable.

$$\begin{aligned} \text{Amount to decrease GST Payable} &= \text{Original GST Payable} \times \text{Discount Rate} \\ &= 130 \times 0.05 \\ &= \$6.50 \end{aligned}$$

Therefore, the GST payable account is reduced by \$6.50 given the discount received.

The transaction is recorded and processed with entries to the GST Payable and Discount Allowed accounts.

- Debit GST Payable \$6.50 to decrease this liability account.
- Credit Discount Allowed \$6.50 to decrease this expense account.

Date	Details	Debit	Credit
23 Oct 2039	GST Payable	6.50	
	Discount Allowed		6.50
	GST Payable Adjustment		

GST Payable					
Date	Description	\$	Date	Description	\$
23 Oct 2039	Discount Allowed	6.50	15 Oct 2039	Accounts Receivable	130

Discount Allowed					
Date	Description	\$	Date	Description	\$
23 Oct 2039	Accounts Receivable	71.50	23 Oct 2039	GST Payable	6.50

Practice Questions

Questions 18-20: Cash Receipts.

Questions 21-25: Credit Sales, Collection of Accounts Receivable and Discount Allowed.

Question 18

A business has provided the following information.

- On 13 February 2036, the business sold inventory for cash \$2,000 + \$200 GST. The original purchase price of the inventory sold was \$750.

Required task:

a. Prepare the general journal entry to record the sale of inventory.

Date	Details	Debit	Credit
	Sales GST Payable Cash sale of inventory		2,000 200
13 Feb 2036	Cost of Sales	750	

b. Prepare the general ledger entries to record the sale of inventory.

Cash at Bank					
Date	Description	\$	Date	Description	\$
13 Feb 2036		2,200			

Sales					
Date	Description	\$	Date	Description	\$
			13 Feb 2036	Cash at Bank	

GST Payable					
Date	Description	\$	Date	Description	\$
			13 Feb 2036		200

Cost of Sales					
Date	Description	\$	Date	Description	\$
13 Feb 2036	Inventory				

Inventory					
Date	Description	\$	Date	Description	\$
			13 Feb 2036		750

Question 19

The following information has been supplied by a business.

- On 17 July 2033, the business sold inventory for cash \$1,330 exclusive of GST. The cost of the inventory sold was \$490.

Required task:

a. Prepare the general journal entry to record the sale of inventory.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the sale of inventory.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 20

A business had the following transactions.

- On 3 April 2046, the business sold inventory for cash \$803 inclusive of GST. The cost of the inventory sold was \$360.

Required task:

a. Prepare the general journal entry to record the sale of inventory.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the sale of inventory.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 21

A business has provided the following information.

- On 16 May 2028 a business issued an invoice for the sale of inventory on credit for \$5,000 + \$500 GST. The cost of this sale was \$3,500.
- On 23 May 2028, a business received payment and issued a receipt to a customer who had previously purchased inventory on credit for \$5,000 + \$500 GST on 16 May 2028. The customer received a discount of 5% for prompt payment.

Required task:

a. Prepare the general journal entry to record these transaction.

Workings

Date	Details	Debit	Credit
16 May 2028	<hr/> Sales GST Payable Inventory sold on credit	<hr/>	<hr/> <hr/>
16 May 2028	Cost of Sales <hr/> Cost of inventory sold	<hr/>	<hr/>
23 May 2028	Cash at Bank <hr/> Accounts Receivable <hr/>	<hr/> <hr/>	<hr/>
23 May 2028	<hr/> Discount Allowed GST Payable Adjustment	<hr/>	<hr/>

b. Prepare the general ledger entries to record this transaction.

Date	Description	\$	Date	Description	\$
16 May 2028	Sales / GST Payable		23 May 2028		5,500

Sales					
Date	Description	\$	Date	Description	\$
			16 May 2028		5,000

Cost of Sales					
Date	Description	\$	Date	Description	\$
16 May 2028	Inventory	3,500			

Inventory					
Date	Description	\$	Date	Description	\$
			16 May 2028		3,500

GST Payable					
Date	Description	\$	Date	Description	\$
23 May 2028	Discount Allowed	25	16 May 2028		500

Cash at Bank					
Date	Description	\$	Date	Description	\$
23 May 2028	Accounts Receivable	5,225			

Discount Allowed					
Date	Description	\$	Date	Description	\$
23 May 2028		275	23 May 2028	GST Payable	25

b. Prepare the general ledger entries to record this transaction.

