Accounting Units 1 & 2

Chapter 19 Headstart to Units 3 & 4

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Contents

Chapter 19 Headstart to Units 3 & 4 — 19A Double-entry accounting and the General Ledger

Units 3 & 4 preview — beyond the Units 1 & 2 study design. This chapter introduces the double-entry General Ledger used in Units 3 & 4. It is not assessed in the graded topic tests or practice examinations for Units 1 & 2.

Theory

Through Units 1 & 2 you recorded transactions in **special journals** — the Cash Receipts Journal, Cash Payments Journal, Sales Journal and Purchases Journal. Units 3 & 4 record transactions a different way, using **double-entry accounting** in the **General Journal** and the **General Ledger**. This section previews the ledger half of that method with simple, pre-GST, cash-based transactions, so that the mechanics of debits and credits are familiar before you meet them — alongside the General Journal — in Unit 3.

The General Ledger. The **General Ledger** is the complete collection of **accounts** a business keeps. An **account** is a record of every increase and decrease in one particular item — there is a separate account for **Bank**, for **Capital**, for **Fees revenue**, for **Rent expense**, and so on. Together the accounts in the General Ledger hold the full accounting record of the business, from which the reports (the Income Statement, Balance Sheet and Cash Flow Statement) are eventually prepared.

The T-form account. Each account is drawn as a **T** — a bold account name with two sides beneath it:

- the **left-hand side is the debit side** (abbreviated **Dr**), and
- the **right-hand side is the credit side** (abbreviated **Cr**).

"Debit" simply means *the left side of an account* and "credit" means *the right side* — the words carry no sense of "good" or "bad". In this workbook a ledger account is shown as a six-column table: the first three columns (**Date**, **Cross-reference**, **Amount $**) are the **debit side**, and the last three columns are the **credit side**.

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	(debit side — left)			*(credit side — right)*	

The **Cross-reference** is the name of the **other** account affected by the same transaction. Because every transaction touches at least two accounts, each entry "points to" its partner: an entry in the Bank account is cross-referenced to Capital, Fees revenue, Rent expense — whichever account completes the double entry. Cross-referencing lets a reader trace any entry back to the transaction that produced it.

The rules of double-entry recording. Double-entry accounting rests on two rules:

1. **Every transaction is recorded in at least two accounts** — with at least one **debit** entry and at least one **credit** entry.
2. For every transaction, **total debits equal total credits**.

Which side an item is entered on depends on its **element** and whether the item is **increasing** or **decreasing**. There are five elements — **assets**, **liabilities**, **owner's equity**, **revenue** and **expenses** — and the rules follow directly from the accounting equation **Assets = Liabilities + Owner's equity**:

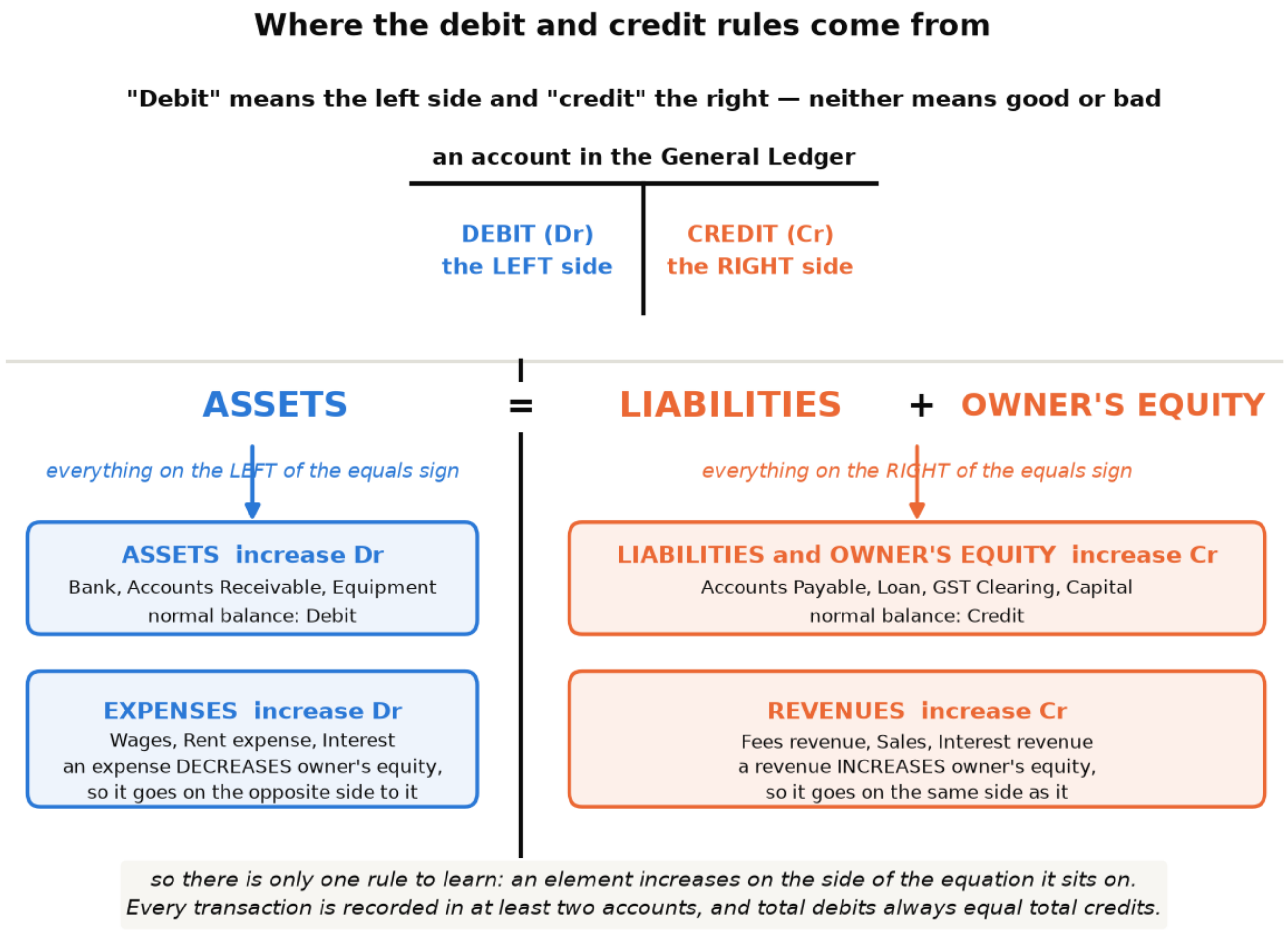
Element	Increases on the	Decreases on the	Normal balance
Asset	debit side (Dr)	credit side (Cr)	Debit
Liability	credit side (Cr)	debit side (Dr)	Credit
Owner's equity	credit side (Cr)	debit side (Dr)	Credit
Revenue	credit side (Cr)	debit side (Dr)	Credit
Expense	debit side (Dr)	credit side (Cr)	Debit

Two patterns make the table easy to remember. **Assets and expenses increase on the debit side**; **liabilities, owner's equity and revenue increase on the credit side**. And an item's **normal balance** is the side on which it increases —

so a Bank (asset) account normally has a **debit** balance, and a Capital (owner's equity) account normally has a **credit** balance.

Revenue and expenses connect to owner's equity. Revenue *increases* owner's equity, so — like owner's equity — it increases on the **credit** side. An expense *decreases* owner's equity, so it increases on the **debit** side. **Drawings** is the one item that needs care: although it is part of owner's equity, a withdrawal *reduces* the owner's claim, so **Drawings increases on the debit side** (the opposite of Capital).

Laying the equation out with a real left and a real right shows that the table above is not five separate rules but one rule applied five times:



Where the debit and credit rules come from — "debit" means the left side and "credit" the right

Assets sit on the left of the equals sign, so they increase on the **left (debit)** side of an account. **Liabilities** and **owner's equity** sit on the right, so they increase on the **right (credit)** side. Revenues and expenses then follow from what they do to owner's equity: a revenue **increases** it, so it takes the same side as owner's equity (credit); an expense **decreases** it, so it takes the opposite side (debit). Drawings behaves like an expense for the same reason — it reduces the owner's claim — which is why it increases on the debit side even though it belongs to owner's equity. Remember that "debit" and "credit" here mean nothing but *left* and *right*: neither carries any sense of good or bad.

Why the two sides always agree. Because the accounting equation is always in balance, every transaction that increases one side of the equation must make an equal change elsewhere. When the owner contributes cash, the asset Bank rises (a debit) **and** owner's equity rises by the same amount (a credit); when a bill is paid, an expense rises (a debit) **and** the asset Bank falls (a credit). Recording equal debits and credits is simply the equation keeping itself in balance, one transaction at a time.

A worked model. *Lumen Web Studio*, a web-design service business owned by Mia Chen, has three transactions in July (ignore GST):

- **1 July** — Mia deposits **$30 000** of her own cash into the business bank account to start it.

- **3 July** — the business pays **$1 200** rent.
- **6 July** — the business receives **$4 000** cash for design work completed.

Applying the rules: the contribution is **debit Bank** (asset up) and **credit Capital** (owner's equity up); the rent is **debit Rent expense** (expense up) and **credit Bank** (asset down); the fees are **debit Bank** (asset up) and **credit Fees revenue** (revenue up). Recorded in the General Ledger:

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	30 000	3 Jul	Rent expense	1 200
6 Jul	Fees revenue	4 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jul	Bank	30 000

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Jul	Bank	1 200			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			6 Jul	Bank	4 000

The **Bank** account has debits of $34 000 and credits of $1 200, so it carries a **debit balance of $32 800** — the cash the business holds. Each entry is cross-referenced to the other account in its transaction, so the $30 000 in Bank points to Capital and the $30 000 in Capital points back to Bank.

Ethical considerations. Double-entry recording is only as honest as the person applying the rules. Because a transaction can be *made to balance* in more than one way, an owner can produce equal debits and credits while still recording a transaction **untruthfully**. Two temptations arise even at this introductory stage. First, **misclassifying an entry** — for example recording the owner's private withdrawal of business cash as an **expense** (such as Advertising) rather than as **Drawings**, or recording an owner's **capital** contribution as **Fees revenue** — leaves the ledger in balance but misstates profit and misrepresents what really happened. Second, **misrecording a loan as revenue** makes the business look more profitable than it is while hiding a real obligation to repay. Each breaches the **entity assumption** (the owner's private affairs are separate from the business) or **faithful representation** (the records must be complete, free from material error and neutral — without bias), because a set of books that balances is not the same as a set of books that tells the truth. Applying the debit and credit rules to record the *true nature* of each transaction — not the version that flatters the business — is the ethical core of double-entry accounting.

Worked examples (scaffolded)

Example 1 — applying the debit and credit rules

Harbourline Consulting (owner: Dev Rao) has these July transactions (ignore GST): **1 Jul** the owner contributed $40 000 cash; **4 Jul** paid rent $1 800; **12 Jul** received consulting fees $5 200 cash; **18 Jul** bought office equipment for $7 000 cash. Identify the debit and credit for each transaction and record them in the General Ledger.

Working	Comment
1 Jul — contribution $40 000. Bank (asset) increases → **debit Bank**; Capital (owner's equity) increases → **credit Capital**.	An asset increases on the debit side; owner's equity increases on the credit side.
4 Jul — rent $1 800. Rent expense (expense) increases	An expense increases on the debit side; the asset Bank

Working	Comment
→ **debit Rent expense**; Bank (asset) decreases → **credit Bank**.	decreases on the credit side.
12 Jul — fees $5 200. Bank (asset) increases → **debit Bank**; Fees revenue increases → **credit Fees revenue**.	Revenue increases on the credit side.
18 Jul — equipment $7 000. Office equipment (asset) increases → **debit Office equipment**; Bank (asset) decreases → **credit Bank**.	One asset is exchanged for another: debit the asset gained, credit the asset given up.
Total debits $40 000 + $1 800 + $5 200 + $7 000 = $54 000 = total credits.	Every transaction records equal debits and credits, so the ledger stays in balance.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	40 000	4 Jul	Rent expense	1 800
12 Jul	Fees revenue	5 200	18 Jul	Office equipment	7 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jul	Bank	40 000

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jul	Bank	1 800			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			12 Jul	Bank	5 200

Office equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Jul	Bank	7 000			

The **Bank** account has a **debit balance of $36 400** ($45 200 debits − $8 800 credits).

