



Colour Accounting

Active Learning Workbook 1

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01: Classic transactions

Activity 1.1 Colour Accounting

Complete the Classic Transactions on your BaSIS Board or online.

Activity 1.2 What's My Butterfly?

From the following scenarios, describe the impact on the accounting framework for the month of October.

Do not worry too much about account names, we are only concerned with the first order issue of which financial statement element is affected. The first one has been done for you.

Example

On 3 October Hilton Limited buys £12,000 of inventory from Cleveland Limited. Cleveland Limited allows 30 days to pay.

Inventory [assets] **increases £12,000**

Accounts payable [liabilities] **increases** **£12,000**

1.2.1 On 5 October Hilton Limited buys a motor vehicle from Benson Motors Limited for £15,000 using cash.

Answer:

1.2.2 On 8 October Hilton Limited takes out a loan from the bank of £50,000.

Answer:

1.2.3 On 15 October Hilton Limited makes a sale goods to Marvin Limited of £900.

Answer:

1.2.4 The sale of goods to Marvin Limited used up £300 of Hilton Limited's inventory.

Answer:

1.2.5 On 20 October Hilton Limited receives an invoice for tax advice from Mercer LLP of £1,200.

Answer:

1.2.6 On 28 October the cleaner comes in to clean the office. Hilton Limited pays the cleaner £80 before he leaves.

Answer:

1.2.7 On 30 October Hilton Limited receives an invoice from Mekler Limited for October's rent of £4,000.

Answer:

1.2.8 On 31 October a customer, Donohoe Limited, made a bank transfer to Hilton Limited of £400 in settlement of an amount owed.

Answer:

1.2.9 On 31 October Hilton Limited receives an invoice from Joplin Energy for October's electricity usage of £320. Hilton pays the invoice on the same day.

Answer:

Activity 1.3 Now what's My Butterfly?

These follow the same idea as the previous exercise, only more difficult. Set out all the transactions as they would be recorded in the accounting records during the month of November.

1.3.1 On 3 November Hilton Limited buys £8,000 of inventory from Cleveland Limited. Cleveland charges £50 for delivery. The invoice states that it must be paid within 30 days.

1.3.2 On 5 November Hilton Limited buys a van from Benson Motors Limited for £5,000 using £2,000 cash. Benson Motors Limited agrees that the balance can be paid at the end of the month.

1.3.3 On 8 November Hilton Limited makes a payment to the bank of £5,100. £5,000 relates to repayment of the loan and £100 is interest for the November.

1.3.4 (a)

On 15 November Marvin Limited returns goods with an original sales value of £150 to Hilton Limited.

(b)

The original cost of goods returned by Marvin Limited was £50. Hilton considers these to be in good condition and can be resold.

1.3.5 On 15 November Hilton Limited purchased a machine for £700. Delivery and installation costs were £100. The total of £800 was paid by bank transfer on the same day.

1.3.6 On 28 November Hilton Limited paid staff wages of £600. There are related employment taxes £100 which will be paid to HMRC on 22 December.

1.3.7 On 1 December Hilton Limited receives an invoice from Mekler Limited for November's rent of £4,000.

1.3.8 On 30 November a customer, Leonard Limited, made a bank transfer to Hilton Limited of £300 saying they would come in and buy goods up to that value in December.

1.3.9 On 1 December Hilton Limited receives an invoice from Joplin Energy for November's electricity usage of £390.

Part Three: After teaching

1.5 Self-study exercises: exam style questions

01.01 Answer these questions about entities.

1. Set out the principal differences between a **sole trader** and a **company**.
2. Explain the meaning of the term **limited liability** in the context of companies.
3. Set out the principal differences between a **partnership** and a **joint venture**.
4. Explain the difference between **private limited companies** (usually suffixed "Ltd") and **public limited companies** (usually suffixed "PLC").
5. Explain what happens to the profits in a company and who determines that.
6. Set out your understanding of the **agency problem** insofar as it relates to companies.
7. Set out your understanding of the agency problem insofar as it relates to companies.

01.02 Answer these questions about organisations involved with the accounting profession.

1. Explain the aims and purpose of HMRC.
2. Explain the aims and purpose of the IASB.
3. Explain the aims and purpose of ACCA.
4. Explain what is meant by the "Big 4".
5. List the names of six professional accounting firms.

01.03 There are only five financial statement elements and you should be able to define them all. You should also be able to identify any number of account descriptions and determine to which financial statement element it belongs. You should also know which financial statements are derived from elements and how movements in one elements can affect other elements. Answer these questions about financial statement elements:

1. Define **assets** and provide three examples.
2. Explain the differences between **current** and **non-current** assets.
3. Define **liabilities** and provide three examples.
4. Explain the differences between **current** and **non-current** liabilities.
5. Define **equity** and provide three examples.
6. Define **income** and provide three examples.
7. Define **expenses** and provide three examples.

- 01.04 Generate as many examples as you can of assets, liabilities, income and expenses. For each asset or liability, determine if it is current or non-current, or could be either.
- 01.05 Write out two forms of the accounting equation. Explain the impact of income and expenses on the accounting equation, illustrating how the equation stays in balance.