Accounts Receivable					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Inventory					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Discount Allowed					
Date	Description	\$	Date	Description	\$

Discount Allowed					
Date	Description	\$	Date	Description	\$

Question 23

The following information has been supplied by a business.

- On 9 June 2033, the business received payment for inventory sold on credit for \$440 GST inclusive on 3 March 2033. The customer did not receive any discount.

Required task:

a. Prepare the general journal entry to record this transaction.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record this transaction.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Sales Returns

If a customer returns inventory, then the accounting records must be updated to process this transaction.

Example

On 3 March 2025, a business sold inventory on credit to a customer for \$750 + \$75 GST. The cost of the inventory sold was \$205.

On 5 March 2025, the customer returned inventory worth \$220 + \$22 GST.

The purchase price of the inventory returned was \$60. The reason for the return was a customer change of mind and the inventory was undamaged. Therefore, the inventory could be returned to the shop floor for sale.

Required task:

Prepare the general journal and general ledger to record the sales return.

Solution

Step 1 – Return of inventory sold.

The transaction is recorded and processed with entries to the accounts receivable, inventory and GST payable accounts.

- Debit Sales Returns \$220 to increase this contra income account.
- Debit GST Payable \$22 to decrease this liability account.
- Credit Accounts Receivable \$242 to decrease this asset account.

The original sale ledger entries are the entries that are not bolded.

Note: if this were a cash sale, cash at bank would be credited instead of accounts receivable.

Date	Details	Debit	Credit
5 Mar 2025	Sales Returns	220	
	GST Payable	22	
	Accounts Receivable		242
	Return of inventory sold		

Sales Returns					
Date	Description	\$	Date	Description	\$
5 Mar 2025	Accounts Receivable	220			

GST Payable					
Date	Description	\$	Date	Description	\$
5 Mar 2025	Accounts Receivable	22	3 Mar 2025	Accounts Receivable	75

Accounts Receivable					
Date	Description	\$	Date	Description	\$
3 Mar 2025	Sales / GST Payable	825	5 Mar 2025	Sales Returns / GST Payable	242

Step 2 – Cost of inventory returned.

Entries are made to the inventory and cost of sales account to record the inventory returned that can be resold.

- Debit Inventory \$60 to increase this asset account.
- Credit Cost of Sales \$60 to decrease this expense account.

The entries that are not bolded represent the original cost of the sale.

Date	Details	Debit	Credit
5 Mar 2025	Inventory	60	
	Cost of Sales		60
	Cost of inventory returned		

Inventory					
Date	Description	\$	Date	Description	\$
5 Mar 2025	Cost of Sales	60	3 Mar 2025	Cost of Sales	205

Cost of Sales					
Date	Description	\$	Date	Description	\$
3 Mar 2025	Inventory	205	5 Mar 2025	Inventory	60

Practice Questions

Questions 26-29: Sales Returns.

Question 26

The following information has been supplied by a business.

- On 14 June 2029, the business sold inventory on credit for \$900 exclusive of GST. The cost of the inventory sold was \$390.
- On 16 October 2029, the customer returned inventory that was purchased on credit for \$280 exclusive of GST. The value of the inventory returned was \$120.

Required task:

a. Prepare the general journal entries to record these transactions.