Example 2 — recording with a loan and a loan repayment

Ridgeway Plumbing (owner: Sam Ridge) has these August transactions (ignore GST): **1 Aug** owner contributed $25 000 cash; **2 Aug** borrowed $15 000 cash from FastLoan Finance; **4 Aug** bought a van for $28 000 cash; **10 Aug** received plumbing fees $3 400 cash; **20 Aug** paid wages $1 600; **28 Aug** repaid $2 000 of the loan. Record the transactions and state the balance of the Bank and loan accounts.

Working	Comment
1 Aug — contribution $25 000. Debit Bank; credit Capital.	Asset up (Dr); owner's equity up (Cr).
2 Aug — borrowed $15 000. Debit Bank; credit Loan – FastLoan Finance.	The cash asset increases (Dr); a **liability** (the obligation to repay) increases (Cr). A loan is **not** revenue.
4 Aug — van $28 000. Debit Motor vehicle; credit Bank.	One asset gained (Dr), another given up (Cr).
10 Aug — fees $3 400. Debit Bank; credit Fees revenue.	Asset up (Dr); revenue up (Cr).

Working	Comment
20 Aug — wages $1 600. Debit Wages; credit Bank.	Expense up (Dr); asset down (Cr).
28 Aug — repay $2 000. Debit Loan – FastLoan Finance; credit Bank.	The liability decreases (Dr); the cash asset decreases (Cr).

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	25 000	4 Aug	Motor vehicle	28 000
2 Aug	Loan – FastLoan Finance	15 000	20 Aug	Wages	1 600
10 Aug	Fees revenue	3 400	28 Aug	Loan – FastLoan Finance	2 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Aug	Bank	25 000

Loan – FastLoan Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Aug	Bank	2 000	2 Aug	Bank	15 000

Motor vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Aug	Bank	28 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Aug	Bank	3 400

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Aug	Bank	1 600			

The **Bank** account has a **debit balance of $11 800** ($43 400 debits − $31 600 credits). The **Loan – FastLoan Finance** account has a **credit balance of $13 000** ($15 000 credit − $2 000 debit) — the amount still owed after the repayment.

Worked examples (unscaffolded)

Example 3 — opening transactions of a service business

Coastal Tax Advisory (owner: Priya Nair) has these September transactions (ignore GST): **1 Sep** owner contributed $60 000 cash; **3 Sep** bought computers for $8 000 cash; **5 Sep** paid rent $2 400; **15 Sep** received tax-return fees $9 500 cash; **22 Sep** paid advertising $900. Record the transactions in the General Ledger and state the balance of the Bank account.

Each transaction is entered as an equal debit and credit: the contribution is debit Bank / credit Capital; the computers are debit Office equipment / credit Bank; the rent is debit Rent expense / credit Bank; the fees are debit Bank / credit Fees revenue; the advertising is debit Advertising / credit Bank.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	60 000	3 Sep	Office equipment	8 000
15 Sep	Fees revenue	9 500	5 Sep	Rent expense	2 400
			22 Sep	Advertising	900

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Sep	Bank	60 000

Office equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Sep	Bank	8 000			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Sep	Bank	2 400			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Sep	Bank	9 500

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
22 Sep	Bank	900			

∴ the **Bank** account has a **debit balance of $58 200** ($69 500 debits − $11 300 credits).

Example 4 — contributions, drawings, a loan and a repayment

Vantage Fitness Studio (owner: Leo Ferris) has these October transactions (ignore GST): **1 Oct** owner contributed $45 000 cash; **2 Oct** borrowed $20 000 cash from Meridian Bank; **4 Oct** bought gym equipment for $35 000 cash; **12 Oct** received membership fees $7 200 cash; **20 Oct** paid wages $3 000; **25 Oct** owner withdrew $2 500 cash for private use; **28 Oct** repaid $4 000 of the loan. Record the transactions and state the balance of the Bank and loan accounts.

The withdrawal on 25 October is **debit Drawings / credit Bank** — a reduction in the owner's claim, not a business expense. The loan repayment is **debit Loan – Meridian Bank / credit Bank** — a reduction of the liability.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	45 000	4 Oct	Gym equipment	35 000
2 Oct	Loan – Meridian Bank	20 000	20 Oct	Wages	3 000
12 Oct	Fees revenue	7 200	25 Oct	Drawings	2 500
			28 Oct	Loan – Meridian Bank	4 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	45 000

Loan – Meridian Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Oct	Bank	4 000	2 Oct	Bank	20 000

Gym equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Oct	Bank	35 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			12 Oct	Bank	7 200

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Oct	Bank	3 000			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Oct	Bank	2 500			

∴ the **Bank** account has a **debit balance of $27 700** ($72 200 debits − $44 500 credits) and the **Loan – Meridian Bank** account a **credit balance of $16 000** ($20 000 credit − $4 000 debit).

Practice questions — scaffolded

Question 1

Brightline Design (owner: Ana Cole) had these transactions (ignore GST): the owner contributed $35 000 cash; paid $1 500 rent in cash; received $4 800 design fees in cash.

a. For the contribution, state the account debited and the account credited.
b. For the rent payment, state the account debited and the account credited.
c. For the fees received, state the account debited and the account credited.

Question 2

Summit Surveyors (owner: Guy Ellison) had these March transactions (ignore GST): **1 Mar** owner contributed $40 000 cash; **4 Mar** bought office equipment for $6 000 cash; **12 Mar** received surveying fees $5 500 cash.

a. Record the transactions in the General Ledger (T-form accounts).
b. State the balance of the Bank account and the side it is on.
c. Explain why the total debits equal the total credits for the owner's contribution on 1 March.

Question 3

Delta Couriers (owner: Rosa Vine) had these April transactions (ignore GST): **1 Apr** owner contributed $30 000 cash; **2 Apr** borrowed $10 000 cash from Anchor Finance; **5 Apr** bought a motorcycle for $12 000 cash; **18 Apr** received delivery fees $2 800 cash.

a. Record the transactions in the General Ledger.

b. State the balance of the Bank account and the side it is on.

c. State the balance of the Loan – Anchor Finance account and the side it is on, and identify the element of that account.

Question 4

Maple Tutoring (owner: Ben Ha) had these May transactions (ignore GST): **1 May** owner contributed $22 000 cash; **6 May** paid advertising $700; **15 May** received tutoring fees $3 600 cash; **25 May** owner withdrew $1 200 cash for private use.

a. Record the transactions in the General Ledger.

b. State the balance of the Bank account and the side it is on.

c. Explain why the withdrawal on 25 May is recorded on the **debit** side of the Drawings account, even though Drawings is part of owner's equity.

Question 5

a. Explain what is meant by **double-entry** recording.

b. State, for each of the five elements (assets, liabilities, owner's equity, revenue and expenses), the side of the account on which the element **increases**.

c. Explain how double-entry keeps the accounting equation (Assets = Liabilities + Owner's equity) in balance, using an owner's cash contribution as your example.

Question 6

The owner of *Northpoint Accounting* paid **$1 800** of business cash for a family holiday and instructed the bookkeeper to record it as **Advertising** (a business expense) rather than as **Drawings**, so that the business's reported profit would be lower and its tax bill reduced.

a. State the account that should be **debited** for the $1 800 (Drawings or Advertising), and explain why.

b. Explain the effect on the business's reported **profit** of wrongly recording the withdrawal as Advertising.

c. Identify the **accounting assumption** and the **qualitative characteristic** that the owner's instruction would breach.

Practice questions — unscaffolded

Question 7

Fernbrook Physiotherapy (owner: Ivy Marsh) had these June transactions (ignore GST): **1 Jun** owner contributed $38 000 cash; **3 Jun** paid rent $1 900; **8 Jun** bought equipment for $5 500 cash; **20 Jun** received treatment fees $6 200 cash. Record the transactions in the General Ledger and state the balance of the Bank account.

Question 8

Tallwood Landscaping (owner: Cal Reid) had these July transactions (ignore GST): **1 Jul** owner contributed $26 000 cash; **2 Jul** borrowed $18 000 cash from Cedar Finance; **5 Jul** bought a truck for $34 000 cash; **16 Jul** received landscaping fees $4 100 cash; **27 Jul** paid wages $2 500. Record the transactions in the General Ledger and state the balances of the Bank and Loan – Cedar Finance accounts.

Question 9

Whitlock Legal (owner: Nora Pike) had these August transactions (ignore GST): **1 Aug** owner contributed $70 000 cash; **2 Aug** borrowed $25 000 cash from Sable Bank; **5 Aug** bought office furniture for $12 000 cash; **12 Aug** received legal fees $8 800 cash; **20 Aug** paid wages $4 200; **26 Aug** owner withdrew $3 000 cash; **30 Aug** repaid $5 000 of the loan. Record the transactions in the General Ledger and state the balances of the Bank and Loan – Sable Bank accounts.

Question 10

For each of the following transactions of *Aspen Engineering*, state the account **debited** and the account **credited**, and name the **element** of each of those two accounts (no dollar values are required).

a. The owner contributed cash to start the business.

b. The business paid the monthly rent in cash.

c. The business received cash fees for services provided.

d. The business borrowed cash from a finance company.

e. The business bought equipment for cash.

f. The owner withdrew cash for private use.

Question 11

Using the transaction "the owner contributes $20 000 cash to the business", explain **why** every transaction is recorded with equal debits and credits, and show how this transaction keeps the accounting equation (Assets = Liabilities + Owner's equity) in balance.

Question 12

Brookside Vet Clinic (owner: Tom Vale) had these September transactions (ignore GST): **1 Sep** owner contributed $55 000 cash; **2 Sep** borrowed $30 000 cash from Harbourview Finance; **4 Sep** bought veterinary equipment for $40 000 cash; **15 Sep** received consultation fees $9 600 cash; **20 Sep** paid wages $5 100; **25 Sep** paid rent $2 800; **28 Sep** owner withdrew $3 500 cash. Record the transactions in the General Ledger and state the balances of the Bank and Loan – Harbourview Finance accounts.

Question 13

Cascade Music School (owner: Zoe Lund) had these October transactions (ignore GST): **1 Oct** owner contributed $32 000 cash; **10 Oct** received tuition fees $7 400 cash; **15 Oct** received $300 interest revenue from the bank; **20 Oct** paid rent $2 100; **25 Oct** paid electricity $450; **30 Oct** owner withdrew $1 800 cash. Record the transactions in the General Ledger and state the balance of the Bank account.

Question 14

The **Bank** account of *Pinehurst Studios* is shown below. Describe the transaction that gave rise to each of the five entries, and state the balance of the account and the side it is on.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	42 000	5 Jun	Office equipment	9 000
12 Jun	Fees revenue	5 800	18 Jun	Rent expense	1 600
			26 Jun	Drawings	1 200

Question 15

Distinguish between the way a **liability** and an **expense** are recorded in the General Ledger. Refer to the side on which each increases and to its effect on owner's equity, and give one example account of each.

Question 16

The owner of *Kingsford Consulting* is applying for a bank loan and wants the business to appear more profitable. The owner instructs the bookkeeper to record **$5 000** of the owner's own cash paid into the business as **Fees revenue** instead of as **Capital**. Both versions produce equal debits and credits. Discuss the ethical issues raised. In your answer, explain the effect on the reported **revenue, profit and owner's equity**, identify the **assumption** and **qualitative characteristic** breached, and name the **stakeholders** who could be harmed.

Question 17

When *Redgum Carpentry* borrowed **$15 000** cash from Timberline Finance, the owner suggested recording the $15 000 as **Fees revenue**. Explain why the $15 000 must instead be recorded as a **credit to Loan – Timberline Finance** (a liability). Refer to the definition of revenue and to the effect of each treatment on the business's **profit** and on the **accounting equation**.

Question 18

Summit Dental (owner: Ada Frost) had these November transactions (ignore GST): **1 Nov** owner contributed $80 000 cash; **2 Nov** borrowed $40 000 cash from Ashford Bank; **4 Nov** bought dental equipment for $65 000 cash; **6 Nov** paid rent $3 200; **15 Nov** received patient fees $11 500 cash; **20 Nov** paid wages $6 400; **25 Nov** owner withdrew $4 000 cash; **30 Nov** repaid $8 000 of the loan. Record the transactions in the General Ledger and state the balances of the Bank and Loan – Ashford Bank accounts.