Activity 2.01 Writing out journals

The following transactions relate to Global Books Limited. Using your Colour Accounting BaSIS Framework to remind yourself, write these transactions as journals using the format described above. The first one has been partially completed.

3 January

2	Owner contributes funds – put into business bank account. Not a loan.	20,000	20,000
---	---	--------	--------

Journal 2: 3 January

Dr

Cr

The owners introduce equity capital.

31 January

3	Repaid part of the loan.	5,000	5,000
---	--------------------------	-------	-------

Journal 3:

Dr

Cr

31 January

4	Buy and install equipment from ZZZ Suppliers. They allow 30 days to pay.	6,000	6,000
---	--	-------	-------

Journal 4:

Dr

Cr

31 January

5	Buy products to sell. Paid immediately.	10,000	10,000
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Journal 5:

4 February

6a	Our first sale to Customer A. And they paid cash on the spot. Cash banked.	700	700
-----------	--	-----	-----

Journal 6a:

4 February

6b	Used some of the inventory in sale to Customer A.	300	300
-----------	---	-----	-----

Journal 6b:

5 February

7	Paid window cleaner in cash for cleaning display window today. Window looks great!	50	50
----------	--	-----------	-----------

Journal 7:

7 February

8a	Another sale to Customer B. She says her assistant will come in to pay tomorrow.	600	600
-----------	--	------------	------------

Journal 8a:

7 February

8b	Used some of the inventory in sale to Customer B.	300	300
-----------	---	------------	------------

Journal 8b:

20 February

9	Ace Cleaners cleaned the shop today. They left an invoice which allows 14 days to pay.	250	250
---	--	-----	-----

Journal 9:

21 February

10	Customer C drops in and pays cash for a gift voucher as a present. Cash banked.	100	100
----	---	-----	-----

Journal 10:

21 February

11	Customer B's assistant comes in and pays full amount owing. Cash banked.	600	600
----	--	-----	-----

Journal 11:

26 February

12a	Customer D buys some products and presents the gift voucher as payment.	90	90
------------	---	----	----

Journal 12a:

26 February

12b	Used some of the inventory in sale to Customer D.	30	30
------------	---	----	----

Journal 12b:

28 February

13	Paid by bank transfer for advertising campaign to run in March through June.	800	800
-----------	--	-----	-----

Journal 13:

31 March

14	Equipment will last for 5 years with no resale value. Account for one month of its usage.	100	100
-----------	---	------------	------------

Journal 14:

31 March

15	Account for deferred advertising used up in the month to 31 March.	200	200
-----------	--	------------	------------

Journal 15:

31 March

16	Pay ZZZ Suppliers in full.	6,000	6,000
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Journal 16:

Closing off T-accounts at the period end

“General ledger account” or “nominal ledger account” are commonly used terms for “accounts”. What we have referred to as buckets, and what we will now describe as T-accounts.

You may also hear “general ledger” or “nominal ledger” used to describe all the accounts together, effectively referring to the accounting framework or BaSIS Framework as a whole.

The collection of all accounts that used in the general ledger is called the “chart of accounts” and this can consist of many thousands or even tens of thousands of accounts.

You are required to know where an account belongs on the general ledger without being shown.

This is easier than you might think. You are not expected to learn how to place long lists of thousands of accounts, but you should be able to infer from its description where an account belongs on the accounting framework.

For example, “Cash at bank” always appears within assets. Accounts that record other forms of cash are recorded in the same way. Here are some examples:

Cash held at a bank in an immediate access account

- Current account
- Foreign currency account
- Bank account
- Cash at bank

Physical cash held for small payments or before being banked

- Cash in hand
- Petty cash
- Cash floats

Other forms of cash, for example deposit or savings accounts

- Long-term deposits
- Savings account
- National Savings Account

An entity will keep a separate account to record the movements in each cash account that it holds. You can see why the chart of accounts grows so quickly.

The following exercises test your ability to imagine the accounting framework and place each account correctly by ticking the correct financial statement element.

Activity 2.02 Identifying the nature of accounts 1

Consider the accounting records of Kersey Supplies Limited, a stationery supplies business. For each item identified below identify by marking the column that you think is the best fit. Add your own examples in rows 27 – 30.

	Name of account	Financial Position			Profit or Loss	
		Asset	Liability	Equity	Expense	Income
1	Warehouse building	✓				
2	Bank overdraft					
3	Leases on retail outlets					
4	Bank loan interest					
5	Accrued interest payable					
6	Motor vehicles – cost					
7	Motor vehicles – acc depn					
8	Car insurance premium					
9	Dividends paid					
10	Corporation tax payable					
11	Corporation tax charge					
12	Rent					
13	Dividends received					
14	Sales					
15	Inventory held for resale					
16	Retained earnings					
17	Accounts payable					
18	Cash at bank					
19	Computer equipment					
20	Investment in a company					
21	Amount owed to suppliers					
22	Directors' emoluments					
23	Wages and salaries					
24	Accounts receivable					
25	Debenture loan					
26	VAT on sales					
27						
28						
29						
30						

Activity 2.03 Identifying the nature of accounts 2

Account balances for Zonama Limited as at 31 December are summarised from the accounting records as follows. State where each belongs on the accounting framework.