Date	Details	Debit	Credit								
14 Jun 2029	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">GST Payable</td> <td style="width: 50%;"></td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">90</td> </tr> <tr> <td style="text-align: right;">Credit sale of inventory</td> <td style="border-top: 1px solid black;"></td> </tr> </table>	GST Payable		Sales	90	Credit sale of inventory		990	90		
GST Payable											
Sales	90										
Credit sale of inventory											
14 Jun 2029	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Cost of Sales</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </table>	Cost of Sales				390	390				
Cost of Sales											
16 Oct 2029	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Sales Returns</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="text-align: right;">280</td> </tr> <tr> <td>Accounts Receivable</td> <td style="text-align: right;">28</td> </tr> <tr> <td style="text-align: right;">Return of inventory sold</td> <td style="border-top: 1px solid black;"></td> </tr> </table>	Sales Returns			280	Accounts Receivable	28	Return of inventory sold		280	28
Sales Returns											
	280										
Accounts Receivable	28										
Return of inventory sold											
16 Oct 2029	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Inventory</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="text-align: right;">120</td> </tr> <tr> <td style="text-align: right;">Cost of inventory returned</td> <td style="border-top: 1px solid black;"></td> </tr> </table>	Inventory			120	Cost of inventory returned		120	120		
Inventory											
	120										
Cost of inventory returned											

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

b. Prepare the general ledger entries to record these transactions.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Sales Returns					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Discount Allowed					
Date	Description	\$	Date	Description	\$

Question 29

A business has provided the following information.

- The business has a policy that any credit sales paid within 30 days of sale will receive a 5% discount.
- On 1 December 2043, the business issued an invoice for the sale of inventory for \$2,585 including GST. The cost of the inventory sold was \$1,890.
- On 5 December 2043, the customer who purchased inventory on 1 December 2043 returned inventory sold for \$180 plus GST. The cost of the inventory returned was \$95. This inventory can be resold in the future.
- On 12 December 2033, a receipt was issued to the customer who purchased inventory on 1 December for payment of the remaining amount owing.

Required tasks:

a. Prepare the general journal entries to record these transactions.

Workings

b. Prepare the general ledger entries to record these transactions.

Accounts Receivable					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Inventory					
Date	Description	\$	Date	Description	\$

Sales Returns					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

Discount Allowed					
Date	Description	\$	Date	Description	\$

Write-off of Bad Debts

The cash to be received for sales made on credit is usually paid by the customer at a later point in time. However, when the customer cannot pay the amount owed, the amount owing is written off as a bad debt expense. This bad debt expense represents money owing to the business that will not be received.

Example

On 16 August 2032, a business made a credit sale to a customer for \$300 + \$30 GST.

On 5 February 2033, the amount of money owing by this customer had still not been received and the business decided to write off the amount owing as a bad debt.

Required task:

Prepare the general journal and general ledger to record the write-off of the bad debt.

Solution

Step 1 – Write-off of Bad Debts.

The write-off of the bad debt is recorded and processed with entries to the bad debts, GST Payable and accounts receivable accounts.

- Debit Bad Debts \$300 to increase this expense account.
- Debit GST Payable \$30 to decrease this liability account.
- Credit Accounts Receivable \$330 to decrease this asset account.

The entries in the ledgers that are not bolded are from the original sale.

Date	Details	Debit	Credit
5 Feb 2033	Bad Debts	300	
	GST Payable	30	
	Accounts Receivable		330
	Write-off of bad debts		

Bad Debts					
Date	Description	\$	Date	Description	\$
5 Feb 2033	Accounts Receivable	300			

GST Payable					
Date	Description	\$	Date	Description	\$
5 Feb 2033	Accounts Receivable	30	16 Aug 2032	Accounts Receivable	30

Accounts Receivable					
Date	Description	\$	Date	Description	\$
16 Aug 2032	Sales / GST Payable	330	5 Feb 2033	Bad Debts / GST Payable	330



Loch Ard Gorge, Great Ocean Road, Victoria, Australia.

Practice Questions

Questions 30-32: Write-off of bad debts.

Question 30

A business has supplied the following information.

- On 14 September 2029, the business made a credit sale to a customer for \$500 + \$50 GST.
- On 5 January 2030, the business wrote off the amount owing by this customer.

Required tasks:

a. Prepare the general journal entry to record the write-off of the bad debt.

Date	Details	Debit	Credit
5 Jan 2030	<div style="text-align: right; margin-right: 20px;">_____</div> GST Payable	500 50	_____
	Accounts Receivable		

b. Prepare the general ledger entries to record the write-off of the bad debt.