Answers

1.
    a. Debit **Bank**, credit **Capital**. b. Debit **Rent expense**, credit **Bank**. c. Debit **Bank**, credit **Fees revenue**.
2.
    b. Bank **$39 500 Dr**. c. See solutions.
3.
    b. Bank **$30 800 Dr**. c. Loan – Anchor Finance **$10 000 Cr** (a liability).
4.
    b. Bank **$23 700 Dr**. c. See solutions.
5. See solutions.
6.
    a. **Drawings**. b. Reported profit **understated by $1 800**. c. **Entity assumption**; **faithful representation**.
7. Bank **$36 800 Dr**.
8. Bank **$11 600 Dr**; Loan – Cedar Finance **$18 000 Cr**.
9. Bank **$79 600 Dr**; Loan – Sable Bank **$20 000 Cr**.
10. See solutions.
11. See solutions.
12. Bank **$43 200 Dr**; Loan – Harbourview Finance **$30 000 Cr**.
13. Bank **$35 350 Dr**.
14. Bank **$36 000 Dr**; see solutions for the five transactions.
15. See solutions.
16. Discuss — see solutions.
17. Explain — see solutions.
18. Bank **$44 900 Dr**; Loan – Ashford Bank **$32 000 Cr**.

Fully-worked solutions

Question 1

a. The owner's cash contribution increases the asset **Bank** (debit) and increases **Capital**, owner's equity (credit): **debit Bank $35 000 / credit Capital $35 000**.

b. Paying rent increases the expense **Rent expense** (debit) and decreases the asset **Bank** (credit): **debit Rent expense $1 500 / credit Bank $1 500**.

c. Receiving fees increases the asset **Bank** (debit) and increases the revenue account **Fees revenue** (credit): **debit Bank $4 800 / credit Fees revenue $4 800**.

Question 2

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Mar	Capital	40 000	4 Mar	Office equipment	6 000
12 Mar	Fees revenue	5 500			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Mar	Bank	40 000

Office equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Mar	Bank	6 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			12 Mar	Bank	5 500

b. Bank debits $45 500 − credits $6 000 = **$39 500 debit balance**.

c. The contribution affects two accounts by the **same amount**: the asset Bank increases (a debit of $40 000) and owner's equity increases (a credit of $40 000). Because one increase is recorded as a debit and the equal increase as a credit, total debits equal total credits, and the accounting equation stays in balance (assets and owner's equity both rise by $40 000).

Question 3

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr	Capital	30 000	5 Apr	Motor vehicle	12 000
2 Apr	Loan – Anchor Finance	10 000			
18 Apr	Fees revenue	2 800			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Apr	Bank	30 000

Loan – Anchor Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Apr	Bank	10 000

Motor vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Apr	Bank	12 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			18 Apr	Bank	2 800

b. Bank debits $42 800 − credits $12 000 = **$30 800 debit balance**.

c. The **Loan – Anchor Finance** account has a **credit balance of $10 000**. It is a **liability** — a present obligation to repay the finance company — and a liability increases on, and normally carries, a **credit** balance.

Question 4

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	22 000	6 May	Advertising	700
15 May	Fees revenue	3 600	25 May	Drawings	1 200

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 May	Bank	22 000

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 May	Bank	700			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 May	Bank	3 600

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 May	Bank	1 200			

b. Bank debits $25 600 − credits $1 900 = **$23 700 debit balance**.

c. **Drawings** records the owner taking assets *out* of the business, which **reduces** the owner's claim (owner's equity). Owner's equity increases on the credit side, so a **decrease** in owner's equity — a drawing — is recorded on the **debit** side. Drawings therefore increases on the debit side, the opposite of Capital.

Question 5

a. **Double-entry** recording means that **every transaction is recorded in at least two accounts, with the total debits equal to the total credits**. Each transaction has a two-fold effect — for example, one asset increases while another decreases, or an asset increases while owner's equity increases — and both effects are recorded, one as a debit and the other as a credit.

b. Assets increase on the **debit** side; liabilities increase on the **credit** side; owner's equity increases on the **credit** side; revenue increases on the **credit** side; expenses increase on the **debit** side. (In short: assets and expenses on the debit side; liabilities, owner's equity and revenue on the credit side.)

c. When the owner contributes cash, the asset **Bank increases** and is **debited**, and **owner's equity increases** and **Capital is credited**, by the **same amount**. In the accounting equation Assets = Liabilities + Owner's equity, the left side (assets) and the right side (owner's equity) both rise by that amount, so the equation remains in balance. Because the equal increases are recorded on opposite sides (one debit, one credit), total debits equal total credits — double-entry is simply the accounting equation keeping itself in balance.

Question 6

a. The $1 800 should be **debited to Drawings**. The payment is the owner taking business cash for a **private** purpose (a family holiday), which reduces the owner's claim on the business. It is **not** a cost incurred in earning the business's revenue, so it is not the expense Advertising — it is a **withdrawal (Drawings)**.

b. Advertising is an **expense**; recording the $1 800 there would **overstate expenses by $1 800** and therefore **understate net profit by $1 800**. (Recording it correctly as Drawings would leave profit unchanged, because a drawing is not an expense.) The owner's aim — a lower profit and a smaller tax bill — is achieved only by misstating the reports.

c. The instruction breaches the **entity (accounting-entity) assumption**, because the owner's **private** holiday is being treated as a transaction of the business rather than being kept separate from it; and it breaches **faithful representation**, because the records would no longer be complete, free from material error and neutral (without bias) — a private drawing would be disguised as a business expense to mislead the reader (here, the tax authority) about the business's true profit.

Question 7

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	38 000	3 Jun	Rent expense	1 900
20 Jun	Fees revenue	6 200	8 Jun	Equipment	5 500

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jun	Bank	38 000

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Jun	Bank	1 900			

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
8 Jun	Bank	5 500			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			20 Jun	Bank	6 200

Bank debits $44 200 − credits $7 400 = **$36 800 debit balance**.

Question 8

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	26 000	5 Jul	Motor vehicle	34 000
2 Jul	Loan – Cedar Finance	18 000	27 Jul	Wages	2 500
16 Jul	Fees revenue	4 100			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jul	Bank	26 000

Loan – Cedar Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Jul	Bank	18 000

Motor vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Jul	Bank	34 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			16 Jul	Bank	4 100

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
27 Jul	Bank	2 500			

Bank debits $48 100 − credits $36 500 = **$11 600 debit balance**. Loan – Cedar Finance = **$18 000 credit balance** (no repayment was made).

Question 9

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	70 000	5 Aug	Office furniture	12 000
2 Aug	Loan – Sable Bank	25 000	20 Aug	Wages	4 200
12 Aug	Fees revenue	8 800	26 Aug	Drawings	3 000
			30 Aug	Loan – Sable Bank	5 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Aug	Bank	70 000

Loan – Sable Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Aug	Bank	5 000	2 Aug	Bank	25 000

Office furniture

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Aug	Bank	12 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			12 Aug	Bank	8 800

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Aug	Bank	4 200			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Aug	Bank	3 000			

Bank debits $103 800 − credits $24 200 = **$79 600 debit balance**. Loan – Sable Bank = $25 000 credit − $5 000 debit = **$20 000 credit balance**.

Question 10

a. **Debit Bank** (asset) / **credit Capital** (owner's equity).

b. **Debit Rent expense** (expense) / **credit Bank** (asset).

c. **Debit Bank** (asset) / **credit Fees revenue** (revenue).

d. **Debit Bank** (asset) / **credit Loan – [finance company]** (liability).

e. **Debit Equipment** (asset) / **credit Bank** (asset).

f. **Debit Drawings** (owner's equity) / **credit Bank** (asset).

Question 11

Every transaction has a **two-fold effect** — it changes at least two items, and it does so by amounts that keep the accounting equation in balance. When the owner contributes **$20 000** cash, the business gains **$20 000** of the asset Bank **and** the owner's claim (owner's equity, recorded as Capital) rises by **$20 000**. The increase in the asset is recorded as a **debit** (Bank) and the equal increase in owner's equity as a **credit** (Capital), so **total debits ($20 000) equal total credits ($20 000)**. In the accounting equation, Assets rise by $20 000 and Owner's equity rises by $20 000, with Liabilities unchanged:

Assets (+$20 000) = Liabilities (0) + Owner's equity (+$20 000)

Both sides increase by the same amount, so the equation stays in balance. Recording equal debits and credits is exactly what keeps the two sides of the equation equal after every transaction.

Question 12

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	55 000	4 Sep	Veterinary equipment	40 000
2 Sep	Loan – Harbourview Finance	30 000	20 Sep	Wages	5 100
15 Sep	Fees revenue	9 600	25 Sep	Rent expense	2 800
			28 Sep	Drawings	3 500

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Sep	Bank	55 000

Loan – Harbourview Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Sep	Bank	30 000

Veterinary equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Sep	Bank	40 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Sep	Bank	9 600

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Sep	Bank	5 100			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Sep	Bank	2 800			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Sep	Bank	3 500			

Bank debits $94 600 − credits $51 400 = **$43 200 debit balance**. Loan – Harbourview Finance = **$30 000 credit balance**.

Question 13

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	32 000	20 Oct	Rent expense	2 100
10 Oct	Fees revenue	7 400	25 Oct	Electricity	450
15 Oct	Interest revenue	300	30 Oct	Drawings	1 800

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	32 000

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Oct	Bank	7 400

Interest revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Oct	Bank	300

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Oct	Bank	2 100			

Electricity

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Oct	Bank	450			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Oct	Bank	1 800			

Bank debits $39 700 − credits $4 350 = **$35 350 debit balance**. (Both Fees revenue and Interest revenue are revenues and increase on the credit side.)

Question 14

Each entry in the Bank account is cross-referenced to the other account in its transaction:

- **1 Jun — Capital $42 000** (on the debit side of Bank): the **owner contributed $42 000 cash** to start the business (debit Bank / credit Capital).
- **12 Jun — Fees revenue $5 800** (debit side of Bank): the business **received $5 800 cash for services provided** (debit Bank / credit Fees revenue).
- **5 Jun — Office equipment $9 000** (credit side of Bank): the business **bought office equipment for $9 000 cash** (debit Office equipment / credit Bank).
- **18 Jun — Rent expense $1 600** (credit side of Bank): the business **paid $1 600 rent** (debit Rent expense / credit Bank).
- **26 Jun — Drawings $1 200** (credit side of Bank): the **owner withdrew $1 200 cash for private use** (debit Drawings / credit Bank).

Bank debits $47 800 − credits $11 800 = **$36 000 debit balance**.

Question 15

A **liability** and an **expense** are recorded on **opposite sides** and have **opposite effects** on owner's equity. A **liability** is a present obligation to transfer economic resources — it **increases on the credit side** and does **not** affect owner's equity when it is incurred (the business simply owes more); an example is **Loan – [lender]**. An **expense** is a cost incurred in earning revenue — it **increases on the debit side** and **decreases owner's equity** (through reduced profit); an example is **Rent expense**. So although both may arise when cash is involved, a liability is a **credit-side** item that leaves owner's equity unchanged, while an expense is a **debit-side** item that reduces owner's equity. Recording a loan (a liability) as though it were an expense — or the reverse — would therefore misstate both the accounts and the profit.

Question 16

Recording the owner's $5 000 contribution as **Fees revenue** rather than **Capital** is **unethical** because it deliberately **misrepresents** the nature of the transaction in order to mislead a lender.

Effect on the reports. Both Capital and Fees revenue are credit entries that increase owner's equity, so the *total* owner's equity is the same either way and total debits still equal total credits. But the **Fees revenue** account holds **revenue**, so recording the $5 000 there **overstates revenue by $5 000** and therefore **overstates net profit by $5 000**. The business appears to have *earned* $5 000 it did not earn; the $5 000 was an owner **contribution**, not income from trading. Owner's equity ends at the correct total but for the wrong reason — it looks as though the business generated the funds through profit rather than the owner injecting them.

Assumption and qualitative characteristic. The treatment breaches **faithful representation —** the records are no longer complete, free from material error and neutral (without bias), because a capital contribution is disguised as earned revenue. It also cuts across the **entity assumption**, which keeps the owner's dealings with the business (contributing capital) distinct from the business's own earning activities (fees). The reported profit no longer faithfully reflects the business's performance.

Stakeholders harmed. The **bank** may grant a loan on the strength of an overstated profit and be exposed to greater risk of not being repaid; the **owner** risks taking on a loan the business cannot really support, and faces loss of trust and possible legal consequences if the misstatement is discovered; the **bookkeeper** is being pressured to act against professional ethics; and any future **investor or buyer** relying on the reports would be misled. The ethical course is to record the $5 000 as **Capital** and present the business's genuine profit, even though it looks lower.