			Where does it belong?	
	General ledger accounts	Dr	Cr	Element Note (if needed)
1	Loan note		200	<i>Liability</i>
2	Accrued expenses		120	
3	Advertising	3		
4	Insurance premiums	40		
5	Cash at bank	160		
6	Cash in the safe	80		
7	Cost of sales	450		
8	Dividends paid	300		
9	Other payables		300	
10	Interest paid	20		
11	Land and buildings	500		
12	Motor and travel	12		
13	Investment income		170	
14	Long-term investments	20		
15	Long-term loans		60	
16	Motor vehicles – cost	20		
17	Share capital		500	
18	Plant and machinery – cost	120		
19	Sales		825	
20	Inventory	300		
21	Taxation charge	35		
22	Tax owed		35	
23	Accounts payable		105	
24	Accounts receivable	160		
25	Utilities	80		
26	Wages and salaries	15		
		2,405	2,405	

Activity 2.04 Identifying the nature of accounts 3

Account balances for Panorama Limited as at 31 December are summarised from the accounting records as follows. State where each belongs on the accounting framework.

	General ledger accounts	Dr	Cr	Element
1	Loan note		600	<i>Liability</i>
2	Accrued expenses		360	
3	Advertising	9		
4	Insurance premiums	120		
5	Cash at bank	480		
6	Cash in the safe	240		
7	Cost of sales	1,350		
8	Dividends	900		
9	Other payables		900	
10	Interest	60		
11	Land and buildings	1,500		
12	Motor and fuel costs	36		
13	Investment income		510	
14	Long-term investments	60		
15	Long-term loans		180	
16	Motor vehicles – acc depn		30	
17	Motor vehicles – cost	90		
18	Ordinary share capital		1,500	
19	Plant and machinery – acc depn		240	
20	Plant and machinery – cost	600		
21	Sales		2,475	
22	Inventory	900		
23	Tax charge	105		
24	Tax payable		105	
25	Accounts payable		315	
26	Accounts receivable	480		
27	Other administrative expenses	240		
28	Wages and salaries	40		
29	Payroll taxes	5		
		7,215	7,215	

Activity 2.05 Debits and credits can increase or decrease account balances

Place an up or down arrow in the debit and credit columns of each account in the following trial balance to indicate how a debit (green ticket) and credit (orange ticket) will affect that account. *The cash at bank account has been completed for you.*

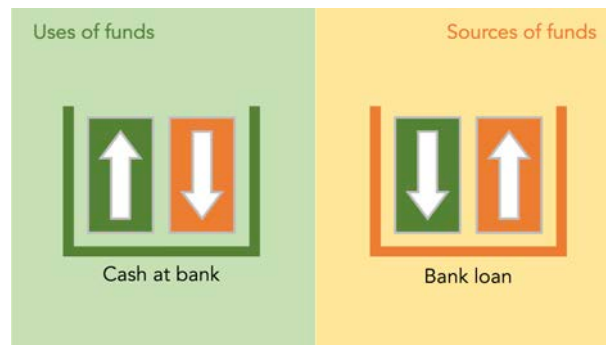
General ledger accounts		Account balance	
		Dr Green	Cr Orange
1	Loan note		
2	Accrued expenses		
3	Advertising		
4	Insurance premiums		
5	Cash at bank	↑	↓
6	Cash in the safe		
7	Cost of sales		
8	Dividends		
9	Other payables		
10	Interest		
11	Land and buildings		
12	Motor and fuel costs		
13	Investment income		
14	Long-term investments		
15	Long-term loans		
16	Motor vehicles – accumulated depreciation		
17	Motor vehicles – cost		
18	Ordinary share capital		
19	Plant and machinery – accumulated depreciation		
20	Plant and machinery – cost		
21	Sales		
22	Inventory		
23	Tax charge		
24	Tax payable		
25	Accounts payable		
26	Accounts receivable		
27	Other administrative expenses		
28	Wages and salaries		
29	Payroll taxes		

2.4 Activities to be completed in class

So far, to record transactions we posted tickets into buckets. The effect of the ticket on the amount depends on where the bucket sits in the accounting framework.

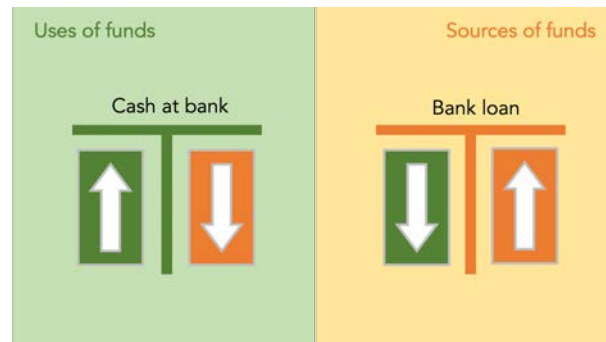
For example, cash sits within assets on the “uses of funds” side of the ledger. Green tickets record increases to the cash balance and orange tickets show decreases in the cash balance.

The bank loan sits within liabilities on the “sources of funds” side of the ledger. Orange tickets record increases to the bank loan and green tickets show decreases.



Note that we can post green and orange tickets on either side of the framework, but that green tickets are always shown on the left, and orange tickets are always shown on the right of the account.