Bad debts					
Date	Description	\$	Date	Description	\$
5 Jan 2030	_____	_____			

GST Payable					
Date	Description	\$	Date	Description	\$
5 Jan 2030	_____	_____	14 Sept 2029	Accounts Receivable	50

Date	Description	\$	Date	Description	\$
14 Sept 2029	Sales / GST Payable	550			

Question 31

The following information has been provided by a business.

- On 5 April 2034, the business sold inventory on credit for \$700 GST exclusive.
- On 19 October 2034, the amount owing by the customer had still not been received and the business wrote off the amount owing as a bad debt.

Required tasks:

a. Prepare the general journal entry to record the write-off of the bad debt.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the write-off of the bad debt.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Question 32

A business has provided the following information.

- On 20 March 2049, the business sold inventory on credit for \$990 inclusive of GST.
- On 30 August 2049, the business had not received the amount owing and wrote this off as a bad debt.

Required tasks:

a. Prepare the general journal entry to record the write-off of the bad debt.

Date	Details	Debit	Credit

b. Prepare the general ledger entries to record the write-off of the bad debt.

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Date	Description	\$	Date	Description	\$

Recording and Processing Transactions – Profit and Loss Calculation

At the end of an accounting period, the profit and loss of a business can be calculated in the general journal and general ledger through the use of a profit and loss account. The profit and loss account records income on the credit side and expenses on the debit side. The profit of the business is equal to the amount that income is greater than expenses. If expenses are greater than income, then the business has experienced a loss.

Example

The following trial balance has been prepared for Horoscope Charms.

Horoscope Charms Trial Balance as at 30 June 2042		
	Debit	Credit
Sales		60,000
Cost of Sales	33,000	
Discount Allowed	500	
Discount Received		900
Sales Returns	200	
Wages	5,000	
Rent	8,000	
Inventory	18,000	
Accounts Receivable	6,000	
Accounts Payable		3,000
Capital		12,800
Drawings	6,000	
	\$76,700	\$76,700

Required task:

- Prepare the general journal and general ledger to calculate profit.
- Prepare the general journal and general ledger to record profit and drawings in the capital account.
- Prepare the equity section of the balance sheet.



Jigokudani Valley near Snow Monkey Park, Nagano.

Solution

Step 1 – Closing Expense accounts to the Profit and Loss account.

Expense accounts are closed by crediting the expense accounts and debiting the profit and loss account. Sales returns are a contra income and are treated in a similar way to the expense accounts.

Date	Details	Debit	Credit
30 Jun 2042	Profit and Loss	46,500	
	Cost of Sales		33,000
	Discount Allowed		500
	Wages		5,000
	Rent		8,000
	Expense transferred		
30 Jun 2042	Profit and Loss	200	
	Sales Returns		200
	Contra income transferred		

Profit and Loss					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Cost of Sales	33,000			
30 Jun 2042	Discount Allowed	500			
30 Jun 2042	Wages	5,000			
30 Jun 2042	Rent	8,000			
30 Jun 2042	Sales Returns	200			

Cost of Sales					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	33,000	30 Jun 2042	Profit and Loss	33,000

Discount Allowed					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	500	30 Jun 2042	Profit and Loss	500

Wages					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	5,000	30 Jun 2042	Profit and Loss	5,000

Rent					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	8,000	30 Jun 2042	Profit and Loss	8,000

Sales Returns					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	200	30 Jun 2042	Profit and Loss	200

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Step 1 – Closing Income accounts to the Profit and Loss account.

Income accounts are closed by debiting the income accounts and crediting the profit and loss account.

The entry not bolded in the Sales, Discount Received and Purchase Returns accounts is the balance demonstrated in the trial balance.

Extension: Contra income.