Question 17

A **revenue** is an inflow of economic benefit that arises from the business's **earning activities** and **increases owner's equity** — for example, fees earned by providing a service. The **$15 000 borrowed from Timberline Finance is not a revenue**: it is not earned by trading and it does **not** increase owner's equity. It creates a **present obligation to repay** the finance company, which is a **liability**. The correct entry is therefore **debit Bank $15 000 / credit Loan – Timberline Finance $15 000**.

If the $15 000 were wrongly credited to **Fees revenue**, revenue and **net profit would be overstated by $15 000**, and the **liability** owed to the finance company would be **omitted** — the business would look far more profitable and far less indebted than it truly is. In terms of the accounting equation, the correct treatment records **Assets +$15 000 = Liabilities +$15 000 + Owner's equity (0)** — the loan raises assets and liabilities equally and has **no effect on profit or owner's equity**. Treating it as revenue would instead push the increase into owner's equity (through inflated profit) and leave liabilities understated, so the equation would misrepresent the real position even though debits still equalled credits.

Question 18

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov	Capital	80 000	4 Nov	Dental equipment	65 000
2 Nov	Loan – Ashford Bank	40 000	6 Nov	Rent expense	3 200
15 Nov	Fees revenue	11 500	20 Nov	Wages	6 400
			25 Nov	Drawings	4 000
			30 Nov	Loan – Ashford Bank	8 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Nov	Bank	80 000

Loan – Ashford Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Nov	Bank	8 000	2 Nov	Bank	40 000

Dental equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Nov	Bank	65 000			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Nov	Bank	3 200			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Nov	Bank	11 500

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Nov	Bank	6 400			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Nov	Bank	4 000			

Bank debits $131 500 − credits $86 600 = **$44 900 debit balance**. Loan – Ashford Bank = $40 000 credit − $8 000 debit = **$32 000 credit balance**.

Chapter 19 Headstart to Units 3 & 4 — 19B Recording revenues, expenses and specific transactions

Units 3 & 4 preview — beyond the Units 1 & 2 study design. This section continues the double-entry General Ledger used in Units 3 & 4; it is not assessed in the graded topic tests or practice examinations for Units 1 & 2.

Theory

In section 19A you met the **General Ledger** and the **rules of double entry**: every transaction is recorded in **at least two accounts**, and the total **debits** always equal the total **credits**. Each account is drawn as a **T-form** with a left (**debit**) side and a right (**credit**) side, and the element it belongs to fixes which side *increases* it:

- **Assets** and **expenses** and **drawings** increase on the **debit** (left) side.
- **Liabilities**, **owner's capital** and **revenues** increase on the **credit** (right) side.

This section uses those rules to record the transactions a business meets in its first weeks of trading: **revenue earned**, **expenses paid**, and the **specific transactions** of a capital contribution, cash drawings, a loan, and the cash purchase of a non-current asset. To keep the focus on the double entry itself, every transaction here is **cash-based** and **pre-GST** — GST and credit transactions are added later in Units 3 & 4.

The T-form ledger account. Each account is presented as a six-column table: a debit half and a credit half, each with a **Date**, a **Cross-reference** and an **Amount** column.

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
(debit entries)			*(credit entries)*		

The **cross-reference** is the name of the account holding the **other half** of the same entry. It is the thread that ties the double entry together: if the **Bank** account shows a debit cross-referenced to **Capital**, a reader knows the matching credit is in the **Capital** account, and vice versa. A correct cross-reference always names the *opposite* account — never the account you are writing in.

Recording revenue earned for cash. When a business earns **cash fees** (a service business) or makes a **cash sale** (a trading business), the **Bank** asset increases and a **revenue** is earned:

- **Debit Bank** (asset increases), cross-referenced to the revenue account.
- **Credit Fees revenue** (or **Sales**) (revenue increases), cross-referenced to **Bank**.

Recording expenses paid in cash. When the business pays **wages**, **rent** or **advertising**, an **expense** is incurred and the **Bank** asset decreases:

- **Debit** the expense account — **Wages**, **Rent expense** or **Advertising** (expense increases), cross-referenced to **Bank**.
- **Credit Bank** (asset decreases), cross-referenced to the expense.

Specific transactions. Four transactions recur in a new business and each has a fixed double entry:

- **Owner's capital contribution.** The owner pays cash into the business: **Debit Bank**, **Credit Capital**. Capital is **owner's equity**, not revenue — it is the owner's investment, so it never appears in the Income Statement.
- **Cash drawings.** The owner withdraws cash for private use: **Debit Drawings**, **Credit Bank**. Drawings is a **negative element of owner's equity** (it reduces the owner's claim), **not an expense** of the business — it does not help earn revenue, so it is never reported as an expense.
- **Loan received.** The business borrows cash: **Debit Bank**, **Credit Loan – <lender>**. The loan is a **liability**; it is neither revenue nor capital, because it must be repaid to an outside party.
- **Purchase of a non-current asset for cash.** The business buys equipment, a vehicle or fittings for cash: **Debit** the asset (e.g. **Equipment**), **Credit Bank**. One asset (the non-current asset) replaces another (Bank); no expense and no revenue arise.

Reading the balance of an account. After a period's transactions are posted, each account has a **balance** — the difference between its total debits and total credits, shown on the side with the larger total. Assets, expenses and drawings carry **debit balances**; liabilities, capital and revenues carry **credit balances**. In this section we identify each balance by inspection; the formal process of **balancing** the accounts and listing them in a **Trial Balance** follows in section 19C.

Ethical considerations. Double entry only produces trustworthy reports if each transaction is recorded in the **correct accounts**. Because a business's profit is revenue less expenses, an owner under pressure may be tempted to **misclassify** an item — for example, recording personal **drawings** as **Wages** or **Advertising** so that the withdrawal is hidden inside an expense, or recording a private asset bought for the owner as business **Equipment**. Each of these still "balances" (debits equal credits), so the arithmetic hides the deceit; what fails is **faithful representation** — the reports no longer represent the real transactions completely and without bias. A bookkeeper has an ethical duty to record every transaction for what it truly is, to use cross-references that honestly point to the real opposite account, and to resist instructions to disguise the nature of a transaction, even when the ledger would still appear to balance.

Worked model. Brightwater Garden Care is owned by Priya Anand. During July its transactions were:

- 1 Jul — Priya contributed $25 000 cash as capital (**Receipt 1**).
- 2 Jul — borrowed $10 000 from Coastal Finance (**Receipt 2**).
- 3 Jul — bought garden equipment for $12 000 cash (**EFT 101**).
- 6 Jul — earned cash fees of $1 800 (**Receipt 3**).
- 10 Jul — paid wages of $1 500 (**EFT 102**).
- 14 Jul — paid rent of $2 000 (**EFT 103**).
- 20 Jul — paid advertising of $600 (**EFT 104**).
- 25 Jul — earned cash fees of $2 400 (**Receipt 4**).
- 28 Jul — Priya withdrew $1 000 cash for private use (**EFT 105**).

Posting each transaction to the General Ledger:

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	25 000	3 Jul	Equipment	12 000
2 Jul	Loan – Coastal Finance	10 000	10 Jul	Wages	1 500
6 Jul	Fees revenue	1 800	14 Jul	Rent expense	2 000
25 Jul	Fees revenue	2 400	20 Jul	Advertising	600
			28 Jul	Drawings	1 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jul	Bank	25 000

Loan – Coastal Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Jul	Bank	10 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Jul	Bank	12 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			6 Jul	Bank	1 800
			25 Jul	Bank	2 400

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
10 Jul	Bank	1 500			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Jul	Bank	2 000			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Jul	Bank	600			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Jul	Bank	1 000			

The **Bank** account has debits of $39 200 and credits of $17 100, so its balance is **$22 100 Dr**. The two cash-fee entries make **Fees revenue $4 200 Cr**, and every other account carries the single amount posted to it. As a check, the recorded balances satisfy the accounting equation: assets (Bank $22 100 + Equipment $12 000 = $34 100) equal liabilities ($10 000) plus owner's equity (Capital $25 000 − Drawings $1 000 + Fees revenue $4 200 − Wages $1 500 − Rent expense $2 000 − Advertising $600 = $24 100).

Worked examples (scaffolded)

Example 1 — capital, a loan, a cash asset purchase, fees and expenses

Summit Tutoring opened in August. Record its transactions in the General Ledger and state the balance of the Bank account.

- 1 Aug — owner contributed $18 000 capital (**Receipt 1**).
- 2 Aug — borrowed $6 000 from Delta Finance (**Receipt 2**).
- 4 Aug — bought computer equipment for $4 500 cash (**EFT 210**).
- 8 Aug — earned cash fees $1 300 (**Receipt 3**).
- 15 Aug — paid wages $800 (**EFT 211**).
- 22 Aug — paid rent $1 200 (**EFT 212**).
- 27 Aug — earned cash fees $1 700 (**Receipt 4**).

Working	Comment
Capital (1 Aug): Debit Bank $18 000; Credit Capital $18 000.	Cash in raises the Bank asset (debit); the owner's investment raises Capital (credit). Capital is equity, not revenue.
Loan (2 Aug): Debit Bank $6 000; Credit Loan – Delta Finance $6 000.	Borrowing raises Bank (debit) and creates a liability (credit). A loan must be repaid, so it is neither capital nor revenue.
Computer equipment (4 Aug): Debit Computer equipment $4 500; Credit Bank $4 500.	One asset replaces another: the equipment asset rises (debit), Bank falls (credit). No expense arises.
Cash fees (8 & 27 Aug): Debit Bank; Credit Fees	Revenue earned for cash raises Bank (debit) and Fees

Working	Comment
revenue.	revenue (credit). Both fee receipts credit the *same* Fees revenue account.
Wages (15 Aug) and Rent (22 Aug): Debit the expense; Credit Bank.	Paying an expense raises the expense account (debit) and lowers Bank (credit).
Bank balance: debits \$27 000 − credits \$6 500 = **\$20 500 Dr**.	An asset with more debits than credits has a debit balance.

Bank

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Aug	Capital	18 000	4 Aug	Computer equipment	4 500
2 Aug	Loan – Delta Finance	6 000	15 Aug	Wages	800
8 Aug	Fees revenue	1 300	22 Aug	Rent expense	1 200
27 Aug	Fees revenue	1 700			

Capital

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
			1 Aug	Bank	18 000

Loan – Delta Finance

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
			2 Aug	Bank	6 000

Computer equipment

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
4 Aug	Bank	4 500			

Fees revenue

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
			8 Aug	Bank	1 300
			27 Aug	Bank	1 700

Wages

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
15 Aug	Bank	800			

Rent expense

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
22 Aug	Bank	1 200			

The Bank account balance is **\$20 500 Dr** and Fees revenue totals **\$3 000 Cr**.

Example 2 — adding drawings to the mix

Riverside Detailing began trading in September. Record its transactions in the General Ledger and state the balance of the Bank account.

- 1 Sep — owner contributed $30 000 capital (**Receipt 1**).
- 3 Sep — bought a vehicle for $16 000 cash (**EFT 301**).
- 5 Sep — borrowed $8 000 from Northgate Bank (**Receipt 2**).
- 9 Sep — earned cash fees $2 100 (**Receipt 3**).
- 14 Sep — paid advertising $500 (**EFT 302**).
- 18 Sep — paid wages $1 400 (**EFT 303**).
- 24 Sep — earned cash fees $2 600 (**Receipt 4**).
- 29 Sep — owner withdrew $1 200 cash for private use (**EFT 304**).

Working	Comment
Vehicle (3 Sep): Debit Vehicle $16 000; Credit Bank $16 000.	A cash purchase of a non-current asset: Vehicle (asset) rises, Bank falls.
Loan (5 Sep): Debit Bank $8 000; Credit Loan – Northgate Bank $8 000.	Borrowing raises Bank and the loan liability.
Advertising (14 Sep) and Wages (18 Sep): Debit the expense; Credit Bank.	Both are expenses paid in cash.
Drawings (29 Sep): Debit Drawings $1 200; Credit Bank $1 200.	The owner taking cash reduces owner's equity (Drawings, debit) and Bank (credit). Drawings is **not** an expense.
Bank balance: debits $42 700 − credits $19 100 = **$23 600 Dr**.	Cash in (capital, loan, fees) exceeds cash out (vehicle, expenses, drawings).