This unit explores another model more commonly used than buckets: T-accounts. Can you spot the differences?



The principle is exactly the same but there is a knack to managing them. Please spend time on this, particularly closing T-accounts at the end of an accounting period. You will be expected to be able to manage T-accounts in the exam.

T-accounts in the statement of financial position (assets, liabilities and equity)

Account balances within assets, liabilities and equity represent the rights and obligations of the entity at the end of the period. These amounts will of course still exist at the beginning of the next period, so we must carry the balances forward.

T-accounts in the statement of profit or loss (income and expenses)

The account balances within income and expenses are different.

Income and expenses are reported for specific accounting periods.

Say an entity reports its income and expenses for years ending 31 December. When the entity moves into the next reporting period on 1 January, the sales and expense accounts cannot contain the transactions that relate to the previous accounting period.

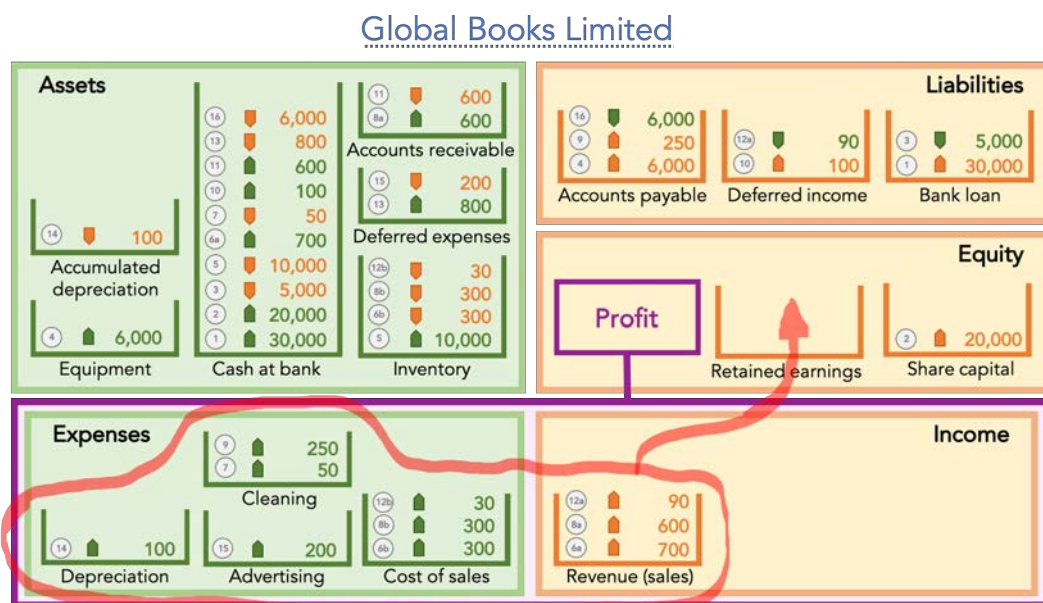
At the end of each accounting period we therefore need to “empty” the income and expense account balances. This is done by transferring the account balance to “retained earnings” within equity.



We close T-accounts using one of two methods depending on whether or not we want to carry forward the balance on the T-account or transfer it to retained earnings in equity:

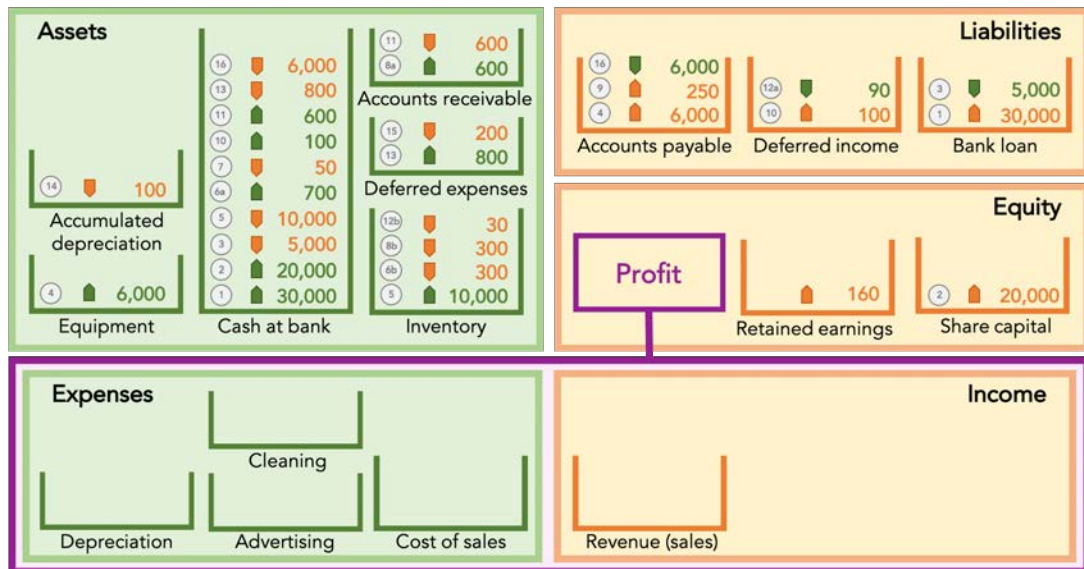
1. If the account balance is in assets, liabilities or equity we carry forward the balance to the next accounting period and the T-account must show an opening balance in the next accounting period.
2. If the account balance is income or expenses we transfer that balance to retained earnings within equity. These T-accounts will not have opening balances in the new accounting period.