In the previous step contra income was demonstrated to behave similarly to expenses. Contra expenses accounts exist as well and are treated in a similar way income. One example is purchase returns. However, purchase returns are only relevant when using the periodic inventory system which is not covered in this syllabus. When using the periodic inventory system, the purchase of inventory is recorded to the 'Purchases' account which is an expense account. When inventory is returned, this is recorded to the 'Purchases returns' account. The general journal and general ledger entries for the periodic inventory system are not included in the syllabus. This discussion around purchases returns and contra expenses has been included for extension in case students were wondering if contra expenses occur given contra income is demonstrated in the previous step.

Date	Details	Debit	Credit
30 Jun 2042	Sales	60,000	
	Discount Received	900	
	Profit and Loss		60,900
	Income transferred		

Profit and Loss					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Cost of Sales	33,000	30 Jun 2042	Sales	60,000
30 Jun 2042	Discount Allowed	500	30 Jun 2042	Discount Received	900
30 Jun 2042	Wages	5,000			
30 Jun 2042	Rent	8,000			
30 Jun 2042	Sales Returns	200			

Sales					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Profit and Loss	60,000	30 Jun 2042	Balance	60,000

Discount Received					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Profit and Loss	900	30 Jun 2042	Balance	900

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Step 3 – Calculation of Profit or Loss.

The Profit and Loss account is totalled and the difference between the two accounts is entered as either profit or loss.

- If the credit side is greater than the debit side, this is a profit.
- If the debit side is greater than the credit side, this is a loss.

The profit is transferred to the capital account.

- Debit Profit and Loss \$14,200 to close this account.
- Credit Capital \$14,200 to increase this equity account.

The entry in the capital account that is not bolded is the balance from the trial balance.

Date	Details	Debit	Credit
30 Jun 2042	Profit and Loss	14,200	
	Capital		14,200
	Transfer of profit		

Profit and Loss					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Cost of Sales	33,000	30 Jun 2042	Sales	60,000
30 Jun 2042	Discount Allowed	500	30 Jun 2042	Discount Received	900
30 Jun 2042	Wages	5,000			
30 Jun 2042	Rent	8,000			
30 Jun 2042	Sales Returns	200			
30 Jun 2042	Capital (Profit)	14,200			
		60,900			60,900

Capital					
Date	Description	\$	Date	Description	\$
			30 Jun 2042	Balance	12,800
			30 Jun 2042	Profit and Loss	14,200

Step 4 – Withdrawal of profits by owner.

The drawings of profits by the owner that were listed in the trial balance are transferred from the capital account to the drawings account.

- Debit Capital \$6,000 to decrease this equity account.
- Credit Drawings \$6,000 to increase this contra equity account.

Drawings is not an expense account which is why it is not transferred to the profit and loss account. Drawings is a contra equity account and is therefore transferred to the debit side of capital to reduce this equity account.

The capital account can now be balanced to represent the final value of equity.

As a reminder, the trial balance entry for Drawings being debited for \$6,000 represents that the drawings had taken place during the period. I.e., previously drawings increased by being debited by \$6,000 and cash at bank or inventory would have decreased by being credited by \$6,000.

Date	Details	Debit	Credit
30 Jun 2042	Capital	6,000	
	Drawings		6,000
	Withdrawal of cash by owner		

Capital					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Drawings	6,000	30 Jun 2042	Balance	12,800
30 Jun 2042	Balance c/d	21,000	30 Jun 2042	Profit and Loss	14,200
		27,000			27,000
			1 Jul 2042	Balance b/d	21,000