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	30 000	3 Sep	Vehicle	16 000
5 Sep	Loan – Northgate Bank	8 000	14 Sep	Advertising	500
9 Sep	Fees revenue	2 100	18 Sep	Wages	1 400
24 Sep	Fees revenue	2 600	29 Sep	Drawings	1 200

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Sep	Bank	30 000

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Sep	Bank	16 000			

Loan – Northgate Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			5 Sep	Bank	8 000

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Sep	Bank	2 100
			24 Sep	Bank	2 600

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Sep	Bank	500			

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Sep	Bank	1 400			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
29 Sep	Bank	1 200			

The Bank account balance is **$23 600 Dr** and Fees revenue totals **$4 700 Cr**.

Worked examples (unscaffolded)

Example 3 — a full month for a service business

Clearview Window Cleaning began in October: 1 Oct owner contributed $15 000 capital (**Receipt 1**); 2 Oct borrowed $5 000 from Summit Credit Union (**Receipt 2**); 4 Oct bought equipment for $6 500 cash (**EFT 410**); 10 Oct earned cash fees $1 900 (**Receipt 3**); 16 Oct paid wages $1 100 (**EFT 411**); 21 Oct paid rent $1 300 (**EFT 412**); 26 Oct owner withdrew $700 cash (**EFT 413**). Record the General Ledger accounts and state the balance of the Bank account.

Cash received (capital $15 000, loan $5 000, fees $1 900) is debited to Bank; cash paid (equipment $6 500, wages $1 100, rent $1 300, drawings $700) is credited to Bank. Each opposite entry is posted to its own account with **Bank** as the cross-reference.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	15 000	4 Oct	Equipment	6 500
2 Oct	Loan – Summit Credit Union	5 000	16 Oct	Wages	1 100
10 Oct	Fees revenue	1 900	21 Oct	Rent expense	1 300
			26 Oct	Drawings	700

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	15 000

Loan – Summit Credit Union

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Oct	Bank	5 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Oct	Bank	6 500			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Oct	Bank	1 900

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
16 Oct	Bank	1 100			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Oct	Bank	1 300			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Oct	Bank	700			

∴ the Bank account has debits of $21 900 and credits of $9 600, a balance of **$12 300 Dr**.

Example 4 — a trading business earning cash sales

Metro Print Studio began in November: 1 Nov owner contributed $22 000 capital (**Receipt 1**); 3 Nov bought machinery for $9 000 cash (**EFT 510**); 5 Nov borrowed $7 000 from Harbour Finance (**Receipt 2**); 8 Nov made cash sales $3 200 (**Receipt 3**); 13 Nov paid wages $1 600 (**EFT 511**); 19 Nov paid advertising $900 (**EFT 512**); 23 Nov made cash sales $2 800 (**Receipt 4**); 28 Nov owner withdrew $1 500 cash (**EFT 513**). Record the General Ledger accounts and state the balances of the Bank and Sales accounts.

A trading business credits its cash revenue to **Sales** rather than Fees revenue; the double entry is the same shape (Debit Bank, Credit Sales). The two cash-sale receipts credit the one Sales account.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov	Capital	22 000	3 Nov	Machinery	9 000
5 Nov	Loan – Harbour Finance	7 000	13 Nov	Wages	1 600
8 Nov	Sales	3 200	19 Nov	Advertising	900
23 Nov	Sales	2 800	28 Nov	Drawings	1 500

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Nov	Bank	22 000

Machinery

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Nov	Bank	9 000			

Loan – Harbour Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			5 Nov	Bank	7 000

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			8 Nov	Bank	3 200

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			23 Nov	Bank	2 800

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
13 Nov	Bank	1 600			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
19 Nov	Bank	900			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Nov	Bank	1 500			

∴ the Bank account balance is **$22 000 Dr** and Sales totals **$6 000 Cr**.

Practice questions — scaffolded

Question 1

Harbourview Cleaning began in March: 1 Mar owner contributed $12 000 capital (**Receipt 1**); 3 Mar borrowed $4 000 from Coastal Bank (**Receipt 2**); 5 Mar bought equipment for $5 000 cash (**EFT 118**); 9 Mar earned cash fees $1 400 (**Receipt 3**); 16 Mar paid wages $900 (**EFT 119**).

a. Record the five transactions in the **Bank** account.

b. Record the **Loan – Coastal Bank** account and the **Fees revenue** account.

c. State the balance of the Bank account at 16 March and identify whether it is a debit or a credit balance.

Question 2

Peak Personal Training began in April: 1 Apr owner contributed $9 000 capital (**Receipt 1**); 2 Apr bought a vehicle for $7 000 cash (**EFT 201**); 6 Apr borrowed $5 000 from Meridian Finance (**Receipt 2**); 11 Apr earned cash fees $1 600 (**Receipt 3**); 18 Apr paid advertising $400 (**EFT 202**); 25 Apr owner withdrew $600 cash (**EFT 203**).

a. Record the six transactions in the **Bank** account.

b. Record the **Vehicle** account and the **Drawings** account.

c. Explain why the owner's cash drawings are not recorded as an expense of the business.

Question 3

Cornerstone Bookkeeping began in May: 1 May owner contributed $20 000 capital (**Receipt 1**); 3 May bought office equipment for $8 000 cash (**EFT 301**); 7 May earned cash fees $2 200 (**Receipt 2**); 12 May paid rent $1 500 (**EFT 302**); 20 May paid wages $1 300 (**EFT 303**); 27 May earned cash fees $1 800 (**Receipt 3**).

a. Record the six transactions in the **Bank** account.

b. Record the **Fees revenue** account and the **Wages** account.

c. State the balance of the Fees revenue account and of the Wages account.

Question 4

Lumina Photography began in June: 1 Jun owner contributed $14 000 capital (**Receipt 1**); 2 Jun borrowed $6 000 from Eastwood Bank (**Receipt 2**); 4 Jun bought camera equipment for $9 000 cash (**EFT 401**); 10 Jun earned cash fees $1 750 (**Receipt 3**); 17 Jun paid advertising $650 (**EFT 402**); 24 Jun owner withdrew $800 cash (**EFT 403**).

a. Record the six transactions in the **Bank** account.

b. Record the **Loan – Eastwood Bank** account and the **Camera equipment** account.

c. Explain what the cross-reference **Bank** recorded in the Camera equipment account tells a reader.

Question 5

Trailside Catering began in July: 1 Jul owner contributed $16 000 capital (**Receipt 1**); 3 Jul bought equipment for $7 500 cash (**EFT 501**); 8 Jul made cash sales $2 400 (**Receipt 2**); 14 Jul paid wages $1 200 (**EFT 502**); 21 Jul paid rent $1 400 (**EFT 503**); 28 Jul owner withdrew $900 cash (**EFT 504**).

a. Record the six transactions in the **Bank** account.

b. Record the **Sales** account and the **Rent expense** account.

c. State the balance of the Bank account and explain the effect of the owner's drawings on owner's equity.

Question 6

Vanguard Security began in August: 1 Aug owner contributed $28 000 capital (**Receipt 1**); 2 Aug borrowed $10 000 from Pinnacle Finance (**Receipt 2**); 4 Aug bought a vehicle for $18 000 cash (**EFT 601**); 9 Aug earned cash fees $3 100 (**Receipt 3**); 15 Aug paid wages $2 000 (**EFT 602**); 22 Aug paid advertising $700 (**EFT 603**); 29 Aug earned cash fees $2 700 (**Receipt 4**).

a. Record the seven transactions in the **Bank** account.

b. Record the **Loan – Pinnacle Finance** account and the **Fees revenue** account.

c. Identify the two accounts affected when the wages are paid, and state which account is debited.

Practice questions — unscaffolded

Question 7

Skyline Landscaping began in September: 1 Sep owner contributed $24 000 capital; 2 Sep borrowed $8 000 from Horizon Bank; 4 Sep bought equipment for $11 000 cash; 9 Sep earned cash fees $2 300; 15 Sep paid wages $1 500; 20 Sep paid rent $1 800; 25 Sep paid advertising $600; 28 Sep earned cash fees $2 900; 30 Sep owner withdrew $1 000 cash. Prepare all of the General Ledger accounts and state the balance of the Bank account.

Question 8

Elmwood Consulting began in October: 1 Oct owner contributed $19 000 capital; 3 Oct borrowed $7 000 from Cascade Credit Union; 5 Oct bought office furniture for $6 000 cash; 10 Oct earned cash fees $2 050; 16 Oct paid wages $1 250; 23 Oct paid rent $1 600; 29 Oct owner withdrew $850 cash. Prepare all of the General Ledger accounts and state the balance of the Bank account.

Question 9

Brookfield Plumbing began in November: 1 Nov owner contributed $21 000 capital; 2 Nov bought a vehicle for $13 000 cash; 5 Nov borrowed $9 000 from Delta Bank; 9 Nov earned cash fees $2 600; 14 Nov paid wages $1 700; 19 Nov paid advertising $550; 23 Nov earned cash fees $3 100; 27 Nov paid rent $1 500; 30 Nov owner withdrew $1 100 cash. Prepare all of the General Ledger accounts and state the balance of the Bank account.

Question 10

Aurora Event Hire began in December: 1 Dec owner contributed $26 000 capital; 3 Dec bought equipment for $14 000 cash; 6 Dec borrowed $6 000 from Grandview Finance; 10 Dec made cash sales $3 400; 15 Dec paid wages $1 900; 20 Dec paid advertising $800; 24 Dec made cash sales $4 200; 29 Dec owner withdrew $1 300 cash. Prepare all of the General Ledger accounts and state the balances of the Bank account and the Sales account.

Question 11

A business earns $2 500 in cash fees. Using the rules of double entry, explain why this transaction requires a **debit to Bank** and a **credit to Fees revenue**, and identify the cross-reference that is recorded in each of the two accounts.

Question 12

The Bank account of Meridian Cleaning for May is shown below.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	17 000	4 May	Equipment	8 500
8 May	Fees revenue	2 200	11 May	Wages	1 400
14 May	Loan – Ridge Finance	5 000	18 May	Rent expense	1 500
25 May	Fees revenue	2 600	28 May	Drawings	900

a. State the balance of the Bank account at 31 May and whether it is a debit or a credit balance.

b. Identify the credit entry that records the cash purchase of a non-current asset.

c. Identify the two **debit** entries that are **not** revenue, and state the element each one belongs to.

Question 13

A business receives $5 000 cash. Distinguish between the ledger entry it would make if the $5 000 were a **loan** received from a bank and the entry it would make if the $5 000 were a **capital** contribution by the owner. Name the account credited in each case, and explain the different effect each has on the accounting equation.

Question 14

The owner of Fairway Signs regularly withdraws cash from the business for private use. Believing it will keep the business's reported profit looking higher, and to make the withdrawals less obvious to the bank, the owner instructs the bookkeeper to record these withdrawals as **Wages** rather than as **Drawings**. Discuss the effect of this instruction on the ledger accounts and on the reported profit, and discuss the ethical considerations involved for the bookkeeper.

Question 15

Foxglove Florist began in January: 1 Jan owner contributed $13 000 capital; 2 Jan borrowed $4 000 from Bayside Bank; 4 Jan bought shop fittings for $5 500 cash; 9 Jan made cash sales $1 950; 14 Jan paid wages $1 050; 19 Jan paid rent $1 250; 23 Jan made cash sales $2 350; 28 Jan owner withdrew $650 cash. Prepare all of the General Ledger accounts and state the balances of the Bank, Sales and Drawings accounts.

Question 16

Granite Fitness began in February: 1 Feb owner contributed $32 000 capital; 2 Feb borrowed $12 000 from Summit Bank; 4 Feb bought gym equipment for $20 000 cash; 5 Feb bought office furniture for $3 500 cash; 10 Feb earned cash fees $3 600; 16 Feb paid wages $2 200; 22 Feb paid advertising $900; 26 Feb earned cash fees $4 100; 28 Feb owner withdrew $1 400 cash. Prepare all of the General Ledger accounts and state the balance of the Bank account.

Question 17

At the end of its first month a business's **Advertising** account shows a single debit entry of $1 200 cross-referenced to Bank. Explain what this balance represents, explain why it is recorded on the **debit** side, and state the effect the advertising has on owner's equity.

Question 18

Wattlebrook Veterinary began in March: 1 Mar owner contributed $40 000 capital; 2 Mar borrowed $15 000 from Horizon Finance; 4 Mar bought equipment for $18 000 cash; 5 Mar bought a vehicle for $22 000 cash; 9 Mar earned cash fees $4 500; 14 Mar paid wages $3 000; 18 Mar paid rent $2 500; 22 Mar paid advertising $1 200; 26 Mar earned cash fees $5 300; 29 Mar owner withdrew $2 000 cash. Prepare all of the General Ledger accounts, state the balance of every account, and show that Assets = Liabilities + Owner's equity using the recorded balances.