Remember how we left the accounting framework at the end of posting the Classic Transactions. It looked like this:



On your Colour Accounting BaSIS Framework board, scoop up all the tickets within income and expenses and place them inside the bucket called Retained earnings in equity. After moving the tickets, the balance on retained earnings will be the profit (or loss) made for the year. Here's the framework at the beginning of the new period:

Global Books Limited



The following activities show you the knack of closing T-accounts.

Activity 2.06 Managing T-accounts – assets

This is the cash at bank T-account and the first month has been closed and carried down for you. The shaded cells are for “control totals”: add up both sides of the T-account – if you have calculated the carried down amount correctly the control totals will be the same on both sides.

This is an asset account, so carry the balance forward. The arrow indicates from where the balance is carried down (c/d) and to where it is brought down (b/d).

Cash at bank [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
1 Jan	Bank loan	30,000	31 Jan	Bank loan	5,000
3 Jan	Share capital	20,000	31 Jan	Balance c/d	45,000
		50,000			50,000
1 Feb	Balance b/d	45,000	5 Feb	Inventory	10,000
4 Feb	Cash sales	700	5 Feb	Cleaning	50
21 Feb	Gift voucher	100	25 Feb	Deferred expense	800
21 Feb	A/c receivable	600			



The description column inside the T-account tells you where the other side of the double entry is. This can be confusing, so use your green highlighter to emphasise the T-account name: **Cash at bank**.

Close this T-account at the end of February. It too is an asset account so the balance must be brought forward.

Inventory [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
31 Jan	Cash	10,000	31 Jan	Balance c/d	10,000
		10,000			10,000
1 Feb	Balance b/d	10,000	4 Feb	Cost of sales	300
			7 Feb	Cost of sales	300
			26 Feb	Cost of sales	30

Close this T-account at the end of February.

Deferred expenses [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
28 Feb	Cash	800			



When we carry forward a balance, we are debiting and crediting the same account at the same time. It sounds odd but the c/d and b/d entries are the two sides of a double-entry. This keeps the accounting framework in balance.

This T-account has no balance to carry forward so it is already closed. Just enter the control totals and move on.

Accounts receivable [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
7 Feb	Sales	600	21 Feb	Cash	600

Close these T-accounts at the end of February. This look a bit confusing because the control totals are the same amount as the transaction totals. That's OK – just follow the same method and carry the balance forward.

Equipment – cost [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
31 Jan	A/c payable	6,000	31 Jan	Balance c/d	6,000
		6,000			6,000
1 Feb	Balance b/d	6,000			

Accumulated depreciation is odd – it has a **credit balance** to carry forward so the c/d and b/d amounts are on the opposite sides. Don't forget to put in the control totals.

Equipment – accumulated depreciation [assets]					
Date	Description	£ Dr	Date	Description	£ Cr
			28 Feb	Depreciation	100

The recorded value (the “net book value”) of equipment is value in the cost account and the accumulated depreciation account combined: £6,000 – £100 = £5,900.

Activity 2.07 Managing T-accounts – liabilities

Close this T-account at the end of February. Liability accounts sit on the “sources of funds” side of the framework so we normally expect the balances to be brought down on the credit side.

Bank loan [liabilities]					
Date	Description	£ Dr	Date	Description	£ Cr
31 Jan	Cash	5,000	2 Jan	Cash	30,000
31 Jan	Balance c/d	25,000			
		30,000			30,000
			1 Feb	Balance b/d	25,000

Close this T-account at the end of February.

Accounts payable [liabilities]					
Date	Description	£ Dr	Date	Description	£ Cr
31 Jan	Balance c/d	6,000	31 Jan	Equipment	6,000
		6,000			6,000
			1 Feb	Balance b/d	6,000
			20 Feb	Cleaning	250

Close this T-account at the end of February.

Deferred income [liabilities]					
Date	Description	£ Dr	Date	Description	£ Cr
26 Feb	Sales	90	21 Feb	Cash	100

Activity 2.08 Managing T-accounts – equity

Close this T-account at the end of February.

Share capital [equity]					
Date	Description	£ Dr	Date	Description	£ Cr
31 Jan	Balance c/d	20,000	3 Jan	Cash	20,000
		20,000			20,000
			1 Feb	Balance b/d	20,000
		20,000			20,000

Retained earnings is an equity account that has a special function. We will come back to this when we close the income and expense T-accounts.

Retained earnings [equity]					
Date	Description	£ Dr	Date	Description	£ Cr
28 Feb	Cost of sales	630			

Income and expense T-accounts

Income and expense T-accounts do not work in the same way.

Income and expenses accounts reflect activity that takes place within an accounting period—it makes no sense to “carry down” the activity to the next accounting period.

So, instead of carrying the balances forward, the amounts are transferred to equity—retained earnings.

Activity 2.09 Managing T-accounts – expenses

Note that there are no arrows on these T-accounts and no space to carry a balance down. Transfer the balance to retained earnings.