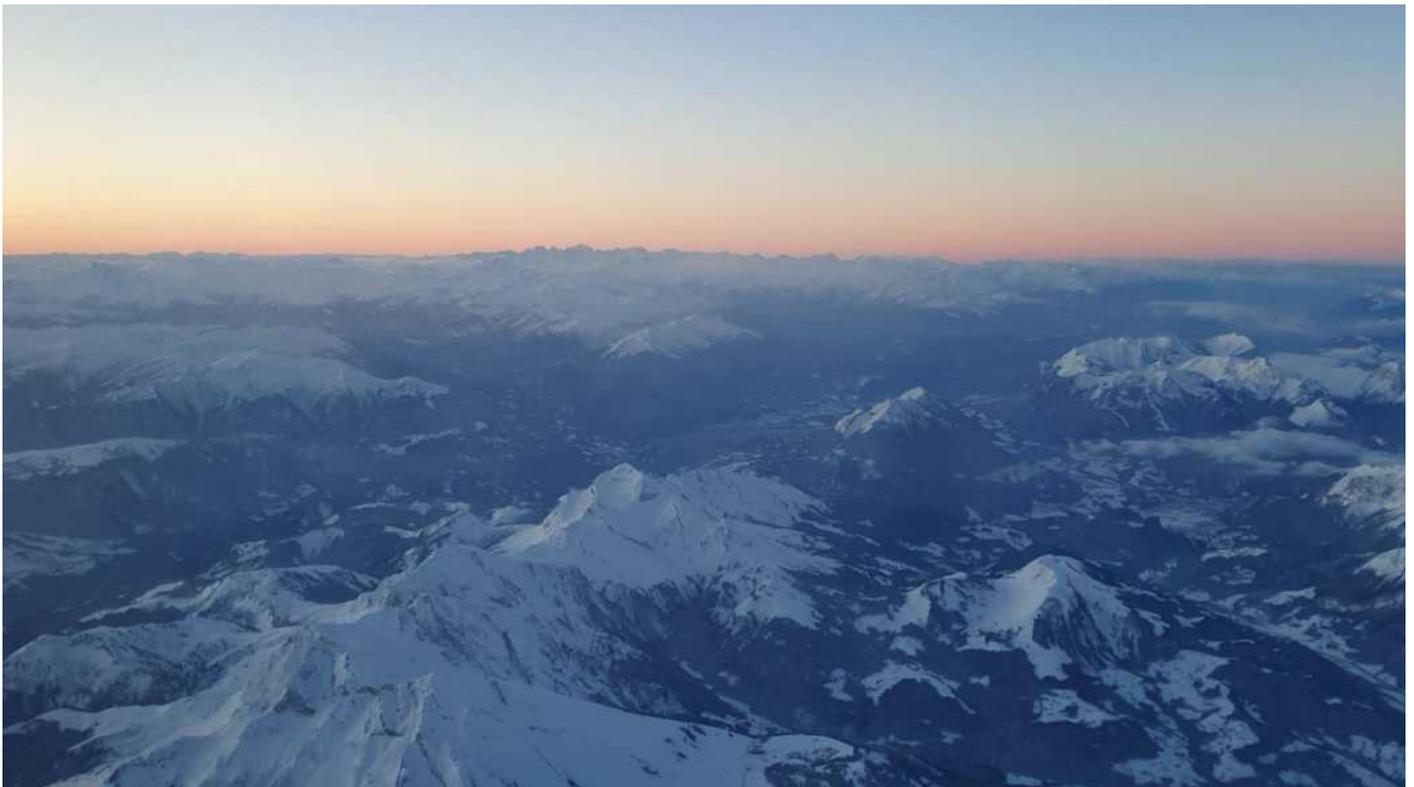
Drawings					
Date	Description	\$	Date	Description	\$
30 Jun 2042	Balance	6,000	30 Jun 2042	Capital	6,000

Step 5 – Preparation of the Equity section of the Balance Sheet

The equity section of the balance sheet is prepared with separate entries for capital, profit (or loss) and drawings.

Note: If a loss occurred then rather than 'Add Profit' the statement would say 'Less Loss'.

Horoscope Charms Balance Sheet (extract) as at 30 June 2042	
Equity	
Capital	12,800
Add Profit	14,200
	27,000
Less Drawings	6,000
Total Equity	21,000



Flight from Nice to Geneva.

Practice Questions

Questions 33-38: Profit and Loss Calculation.

Questions 39-41: Recording Multiple transactions and Trial Balance Preparation.

Tips

Labelling the trial balance

When reading trial balances label the income and expenses with "I" or "E" to identify the income and expense accounts.

Keeping track of progress

Tick off each account as you add each account to the profit and loss ledger account.

Question 33

The following information was extracted from a business's trial balance.

- Capital: \$30,000
- Drawings: \$15,000
- Profit: \$16,000

Required tasks:

a. Prepare the Capital general ledger for the year ended 30 June 2023.