Answers

1.
    c. $11 500 Dr
2. Bank $7 600 Dr; c. drawings are a withdrawal of the owner's equity for private use, not a cost of earning revenue — see solutions
3.
    c. Fees revenue $4 000 Cr; Wages $1 300 Dr
4. Bank $11 300 Dr; Camera equipment $9 000 Dr; c. see solutions
5.
    c. Bank $7 400 Dr; drawings reduce owner's equity — see solutions
6. Fees revenue $5 800 Cr; c. Wages (debited) and Bank (credited)
7. Bank $21 300 Dr; Fees revenue $5 200 Cr
8. Bank $18 350 Dr
9. Bank $17 850 Dr; Fees revenue $5 700 Cr
10. Bank $21 600 Dr; Sales $7 600 Cr
11. See solutions
12.
    a. $14 500 Dr b. Equipment $8 500 c. Capital $17 000 (owner's equity) and Loan – Ridge Finance $5 000 (liability)
13. See solutions
14. See solutions
15. Bank $12 850 Dr; Sales $4 300 Cr; Drawings $650 Dr
16. Bank $23 700 Dr; Fees revenue $7 700 Cr
17. See solutions
18. Bank $16 100 Dr; A $56 100 = L $15 000 + OE $41 100 — see solutions

Fully-worked solutions

Question 1

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Mar	Capital	12 000	5 Mar	Equipment	5 000
3 Mar	Loan – Coastal Bank	4 000	16 Mar	Wages	900
9 Mar	Fees revenue	1 400			

Loan – Coastal Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			3 Mar	Bank	4 000

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Mar	Bank	1 400

c. Debits $17 400 − credits $5 900 = **$11 500 Dr**. Bank is an asset, so its balance sits on the debit side (a **debit balance**).

Question 2

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr	Capital	9 000	2 Apr	Vehicle	7 000
6 Apr	Loan – Meridian Finance	5 000	18 Apr	Advertising	400
11 Apr	Fees revenue	1 600	25 Apr	Drawings	600

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Apr	Bank	7 000			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Apr	Bank	600			

Bank balance = debits $15 600 − credits $8 000 = **$7 600 Dr**.

c. Drawings are cash taken by the owner for **private use**, not a cost incurred in earning the business's revenue. An expense is a sacrifice of an economic benefit that helps generate revenue and so reduces profit; drawings help generate nothing for the business — they simply reduce the owner's claim on the business (owner's equity). Recording drawings as an expense would understate profit and hide the fact that the owner has withdrawn resources, so drawings are recorded in their own negative-equity account, not as an expense.

Question 3

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	20 000	3 May	Office equipment	8 000
7 May	Fees revenue	2 200	12 May	Rent expense	1 500
27 May	Fees revenue	1 800	20 May	Wages	1 300

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			7 May	Bank	2 200
			27 May	Bank	1 800

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 May	Bank	1 300			

c. Fees revenue is credited twice, $2 200 + $1 800 = **$4 000 Cr**. Wages has a single debit of **$1 300 Dr**. (For reference, the Bank balance is $13 200 Dr.)

Question 4

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	14 000	4 Jun	Camera equipment	9 000
2 Jun	Loan – Eastwood Bank	6 000	17 Jun	Advertising	650
10 Jun	Fees revenue	1 750	24 Jun	Drawings	800

Loan – Eastwood Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Jun	Bank	6 000

Camera equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jun	Bank	9 000			

Bank balance = debits $21 750 − credits $10 450 = **$11 300 Dr**.

c. The cross-reference **Bank** tells a reader that the **other half** of this entry is in the Bank account: the camera equipment was paid for out of Bank (a cash purchase). It identifies where to look to see how the asset was financed, and confirms that the $9 000 debit to Camera equipment is matched by a $9 000 credit to Bank.

Question 5

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	16 000	3 Jul	Equipment	7 500
8 Jul	Sales	2 400	14 Jul	Wages	1 200
			21 Jul	Rent expense	1 400
			28 Jul	Drawings	900

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			8 Jul	Bank	2 400

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Jul	Bank	1 400			

c. Bank balance = debits $18 400 − credits $11 000 = **$7 400 Dr**. The $900 drawings reduce owner’s equity: the owner has taken $900 of the business’s cash for private use, so the owner’s claim on the business falls by $900. Drawings are accumulated in their own account and deducted from owner’s equity — they are not an expense and do not affect profit.

Question 6

a. and b.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	28 000	4 Aug	Vehicle	18 000
2 Aug	Loan – Pinnacle Finance	10 000	15 Aug	Wages	2 000
9 Aug	Fees revenue	3 100	22 Aug	Advertising	700
29 Aug	Fees revenue	2 700			

Loan – Pinnacle Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Aug	Bank	10 000

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Aug	Bank	3 100
			29 Aug	Bank	2 700

Fees revenue totals $3 100 + $2 700 = **$5 800 Cr** (Bank balance $23 100 Dr).

c. Paying the wages affects the **Wages** account and the **Bank** account. **Wages** is **debited** $2 000 (an expense increases on the debit side) and **Bank** is credited $2 000 (the asset decreases).

Question 7

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	24 000	4 Sep	Equipment	11 000
2 Sep	Loan – Horizon Bank	8 000	15 Sep	Wages	1 500
9 Sep	Fees revenue	2 300	20 Sep	Rent expense	1 800
28 Sep	Fees revenue	2 900	25 Sep	Advertising	600
			30 Sep	Drawings	1 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Sep	Bank	24 000

Loan – Horizon Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Sep	Bank	8 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Sep	Bank	11 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Sep	Bank	2 300

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			28 Sep	Bank	2 900

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
15 Sep	Bank	1 500			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Sep	Bank	1 800			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Sep	Bank	600			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Sep	Bank	1 000			

Bank balance = debits $37 200 − credits $15 900 = **$21 300 Dr** (Fees revenue $5 200 Cr).

Question 8

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	19 000	5 Oct	Office furniture	6 000
3 Oct	Loan – Cascade Credit Union	7 000	16 Oct	Wages	1 250
10 Oct	Fees revenue	2 050	23 Oct	Rent expense	1 600
			29 Oct	Drawings	850

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	19 000

Loan – Cascade Credit Union

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			3 Oct	Bank	7 000

Office furniture

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Oct	Bank	6 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Oct	Bank	2 050

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
16 Oct	Bank	1 250			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
23 Oct	Bank	1 600			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
29 Oct	Bank	850			

Bank balance = debits $28 050 − credits $9 700 = **$18 350 Dr**.

Question 9

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov	Capital	21 000	2 Nov	Vehicle	13 000
5 Nov	Loan – Delta Bank	9 000	14 Nov	Wages	1 700
9 Nov	Fees revenue	2 600	19 Nov	Advertising	550
23 Nov	Fees revenue	3 100	27 Nov	Rent expense	1 500
			30 Nov	Drawings	1 100

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Nov	Bank	21 000

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Nov	Bank	13 000			

Loan – Delta Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			5 Nov	Bank	9 000

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Nov	Bank	2 600
			23 Nov	Bank	3 100

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Nov	Bank	1 700			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
19 Nov	Bank	550			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
27 Nov	Bank	1 500			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Nov	Bank	1 100			

Bank balance = debits \$35 700 − credits \$17 850 = **\$17 850 Dr** (Fees revenue \$5 700 Cr).

Question 10

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Dec	Capital	26 000	3 Dec	Equipment	14 000
6 Dec	Loan – Grandview Finance	6 000	15 Dec	Wages	1 900
10 Dec	Sales	3 400	20 Dec	Advertising	800
24 Dec	Sales	4 200	29 Dec	Drawings	1 300

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Dec	Bank	26 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Dec	Bank	14 000			

Loan – Grandview Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			6 Dec	Bank	6 000

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Dec	Bank	3 400
			24 Dec	Bank	4 200

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
15 Dec	Bank	1 900			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Dec	Bank	800			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
29 Dec	Bank	1 300			

Bank balance = debits $39 600 − credits $18 000 = **$21 600 Dr**; Sales = $3 400 + $4 200 = **$7 600 Cr**.

Question 11

Earning cash fees affects two elements. First, the business receives cash, so the **Bank** asset increases; assets increase on the **debit** side, so Bank is **debited $2 500**. Second, the business has earned **revenue** (Fees revenue), which increases owner's equity; revenues increase on the **credit** side, so Fees revenue is **credited $2 500**. Equal debit and credit keep the entry in balance. In the **Bank** account the cross-reference is **Fees revenue** (naming the other account), and in the **Fees revenue** account the cross-reference is **Bank** — each account points to the other half of the entry.

Question 12

a. Debits $26 800 − credits $12 300 = **$14 500 Dr**.

b. The credit entry **4 May Equipment $8 500** records the cash purchase of a non-current asset (the asset Equipment was debited; Bank was credited).

c. The debit entries **1 May Capital $17 000** and **14 May Loan – Ridge Finance $5 000** are not revenue: Capital is **owner's equity** (the owner's investment) and Loan – Ridge Finance is a **liability** (borrowed funds). Only the two **Fees revenue** entries ($2 200 and $2 600) are revenue.

Question 13

In both cases the business receives $5 000 cash, so **Bank is debited $5 000**. The difference is the account **credited**:

- **Loan:** credit **Loan – <lender>**. This creates a **liability**. The equation changes as assets +$5 000 and liabilities +$5 000; owner's equity is unchanged. The $5 000 must be repaid to an outside party.
- **Capital:** credit **Capital**. This increases **owner's equity**. The equation changes as assets +$5 000 and owner's equity +$5 000; liabilities are unchanged. The $5 000 is the owner's own investment and is not owed to an outsider.

So although the debit (Bank) is identical, a loan raises a liability while a capital contribution raises owner's equity — a different claim on the business's assets.

Question 14

Effect on the ledger and profit. Recording the withdrawals as **Wages** puts them in an **expense** account instead of the **Drawings** (negative owner's equity) account. Each entry still balances — Wages is debited and Bank is credited for the same amount — so the ledger's debits still equal its credits and nothing looks obviously wrong. But the classification is false: **Wages** (an expense) is **overstated**, so **net profit is understated**, while **Drawings** is **understated**, hiding how much the owner has taken out. The Income Statement and the reported profit no longer represent the business's real performance, and the owner's true claim on the business is misstated.

Note that the owner's stated motives are contradictory — misrecording drawings as an expense actually makes reported profit **lower**, not higher — which is a further sign that the instruction is about **disguising** the withdrawals (from the bank and from anyone reading the reports) rather than any legitimate accounting reason.

Ethical considerations. The instruction asks the bookkeeper to produce reports that are **not a faithful representation** of what occurred: they are neither complete nor free from bias, because a private withdrawal is being dressed up as a business cost. Users of the reports — the bank deciding on the loan, the ATO, a future buyer — would be **misled**. The bookkeeper has a professional and ethical responsibility to record each transaction according to its true nature (drawings as **Drawings**), to apply the accounting rules honestly regardless of pressure from the owner, and to decline to make entries they know misrepresent the business. Acting with **integrity** protects the reliability of the reports and the interests of every user who relies on them.

Question 15

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jan	Capital	13 000	4 Jan	Shop fittings	5 500
2 Jan	Loan – Bayside Bank	4 000	14 Jan	Wages	1 050
9 Jan	Sales	1 950	19 Jan	Rent expense	1 250
23 Jan	Sales	2 350	28 Jan	Drawings	650

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jan	Bank	13 000

Loan – Bayside Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Jan	Bank	4 000

Shop fittings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jan	Bank	5 500			

Sales

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Jan	Bank	1 950
			23 Jan	Bank	2 350

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Jan	Bank	1 050			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
19 Jan	Bank	1 250			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Jan	Bank	650			

Bank balance = debits $21 300 − credits $8 450 = **$12 850 Dr**; Sales = $1 950 + $2 350 = **$4 300 Cr**; Drawings = **$650 Dr**.