The cost of sales account has been done for you.

Cost of sales [expenses]					
Date	Description	£ Dr	Date	Description	£ Cr
4 Feb	Cash	300	28 Feb	Retained earnings	630
7 Feb	Acc receivable	300			
26 Feb	Deferred income	30			
		630			630

Complete the double-entry by debiting retained earnings within equity. The journal is:

Dr Retained earnings [equity] 630
Cr Cost of sales [expenses] 630

This journal does not decrease expenses—it simply transfers the value into a different account within equity.

Close this T-account at the end of February.

Cleaning [expenses]					
Date	Description	£ Dr	Date	Description	£ Cr
5 Feb	Cash	50			
20 Feb	Acc payable	250			

Complete the double-entry by debiting retained earnings in equity. Use the T-account on the previous page.

Close this T-account at the end of February.

Depreciation [expenses]					
Date	Description	£ Dr	Date	Description	£ Cr
28 Feb	Acc depreciation	100			

Complete the double-entry by debiting retained earnings in equity. Use the T-account on the previous page.

Activity 2.10 Managing T-accounts – income

Close this T-account at the end of February.

Revenue (sales) [income]					
Date	Description	£ Dr	Date	Description	£ Cr
			4 Feb	Cash	700
			7 Feb	Acc receivable	600
			26 Feb	Deferred income	90

Complete the double-entry by crediting retained earnings in equity. Use the T-account on the previous page.

Trial balance

The trial balance is a list of all the balances of each account balance on the accounting framework at a specific point in time.

Activities 2.03 and 2.04 are based on a trial balance.

Activity 2.11 Preparing a trial balance

Using the T-accounts from the previous activities, prepare a trial balance at the end of February.

		Account balance	
General ledger accounts		Dr	Cr
1	Cash at bank		
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
Check — total of debit column = total of credit column			

Financial statement preparation

Using a trial balance, we can record each account balance in the correct part of the financial statements.

Activity 2.12 Preparing financial statements

Using the trial balance from the previous activity, prepare a statement of financial position and a statement of profit or loss for February.

Global Books Limited

Statement of financial position

As at 28 February

£

Non-current assets		
Equipment (cost – acc depn)	<i>a</i>	
Current assets		
Inventory		
Deferred expenses		
Cash at bank		
	<i>b</i>	
Total assets	<i>c = a + b</i>	
Current liabilities		
Accounts payable		
Deferred income		
	<i>d</i>	
Non-current liabilities		
Bank loan	<i>e</i>	
Total liabilities	<i>f = d + e</i>	
Equity		
Share capital		
Retained earnings (profit)	<i>From SPL</i>	
Total equity	<i>g</i>	
Total liabilities and equity	<i>f + g</i>	

Check that the shaded cells are equal: assets = liabilities + equity.

Global Books Limited

Statement of profit or loss

For the period ended 28 February

£

Revenue	
Less: cost of sales	
Gross profit	
Less: operating expenses	
Cleaning	
Depreciation	
Net profit for the period	

The net profit for the year is transferred to equity. Place this amount on the statement of financial position in **Retained earnings**.

Part Three: After teaching

2.5 Self-study activities

Complete the self-study activities in your own time. Try to do these before the next teaching session begins.

Journals

02.01 Tea4U Ltd is a tea boutique, and you are the accountant in charge of financial accounting. The following transactions occurred in the business during December 2020.

01/12	100,000 £1 new shares were issued to existing shareholders at par for cash.
02/12	A new till was bought for £950, paid for in cash.
03/12	Rent for shop space was paid: £5,000
04/12	Professional indemnity insurance was purchased for £570.
05/12	£10,000 worth of Earl Grey tea was ordered and paid for to Earl Spencer, a supplier, in cash.
06/12	£20,000 worth of English Breakfast tea was ordered from Onion Jack Ltd on credit.
07/12	£30,000 worth of Mint tea was ordered from Menthol Ltd on credit.
08/12	The batch of English Breakfast tea purchased from Onion Jack Ltd was found to be of poor quality and contained traces of onion, so Tea4U returned the whole order to the supplier.
09/12	Another batch of English Breakfast tea was bought for £20,000 from Neon Zack Ltd over the internet, paid for by an online bank transfer.
10/12	A piece of land was purchased for £150,000 in a suitable location for growing tea plants.
11/12	The business was running low on cash so a £200,000 loan was taken from T Bank.
12/12	£20,000 was spent on a radio advertising campaign.

13/12	Sales orders started rushing in. Presco Plc put in an order for a selection of teas to a total value of £45,000, all paid for. The cost of the inventory sold was £22,000.
14/12	St Bury's Plc bought a selection of teas for £8,000 on credit. The cost of the inventory sold was £3,000.
15/12	A further plot of land was purchased for £99,000 on credit from Fortress Investments PLC.
16/12	The accountant was paid a monthly fee of £3,500.
17/12	Electricity of £600 and phone bill of £66 were paid on time.

Record the transactions listed above as journals.

02.02 Bird and Liza are running a chewing gum shop. The following transactions occurred in their business during the first three weeks of May 20X1. You are their accountant.