Capital					
Date	Description	\$	Date	Description	\$

b. Prepare the Equity section of the balance sheet.

Balance Sheet (extract) As at 30 June 2023	
Equity	
Capital	
Add Profit	
Less Drawings	
Total Equity	

Question 34

The following information was extracted from a business's trial balance.

- Capital: \$45,000
- Drawings: \$3,000
- Loss: \$10,000

Required tasks:

a. Prepare the Capital general ledger for the year ended 30 June 2048.

Capital					
Date	Description	\$	Date	Description	\$

b. Prepare the Equity section of the balance sheet.

Balance Sheet (extract) As at 30 June 2023	
Equity	
Capital	
Less Loss	
Less Drawings	
Total Equity	

Question 35

The following information was extracted from a business's trial balance.

- Capital: \$29,500
- Drawings: \$6,000
- Profit: \$12,300

Required tasks:

a. Prepare the Capital general ledger for the year ended 30 June 2071.

Capital					
Date	Description	\$	Date	Description	\$

b. Prepare the Equity section of the balance sheet.

Balance Sheet (extract) As at 30 June 2071	
Equity	
Capital	
Add Profit	
Less Drawings	
Total Equity	

Question 36

The following information has been supplied by Rapid Tech.

Rapid Tech Trial Balance as at 30 June 2038		
	Debit	Credit
Sales		65,700
Cost of Sales	38,000	
Discount Allowed	1,200	
Discount Received		500
Sales Returns	2,000	
Wages	7,000	
Rent	9,000	
Inventory	9,000	
Accounts Receivable	8,000	
Accounts Payable		3,000
Capital		10,000
Drawings	5,000	
	\$79,200	\$79,200

Required task:

a. Prepare the general journal to calculate profit and record profit and drawings in the capital account.

Note: You may find it easier to complete the Profit and Loss ledger account required in Part B prior to completion of the journal in part a. This will allow you to calculate the total profit and loss which is needed to calculate the figure transferred from the profit and loss account to the capital account.

Date	Details	Debit	Credit
30 Jun 2038	<hr/> Discount Received Profit and Loss Income transferred	<hr/> <hr/>	66,200
30 Jun 2038	<hr/> Cost of Sales Discount Allowed Wages Rent Expense transferred	55,200	<hr/> <hr/> <hr/> <hr/>
30 Jun 2038	Profit and Loss <hr/> Contra income transferred	<hr/>	<hr/>
30 Jun 2038	Profit and Loss Capital Transfer of profit	<hr/>	<hr/>
30 Jun 2038	Capital <hr/> Withdrawal of cash by owner	<hr/>	<hr/>

b. Prepare the general ledgers to calculate profit and record profit and drawings in the capital account.

Profit and Loss					
Date	Description	\$	Date	Description	\$
30 Jun 2038			30 Jun 2038		

Sales					
Date	Description	\$	Date	Description	\$
30 Jun 2038			30 Jun 2038	Balance	65,700

Discount Received					
Date	Description	\$	Date	Description	\$
30 Jun 2038			30 Jun 2038	Balance	500

Cost of Sales					
Date	Description	\$	Date	Description	\$
30 Jun 2038	Balance	38,000	30 Jun 2038		

Discount Allowed					
Date	Description	\$	Date	Description	\$
30 Jun 2038	Balance	1,200	30 Jun 2038		

Wages					
Date	Description	\$	Date	Description	\$
30 Jun 2038	Balance	7,000	30 Jun 2038		

Rent					
Date	Description	\$	Date	Description	\$
30 Jun 2038	Balance	9,000	30 Jun 2038		

Sales Returns					
Date	Description	\$	Date	Description	\$
30 Jun 2038	Balance	2,000	30 Jun 2038		

Capital					
Date	Description	\$	Date	Description	\$
30 Jun 2038			30 Jun 2038	Balance	
30 Jun 2038			30 Jun 2038		
			1 Jul 2038		

c. Prepare the equity section of the balance sheet.