Question 16

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Feb	Capital	32 000	4 Feb	Gym equipment	20 000
2 Feb	Loan – Summit Bank	12 000	5 Feb	Office furniture	3 500
10 Feb	Fees revenue	3 600	16 Feb	Wages	2 200
26 Feb	Fees revenue	4 100	22 Feb	Advertising	900
			28 Feb	Drawings	1 400

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Feb	Bank	32 000

Loan – Summit Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Feb	Bank	12 000

Gym equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Feb	Bank	20 000			

Office furniture

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Feb	Bank	3 500			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Feb	Bank	3 600
			26 Feb	Bank	4 100

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
16 Feb	Bank	2 200			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
22 Feb	Bank	900			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Feb	Bank	1 400			

Both the gym equipment ($20 000) and the office furniture ($3 500) are non-current assets bought for cash, each debited to its own asset account and credited to Bank. Bank balance = debits $51 700 − credits $28 000 = **$23 700 Dr** (Fees revenue $7 700 Cr).

Question 17

The $1 200 debit balance of the **Advertising** account represents the **total advertising expense the business has incurred and paid** during its first month. It is recorded on the **debit** side because advertising is an **expense**, and expenses increase on the debit side of the ledger. The advertising reduces **owner's equity**: an expense is a sacrifice of an economic benefit (cash paid) that reduces profit, and reduced profit means a smaller increase in the owner's claim on the business. The cross-reference **Bank** shows the $1 200 was paid in cash.

Question 18

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Mar	Capital	40 000	4 Mar	Equipment	18 000
2 Mar	Loan – Horizon Finance	15 000	5 Mar	Vehicle	22 000
9 Mar	Fees revenue	4 500	14 Mar	Wages	3 000
26 Mar	Fees revenue	5 300	18 Mar	Rent expense	2 500
			22 Mar	Advertising	1 200
			29 Mar	Drawings	2 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Mar	Bank	40 000

Loan – Horizon Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Mar	Bank	15 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Mar	Bank	18 000			

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Mar	Bank	22 000			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Mar	Bank	4 500
			26 Mar	Bank	5 300

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Mar	Bank	3 000			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Mar	Bank	2 500			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
22 Mar	Bank	1 200			

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
29 Mar	Bank	2 000			

Recorded balances: Bank **$16 100 Dr** (debits $64 800 − credits $48 700), Equipment $18 000 Dr, Vehicle $22 000 Dr, Capital $40 000 Cr, Loan – Horizon Finance $15 000 Cr, Fees revenue $9 800 Cr, Wages $3 000 Dr, Rent expense $2 500 Dr, Advertising $1 200 Dr, Drawings $2 000 Dr.

Checking the accounting equation on these balances:

- **Assets** = Bank $16 100 + Equipment $18 000 + Vehicle $22 000 = **$56 100**.
- **Liabilities** = Loan – Horizon Finance = **$15 000**.
- **Owner's equity** = Capital $40 000 − Drawings $2 000 + Fees revenue $9 800 − Wages $3 000 − Rent expense $2 500 − Advertising $1 200 = **$41 100**.

Assets $56 100 = Liabilities $15 000 + Owner's equity $41 100. ∴ the ledger balances, confirming every entry was recorded correctly.

Chapter 19 Headstart to Units 3 & 4 — 19C The Trial Balance and balancing

Units 3 & 4 preview — beyond the Units 1 & 2 study design. This section completes the double-entry General Ledger used in Units 3 & 4; it is not assessed in the graded topic tests or practice examinations for Units 1 & 2.

Theory

Sections 19A and 19B built a **General Ledger** by recording each transaction with an equal **debit** and **credit** entry. At the end of a reporting period the business must turn that ledger of movements into a single figure for each account, and check that the ledger as a whole still obeys the rules of double entry. It does this by **balancing** every account and then listing the balances in a **Trial Balance**. This is the bridge between *recording* transactions (19A–19B) and *preparing* the accounting reports you will meet in Units 3 & 4. Like the rest of this chapter, the worked contexts here are **pre-GST, cash-based** double entry, so the ideas stand out clearly.

Balancing a General Ledger account. Every account is a "T" with a **debit (left) side** and a **credit (right) side**, and its balance is simply the difference between the two sides. To balance an account:

1. **Total both sides** informally to find which side is larger.
2. Enter the difference as **Balance c/d** ("carried down") on the **smaller** side, dated the **last day** of the period. This balancing figure is the amount that makes the two sides equal.
3. **Rule off** the account by writing the now-equal total on **both** sides, on the same line.
4. Bring the balance down as **Balance b/d** ("brought down") on the **opposite** side, dated the **first day** of the next period. Balance b/d is the account's opening balance for the new period.

The side on which **Balance b/d** appears tells you the **type of balance** the account carries, and therefore which accounting element it belongs to:

- Accounts with a **debit balance** (b/d on the debit side): **assets, expenses and drawings**.
- Accounts with a **credit balance** (b/d on the credit side): **liabilities, owner's equity (Capital) and revenue**.

This follows directly from the double-entry rules. An account increases on the same side as its normal balance, so an **asset** (which increases with debits) settles with a **debit balance**, while a **liability** (which increases with credits) settles with a **credit balance**.

Worked model. During March 2026 the Bank account of **Harbourview Detailing** (owner F. Castellano) recorded the entries below. Total debits = $26 000 and total credits before balancing = $10 000, so the account has a **debit balance of $16 000**. Balance c/d ($16 000) is entered on the smaller **credit** side to rule the account off at $26 000; the balance is then brought down on the **debit** side on 1 April.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Mar	Capital	18 000	5 Mar	Equipment	7 000
7 Mar	Fees revenue	4 200	13 Mar	Wages	1 600
19 Mar	Fees revenue	3 800	26 Mar	Rent expense	1 400
			31 Mar	Balance c/d	16 000
		26 000			**26 000**
1 Apr	Balance b/d	16 000			

Because Bank is an **asset**, its Balance b/d sits on the debit side — a debit balance, exactly as expected.

The Trial Balance. Once every account has been balanced, the business prepares a **Trial Balance**: a list of every General Ledger account and its balance, set out in two money columns — **Debit** and **Credit** — as at a particular date. Each balance is written in the column that matches the side on which its Balance b/d sits, and the two columns are then totalled.

The purpose of the Trial Balance is to provide an **arithmetic check** on the ledger. Because every transaction was recorded with equal debit and credit entries, the **total of the debit balances must equal the total of the credit balances**. If the two totals agree, the ledger is *arithmetically* consistent and the balances can be carried into the reports.

What a balanced Trial Balance does — and does not — prove. A balanced Trial Balance proves only that, for every entry made, a debit was matched by an equal credit. It does **not** prove that the ledger is free of error, because several kinds of error leave the two column totals equal:

- **Error of omission** — a transaction is left out of the ledger entirely. Both the debit and the credit are missing, so the columns still agree.
- **Error of commission** — an entry of the correct amount is posted to the **wrong account of the same type** (e.g. wages debited to a Salaries account instead of the Wages account). The debit and credit are still equal.
- **Error of principle** — an entry is posted to an account of the **wrong class** (e.g. buying a tool, an asset, but debiting a Repairs expense account). Debits still equal credits.
- **Compensating errors** — two or more separate errors that happen to cancel out, so the columns still agree.

A Trial Balance **will** reveal any error that makes the two sides unequal — a one-sided entry, an amount posted to the wrong side, unequal debit and credit amounts, or an addition error. So a balanced Trial Balance is a **necessary but not sufficient** condition for a correct ledger: if it does not balance there is definitely an error; if it does balance, there may still be one.

Ethical considerations. Balancing accounts and preparing a Trial Balance look purely mechanical, but they carry a real ethical duty. The balancing figure (**Balance c/d**) must be the **genuine arithmetic difference** between the two sides — never a number chosen to make an account, or a later report, show a result the owner would prefer. When a Trial Balance does **not** balance, the difference is a signal that a genuine recording error exists and must be **traced and corrected**. It is unethical to **"force" agreement** by inventing an entry, altering a figure, or burying the discrepancy in a convenient account (a "plug"). Forcing a Trial Balance to balance breaches **faithful representation** — the reports would no longer be complete, neutral and free from error — and undermines **verifiability**, because another accountant checking the ledger could not reproduce the figure from the source documents. Acting with **integrity** means investigating and correcting the true cause of any imbalance and reporting the balances honestly, even under deadline pressure.

Worked examples (scaffolded)

Example 1 — Balancing an asset account (debit balance)

The Bank account of Redgum Landscaping (owner H. Beltran) recorded the following during May 2026: a debit opening balance of $3 800 (1 May); cash fees banked of $5 400 (10 May) and $4 600 (22 May); and cash payments for wages $2 500 (6 May), rent $1 800 (15 May) and drawings $1 200 (27 May). Balance the account at 31 May and bring the balance down.

Working	Comment
Total debit side = $3 800 + $5 400 + $4 600 = **$13 800**.	Add every entry on the debit side, including the opening Balance b/d.
Total credit side = $2 500 + $1 800 + $1 200 = **$5 500**.	The credit side records the cash paid out.
Debit side is larger → **debit balance** = $13 800 − $5 500 = **$8 300**.	Assets increase with debits, so Bank normally carries a debit balance.
Enter **Balance c/d $8 300** on the **credit** (smaller) side, dated 31 May; rule both sides off at **$13 800**.	The balancing figure makes the two sides equal so the account can be ruled off.
Bring the balance down as **Balance b/d $8 300** on the **debit** side, dated 1 June.	b/d on the debit side confirms Bank is an asset — this is June's opening balance.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Balance b/d	3 800	6 May	Wages	2 500
10 May	Fees revenue	5 400	15 May	Rent expense	1 800
22 May	Fees revenue	4 600	27 May	Drawings	1 200
			31 May	Balance c/d	8 300
		13 800			**13 800**
1 Jun	Balance b/d	8 300			

Example 2 — Balancing a liability account (credit balance)

Seabreeze Laundry has a loan with Meridian Finance. On 1 April 2026 the Loan account had a credit balance of $25 000. On 16 April the business borrowed a further $9 000 (banked), and on 21 April it repaid $5 000 of the principal from the Bank. Balance the account at 30 April and bring the balance down.

Working	Comment
Total credit side = $25 000 + $9 000 = **$34 000**.	A loan increases on the credit side; the extra advance is cross-referenced to Bank.
Total debit side = **$5 000**.	Repaying principal reduces the loan — a debit entry, cross-referenced to Bank.
Credit side is larger → **credit balance** = $34 000 − $5 000 = **$29 000**.	Liabilities increase with credits, so a loan normally carries a credit balance.
Enter **Balance c/d $29 000** on the **debit** (smaller) side, dated 30 April; rule both sides off at **$34 000**.	The balancing figure goes on the side that is short.
Bring the balance down as **Balance b/d $29 000** on the **credit** side, dated 1 May.	b/d on the credit side confirms the loan is a liability.

Loan – Meridian Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Apr	Bank	5 000	1 Apr	Balance b/d	25 000
30 Apr	Balance c/d	29 000	16 Apr	Bank	9 000
		34 000			**34 000**
			1 May	Balance b/d	29 000

Worked examples (unscaffolded)

Example 3 — Preparing a Trial Balance

At 30 June 2026 the balanced General Ledger of Kingfisher Surveying (owner R. Okoro) showed: Bank $19 600, Office equipment $16 000, Motor vehicle $39 000, Loan – Delta Bank $28 000, Capital $42 000, Drawings $8 500, Fees revenue $41 200, Wages $15 300, Rent expense $9 000, Insurance $2 400 and Advertising $1 400. Prepare the Trial Balance as at 30 June 2026.

Each balance is listed in the column that matches its normal side: assets, drawings and expenses as debits; the loan, capital and revenue as credits.

Trial Balance of Kingfisher Surveying as at 30 June 2026

Account	Debit $	Credit $
Bank	19 600	
Office equipment	16 000	
Motor vehicle	39 000	
Loan – Delta Bank		28 000

Account	Debit $	Credit $
Capital		42 000
Drawings	8 500	
Fees revenue		41 200
Wages	15 300	
Rent expense	9 000	
Insurance	2 400	
Advertising	1 400	
Total	**111 200**	**111 200**

∴ total debits = total credits = $111 200, so the ledger is arithmetically consistent.

Example 4 — an error a Trial Balance will not detect

On 14 June 2026 Vantage Tiling paid $900 cash for a power drill (a non-current asset). The bookkeeper debited the Repairs expense account $900 and credited Bank $900, instead of debiting the Tools & equipment asset account. Explain whether the Trial Balance prepared at 30 June will still balance, and name the type of error.

The entry recorded an equal debit ($900) and credit ($900), so the debit column total and the credit column total are each unchanged in size — the Trial Balance will still balance. But the $900 has been posted to an account of the **wrong class**: an expense (Repairs) instead of an asset (Tools & equipment). This is an **error of principle**. It overstates expenses (understating profit) and understates assets, yet leaves debits equal to credits.