01/05	A £100,000 loan was taken from Homer Bank on very flexible terms.
02/05	The annual rent for office space was paid: £25,000
03/05	Bird bought a second-hand car from Grandpa's Motors Ltd for £500, paid for in cash.
05/05	£10,000 worth of strawberry flavoured chewing gum was ordered and paid for over the internet from Wig Gum Ltd.
07/05	£20,000 worth of mint flavoured chewing gum was ordered from Nelson Mints Ltd on credit.
09/05	The business was running low on cash. Bird and Liza decided to invest more capital and injected in the business a further £100,000 each (in exchange for 100,000 £1 shares each).
11/05	With a healthy bank balance, the business spent £50,000 on an advertising campaign featuring Disco Stu – a celebrity. This, it was hoped, will impact sales.
12/05	Sales orders started rushing in. Spring Field Disco placed a bulk order for a selection of chewing gums and paid for it at the time of order. The sales were for £5,000 in total. The cost of the inventory sold was £3,900.

14/05	Another customer, Burnz Ltd bought a selection of chewing gums for £10,000 on credit. The cost of the inventory sold was £7,600.
16/05	Given how well business was going, Bird and Liza decided to employ someone to help with credit control. Mill Haus, an expert in the field, was recruited for the job and a sign-on bonus ("golden handshake") was paid to him of £20,000 to help with relocation costs.
20/05	The credit controller Mill Haus chased up and collected payments from Burnz Ltd (customer) who paid the £10,000 that they owed.

Record the transactions listed above as journals.

T-accounts

02.03 The following transactions took place in the first month of business of Optica Limited.

01/10	The business was set up as a limited company with cash investment of £5,000 and investment of inventory with a cost value of £1,000.
02/10	The company paid one month's rent on a shop: £1,000
03/10	The company bought shop fittings for the shop: £300
07/10	The company purchased a laptop costing £500 from Gurrays Ltd on credit.
11/10	The company paid electricity bill of £35 in cash
14/10	The company bought a motor vehicle for £750 cash
16/10	The company paid £300 wages to shop assistant
20/10	The company sold some of the inventory for £1,400 cash to May Ltd. The cost of the inventory sold was £900.
21/10	The company paid half the amount owed to Gurrays Ltd
28/10	The company paid out £100 dividends to shareholders

Record the transactions listed above as journals and then post the journals to the general ledger, showing your postings as T-accounts.

02.04 The following transactions took place in the first month of business of Biggs Adventures.

J.01	On 1st January Henrietta Biggs, the proprietor of Biggs Adventures, introduced £2,000 of cash into the business as starting capital.
J.02	On 10th January, Henrietta paid £250 in cash for brochures to advertise her business.
J.03	On 12th January, Henrietta sold for cash her first adventure to a customer for £160.
J.04	On 15th January, Henrietta bought a computer for cash for £800.
J.05	On 16th January, Henrietta sold for cash an adventure to a customer for £225.
J.06	On 18th January, Henrietta refunded £75 of cash to a customer as fewer people were coming on the adventure than originally estimated.
J.07	On 20th January, Henrietta paid rent of £125.
J.08	On 20th January, withdrew £300 of cash from the business for personal expenses (these are called Drawings).
J.09	On 21st January, Henrietta paid for £170 for a professional to update her website.
J.10	On 22nd January, the bank charged Henrietta £7 for transaction fees.
J.11	On 25th January, Henrietta paid her cleaner £15 in cash.
J.12	On 30th January, the local authority put through a direct debit for Council Tax of £210.

Record the transactions listed above as journals and then post the journals to the general ledger, showing your postings as T-accounts.

02.05 The following transactions took place in the first month of business of Amanda's.

J.01	On 1st August, Amanda's started a new business with £10,000 cash and a piece of land worth £20,000.
J.02	2nd August, paid £500 for rent on the business premises for the month
J.03	3rd August, bought stationery for £80

J.04	4th August, bought a laptop for £350
J.05	5th August, bought a motor vehicle for £6,000 <u>on credit</u> from Mr Racey.
J.06	6th August, took a loan from the bank for £5,000
J.07	7th August, paid £1,000 cash to Mr Racey.

Record the transactions listed above as journals and then post the journals to the general ledger, showing your postings as T-accounts.

02.06 The following transactions took place in the first month of business of Wood Limited in September 2021.

J.01	On 1st September Edward started business with £50,000 of inventory (goods for resale) and £10,000 in cash.
J.02	6th September bought a van on credit from Perkins Garage for £3,000
J.03	9th September rented shop premises for £1,000 per month and paid for the first month immediately by cheque
J.04	12th September bought a laptop for £500 on credit from Roy Ltd.
J.05	15th September paid shop expenses amounting to £1,500 by cheque
J.06	18th September sold goods on credit to Scott's PLC for £3,000. The original cost of goods sold was £2,100.
J.07	21st September settled Perkins Garage account by cheque
J.08	24th September payment from Scott's PLC for £2,000
J.09	27th September paid wages of £1,500
J.10	29th September purchased a plot of land on credit from Roy Ltd for £3,000
J.11	30th September sold goods for £2,000 cash. The original cost of goods sold was £1,400.

Record the transactions listed above as journals and then post the journals to the general ledger, showing your postings as T-accounts.