Rapid Tech Balance Sheet (extract) as at 30 June 2038	
Equity	
Capital	10,000
Add Profit	
Less Drawings	
Total Equity	

Question 37

Gold Smith Jewellers has provided the following information.

Gold Smith Jewellers Trial Balance as at 30 June 2042		
	Debit	Credit
Discount Received		200
Cost of Sales	22,000	
Rent	13,000	
Sales		44,300
Wages	11,500	
Accounts Receivable	6,000	
Fixtures and Fittings	4,000	
Telephone	7,000	
Inventory	18,000	
Accounts Payable		5,000
Loan from Bank		15,500
Insurance	1,500	
Capital		18,000
	83,000	83,000

Required tasks:

a. Prepare the general journal to calculate profit and record profit and drawings in the capital account.

Sales					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Telephone					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

Rent					
Date	Description	\$	Date	Description	\$

Insurance					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

c. Prepare the equity section of the balance sheet.

Gold Smith Jewellers Balance Sheet (extract) as at 30 June 2042	
Equity	
Capital	
Less Loss	
Total Equity	

Question 38

Pink Pretzels has supplied the following information.

Pink Pretzels Trial Balance as at 30 June 2027		
	Debit	Credit
Cost of Sales	48,000	
Wages	9,000	
Rent	11,000	
Advertising	3,000	
Sales Returns	800	
Machinery	7,000	
Sales		103,300
Accounts Receivable	1,500	
Drawings	25,000	
Capital		21,500
Discount Received		700
Discount Allowed	1,200	
Accounts Payable		4,000
Motor Vehicle	23,000	
	129,500	129,500

b. Prepare the general journal and general ledger to record profit and drawings in the capital account.

Profit and Loss					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Discount Allowed					
Date	Description	\$	Date	Description	\$

Sales Returns					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

Rent					
Date	Description	\$	Date	Description	\$

Advertising					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

c. Prepare the equity section of the balance sheet.

Pink Pretzels Balance Sheet (extract) as at 30 June 2027	
Equity	

Practice Questions

Questions 39-41: Recording Multiple transactions and Trial Balance Preparation.

Question 39

The following transactions occurred for Leap Sneakers during the month ended 31 March 2036.

- On 1 March 2036, the owner commenced business with a \$12,000 cash contribution to the business.
- On 4 March 2036, the business purchased inventory on credit for \$2,500 GST exclusive. If the business pays within 14 days, they will receive a 5% discount.
- On 12 March 2036, sold inventory for cash \$4,200 + \$420 GST. The cost of the inventory sold was \$1,000.
- On 15 March 2036, paid for inventory purchased on credit for \$2,500 GST exclusive and received discount.
- On 20 March 2036, paid staff wages of \$3,000.
- On 23 March 2036, sold inventory on credit for \$2,100 GST exclusive. The cost of the inventory sold was \$500.

Required task:

a. Prepare the general journal to record these transactions. Do not record the transfer of the income and expense accounts the profit and loss account.

Workings

b. Prepare the general ledger to process these transactions. Close all accounts.

Cash at Bank					
Date	Description	\$	Date	Description	\$

Capital					
Date	Description	\$	Date	Description	\$

Accounts Payable					
Date	Description	\$	Date	Description	\$

Inventory					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

Accounts Receivable					
Date	Description	\$	Date	Description	\$

b. Prepare the general ledger to process these transactions.

Cash at Bank					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Inventory					
Date	Description	\$	Date	Description	\$

b. Prepare the general ledger to process these transactions.

Inventory					
Date	Description	\$	Date	Description	\$

GST Credits					
Date	Description	\$	Date	Description	\$

Accounts Payable					
Date	Description	\$	Date	Description	\$

Cash at Bank					
Date	Description	\$	Date	Description	\$

GST Payable					
Date	Description	\$	Date	Description	\$

Sales					
Date	Description	\$	Date	Description	\$

Cost of Sales					
Date	Description	\$	Date	Description	\$

Discount Received					
Date	Description	\$	Date	Description	\$

Wages					
Date	Description	\$	Date	Description	\$

Rent					
Date	Description	\$	Date	Description	\$



Corporate Finance

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