Trial balance

- 02.07 Using the T-accounts prepared for exercise 02.03, close off the T-accounts and extract a trial balance.
- 02.08 Using the T-accounts prepared for exercise 02.04, close off the T-accounts and extract a trial balance for Biggs Adventures at 31 January.
- 02.09 Using the T-accounts prepared for exercise 02.05, close off the T-accounts and extract a trial balance.
- 02.10 Using the T-accounts prepared for exercise 02.06, close off the T-accounts and extract a trial balance.
- 02.11 These transactions relate to for Sandford's veterinary practice. Prepare T-accounts, close off the T-accounts and prepare a trial balance.

Date	Business transactions of veterinary practice	£ Dr	£ Cr
Oct 1	Sandford provides the entity with cash to allow business to start.	35,000	35,000
Oct 2	The entity buys veterinary equipment and pays immediately by bank transfer.	27,500	27,500
Oct 2	One month's rent is paid in advance for consulting rooms and office space.	2,400	2,400
Oct 2	Office furniture is purchased on credit from Margolis Supplies Co.	17,500	17,500
Oct 7	The practice purchases veterinary supplies on credit from Hill's & Co. and receives an invoice.	8,500	8,500
Oct 8	Sandford pays the receptionist for one week's work, 2 to 8 October.	750	750
Oct 10	Fourteen animals were examined and the owners all paid in cash.	9,650	9,650
Oct 11	The business pays Hill's & Co. by bank transfer for the goods it acquired on credit.	8,500	8,500
Oct 14	The business pays an electricity bill by bank transfer.	635	635
Oct 15	Sandford pays the medical receptionist for one week's work, 9 to 15 October.	750	750
Oct 17	A dog is operated on and Mary Brown is sent an invoice for payment before the month end.	1,600	1,600

Oct 22	Sandford pays the medical receptionist for one week's work, 16 to 22 October.	750	750
Oct 23	Mary Brown settles the invoice by bank transfer.	1,600	1,600
Oct 24	A cat is operated on and Mike Smith was sent an invoice for payment before the month end.	1,800	1,800
Oct 28	Sandford draws cash from the business for personal use.	1,950	1,950
Oct 29	Sandford pays the medical receptionist for one week's work, 23 to 29 October.	750	750
Oct 31	The cost of the medical equipment and office furniture is depreciated.	665	665
Oct 31	An inventory check shows that this amount has been used up during the period.	2,350	2,350

Financial statement preparation

02.12 Prepare accounts from the trial balance for Sunorama Limited, a fruit and vegetable distribution business, as at 30 June 2020. The pro forma financial statements have been prepared for you.

	Trial balance	£ Dr	£ Cr
1	Motor vehicles (net book value)	47,600	
2	Plant and equipment (net book value)	23,400	
3	Accounts receivable	28,700	
4	Bank deposit account	23,500	
5	Accounts payable		12,700
6	Sales		376,900
7	Sales returns	12,500	
8	Cost of goods sold	123,600	
9	Wages and salaries	76,400	
10	Transport costs	98,000	
11	Administrative expenses	12,900	
12	Depreciation charge	2,450	

Sunorama Limited
Statement of financial position
As at 30 June 2020

£'000

Non-current assets		
	<i>a</i>	
Current assets		
	<i>b</i>	
Total assets	<i>a + b</i>	
Current liabilities	<i>d</i>	
Total liabilities	<i>d</i>	
Equity		
Retained equity at beginning of year	<i>Balancing figure</i>	
Profit for the year	<i>From SPL</i>	
Total equity	<i>e</i>	
Total liabilities and equity	<i>d + e</i>	

Check:

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

Sunorama Limited

Statement of profit or loss

For the period ended 30 June 2020

£'000

£'000

Revenue		
Sales		
Cost of sales		
Gross profit		
Operating expenses		
Wages and salaries		
Transport costs		
Administrative expenses		
Depreciation charge		
Net profit for the year		

02.13 Prepare a statement of financial position for Rainham Limited from the following list of assets and liabilities. Equity is the missing figure that you can determine by correctly completing the exercise.

Trial balance		£
1	Land and buildings	95,000
2	Motor vehicles	8,000
3	Accounts receivable	26,000
4	Cash at bank	9,000
5	Trade payables	69,000
6	Inventories	35,000
7	Wages owed to employee (not paid)	2,000
8	Long term loan	20,000

02.14 Prepare a statement of financial position from the following list of assets and liabilities of Auteur Limited. Equity is a missing figure that you can determine by correctly completing the exercise.

Trial balance		£
1	Goodwill	50,000
2	Plant and equipment (net book value)	48,500
3	Accounts receivable	56,800
4	Inventory	134,500
5	Cash at bank	23,500
6	Accounts payable	22,700
7	Sales	678,000
8	Sales returns	36,700
9	Cost of goods sold	298,000
10	Wages and salaries	225,000
11	Employer pension contributions	25,000
12	Administrative expenses	34,570
13	Depreciation charge	1,250
14	Allowance for doubtful debts	3,720

A pro forma (template) is not provided, so you should produce the statements of financial position and profit or loss without reference to texts and then compare your effort with the suggested solution. You will be required to produce financial statements in the exam.