∴ the Trial Balance still balances, so it cannot reveal this error of principle.

Practice questions — scaffolded

Question 1

During July 2026 the Bank account of Brookfield Fencing (owner A. Delaporte) recorded: a debit opening balance of $2 700 (1 July); cash fees banked of $4 600 (11 July) and $3 900 (25 July); and cash payments for wages $2 200 (8 July), rent $1 500 (17 July) and drawings $800 (29 July).

a. Balance the Bank account at 31 July and bring the balance down at 1 August.

b. State the amount and date of the Balance c/d.

c. State the side on which the balance is brought down, and what this tells you about the Bank account.

Question 2

The Loan account of Tidewater Freight had a credit balance of $38 000 on 1 August 2026. On 13 August the business received a further advance of $7 000 (banked); on 24 August it repaid $6 000 of the principal from the Bank.

a. Balance the Loan account at 31 August and bring the balance down at 1 September.

b. State the amount of the Balance c/d and the side it is entered on.

c. State the accounting element of the account, and explain how its balance side is consistent with that element.

Question 3

Consider these five General Ledger accounts: Bank, Loan – Horizon Bank, Capital, Advertising and Commission revenue.

a. State whether each account normally has a debit or a credit balance.

b. State the accounting element to which each account belongs.

c. Explain why liabilities and revenue both carry a credit balance.

Question 4

At 31 May 2026 the balanced ledger of Marloo Electrical (owner G. Sundaram) showed: Bank $14 800, Equipment $17 000, Delivery van $24 000, Capital $33 000, Loan $20 000, Drawings $6 500, Fees revenue $29 600, Wages $13 500, Rent expense $5 000 and Electricity $1 800.

a. Prepare the Trial Balance as at 31 May 2026.

b. State the total of each column.

c. State what the equal totals do, and do not, prove about the ledger.

Question 5

The Trial Balance of Yendarra Signs at 30 April 2026 lists every balance except Capital: Bank $8 100, Equipment $13 200, Motor vehicle $27 000, Drawings $5 800, Wages $12 400, Rent expense $6 200, Advertising $2 300, Loan $21 000 and Fees revenue $34 000.

a. Calculate the missing Capital balance that makes the Trial Balance balance.

b. State the total of the Trial Balance.

c. Explain the reasoning you used to find the missing figure.

Question 6

For each situation, state whether the Trial Balance prepared afterwards will still balance, and name the type of error (or state that the error would be detected):

a. An $850 cash payment for insurance was not recorded anywhere in the ledger.

b. $2 400 paid for a new laptop (an asset) was debited to the Repairs expense account.

c. A $620 wages payment was debited to Wages but credited to Bank as $260.

Practice questions — unscaffolded

Question 7

During September 2026 the Bank account of Cape Otway Roofing (owner V. Achterberg) recorded: a debit opening balance of $4 900 (1 Sep); cash fees banked of $6 300 (12 Sep) and $5 500 (24 Sep); and cash payments for wages $3 000 (9 Sep), rent $1 900 (18 Sep) and drawings $1 400 (28 Sep). Balance the account at 30 September and bring the balance down.

Question 8

The Wages account of Pinnacle Bakehouse recorded three cash payments during the quarter ended 30 September 2026: $3 400 (5 July), $3 550 (3 August) and $3 650 (4 September). Balance the Wages account at 30 September, bring the balance down at 1 October, and state the type of balance it carries.

Question 9

The Capital account of Sunward Solar (owner P. Nwachukwu) had a credit balance of $55 000 on 1 January 2026. On 1 March the owner contributed a further $18 000 cash. Balance the Capital account at 31 March, bring the balance down at 1 April, and state on which side the Balance b/d appears.

Question 10

During the period ended 31 August 2026 the Fees revenue account of Harlow Glazing recorded cash fees of $5 100 (10 July), $4 700 (5 August) and $5 300 (27 August). Balance the account at 31 August, bring the balance down, and state the type of balance it carries.

Question 11

The Drawings account of Ravenswood Welding (owner M. Castellanos) recorded cash withdrawals by the owner of $1 300 (12 June), $1 600 (16 July) and $1 400 (22 August). Balance the Drawings account at 31 August and bring the balance down.

Question 12

The Loan account of Merribrook Excavations had a credit balance of $65 000 on 1 October 2026. During October the business repaid $6 000 (8 Oct) and $4 000 (27 Oct) of principal, and received a further advance of $14 000 (15 Oct), all through the Bank. Balance the Loan account at 31 October and bring the balance down.

Question 13

At 30 June 2026 the balanced ledger of Blackwood Bricklaying (owner J. Farro) showed: Bank $23 200, Tools & equipment $15 500, Motor vehicle $30 000, Drawings $7 800, Wages $17 100, Fuel expense $4 400, Rent expense $7 500, Insurance $2 000, Capital $44 000, Loan $23 000 and Fees revenue $40 500. Prepare the Trial Balance as at 30 June 2026 and state the total.

Question 14

At 31 December 2026 the balanced ledger of Ferngrove Marquees (owner K. Solberg) showed: Bank $12 100, Equipment $20 500, Drawings $8 400, Wages $23 800, Rent expense $10 200, Advertising $3 600, Electricity $2 400, Capital $37 000, Loan $16 000, Fees revenue $21 500 and Commission revenue $6 500. Prepare the Trial Balance as at 31 December 2026 and state the total.

Question 15

The Trial Balance of Wattlebank Concreting at 31 March 2026 lists every balance except the Motor vehicle: Bank $9 900, Equipment $13 600, Drawings $6 800, Wages $15 500, Rent expense $5 700, Fuel expense $3 400, Capital $30 000, Loan $25 000 and Fees revenue $44 000. Calculate the missing Motor vehicle balance that makes the Trial Balance balance, and state the total of the Trial Balance.

Question 16

Belmont Handyman prepared a Trial Balance that balanced. For each of the following errors, state whether the Trial Balance would still have balanced and name the type of error:

a. A $720 cash payment for advertising was not recorded at all.
b. $350 paid for fuel was debited to the Motor vehicle asset account.
c. A $510 wages payment was debited to the Salaries account instead of the Wages account.
d. Rent expense was overstated by $250 and, in a separate error, Wages was understated by $250.

State the general conclusion these errors illustrate about a balanced Trial Balance.

Question 17

The Trial Balance below was prepared for Tumbleton Signage at 30 June 2026, but it does not balance. Identify the error, prepare the corrected Trial Balance, and state the correct total.

Trial Balance of Tumbleton Signage as at 30 June 2026

Account	Debit $	Credit $
Bank	11 600	
Equipment	18 000	
Wages	13 400	
Rent expense	6 400	
Capital		27 000
Loan		15 000
Fees revenue		12 800
Drawings		5 400
Total	**49 400**	**60 200**

Question 18

At 30 June 2026 the bookkeeper of Copperline Couriers (owner E. Vasquez) finds that the Trial Balance does not balance: the credit column is $1 260 short of the debit column. The owner wants the reports finalised for a bank meeting the next morning and tells the bookkeeper to "just add $1 260 to the Loan balance so it balances and we can move on." **Discuss** the ethical issues raised, referring to a relevant qualitative characteristic, and state what the bookkeeper should do instead.

Answers

1.
    b. Balance c/d $6 700 at 31 July c. Debit side — Bank is an asset, so it carries a debit balance
2.
    b. Balance c/d $39 000 on the debit (smaller) side c. Liability — it increases on the credit side, so it settles with a credit balance
3.
    a. Bank Dr, Loan – Horizon Bank Cr, Capital Cr, Advertising Dr, Commission revenue Cr b. asset / liability / owner's equity / expense / revenue
4.
    b. $82 600 in each column
5.
    a. Capital $20 000 b. $75 000
6.
    a. Still balances (error of omission) b. Still balances (error of principle) c. Does not balance (unequal amounts — detected)
7. Balance c/d $10 400; Balance b/d $10 400 (debit side)
8. $10 600 debit balance
9. $73 000 credit balance (Balance b/d on the credit side)
10. $15 100 credit balance
11. $4 300 debit balance
12. $69 000 credit balance
13. Total $107 500
14. Total $81 000
15. Motor vehicle $44 100; total $99 000
16.
    a. balances (omission) b. balances (principle) c. balances (commission) d. balances (compensating) — a balanced Trial Balance does not prove the ledger is free of error
17. Drawings (a debit balance) was listed in the Credit column; corrected total $54 800
18. See solutions — the bookkeeper must not plug the difference; investigate and correct the true error, then report honestly

Fully-worked solutions

Question 1

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Balance b/d	2 700	8 Jul	Wages	2 200
11 Jul	Fees revenue	4 600	17 Jul	Rent expense	1 500
25 Jul	Fees revenue	3 900	29 Jul	Drawings	800
			31 Jul	Balance c/d	6 700
		11 200			**11 200**
1 Aug	Balance b/d	6 700			

b. Balance c/d = $11 200 − $4 500 = **$6 700**, dated 31 July.

c. The balance is brought down on the **debit** side, which shows that Bank has a **debit balance** — consistent with Bank being an **asset**.

Question 2

Loan

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
24 Aug	Bank	6 000	1 Aug	Balance b/d	38 000
31 Aug	Balance c/d	39 000	13 Aug	Bank	7 000
		45 000			**45 000**
			1 Sep	Balance b/d	39 000

b. Balance c/d = $45 000 − $6 000 = **$39 000**, entered on the **debit** (smaller) side.

c. The Loan is a **liability**. A liability increases on the credit side, so its total credits exceed its total debits and it settles with a **credit balance** (Balance b/d on the credit side).

Question 3

a. and b.

Account	Normal balance	Element
Bank	Debit	Asset
Loan – Horizon Bank	Credit	Liability
Capital	Credit	Owner’s equity
Advertising	Debit	Expense
Commission revenue	Credit	Revenue

c. Liabilities and revenue both **increase with a credit** entry — a liability is an obligation that grows as the business borrows or owes (recorded as a credit), and revenue is an inflow that increases owner’s equity (recorded as a credit). Because each accumulates on the credit side, each ends the period with total credits exceeding total debits, so both carry a **credit balance**.

Question 4

Trial Balance of Marloo Electrical as at 31 May 2026

Account	Debit $	Credit $
Bank	14 800	
Equipment	17 000	
Delivery van	24 000	
Capital		33 000
Loan		20 000
Drawings	6 500	
Fees revenue		29 600
Wages	13 500	
Rent expense	5 000	
Electricity	1 800	
Total	**82 600**	**82 600**

b. Each column totals **$82 600**.

c. The equal totals prove only that every entry was recorded with a debit equal to its credit, so the ledger is **arithmetically** consistent. They do **not** prove the ledger is free of error — errors of omission, commission, principle or compensating errors would all leave the two totals equal.

Question 5

a. Total of the debit balances = $8 100 + $13 200 + $27 000 + $5 800 + $12 400 + $6 200 + $2 300 = **$75 000**. The listed credit balances = $21 000 + $34 000 = $55 000. For the Trial Balance to balance, the credit column must also total $75 000, so **Capital = $75 000 − $55 000 = $20 000**.

b. The total of the Trial Balance is **$75 000** in each column.

c. Because total debits must equal total credits, the missing credit balance is the amount that lifts the credit column up to the (known) debit column total — found by subtracting the other credit balances from $75 000.

Question 6

a. **Still balances** — an **error of omission**: leaving the whole transaction out removes an equal debit and credit, so the two totals stay equal.

b. **Still balances** — an **error of principle**: the $2 400 debit was made to an expense account instead of an asset account, but a debit of $2 400 was still matched by a credit of $2 400.

c. **Does not balance** — the debit ($620) and the credit ($260) are **unequal**, so the credit column will be $360 short. This error *is* detected by the Trial Balance.

Question 7

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Balance b/d	4 900	9 Sep	Wages	3 000
12 Sep	Fees revenue	6 300	18 Sep	Rent expense	1 900
24 Sep	Fees revenue	5 500	28 Sep	Drawings	1 400
			30 Sep	Balance c/d	10 400
		16 700			**16 700**
1 Oct	Balance b/d	10 400			

Balance c/d = $16 700 − $6 300 = **$10 400** (a debit balance).

Question 8

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Jul	Bank	3 400	30 Sep	Balance c/d	10 600
3 Aug	Bank	3 550			
4 Sep	Bank	3 650			
		10 600			**10 600**
1 Oct	Balance b/d	10 600			

Wages is an **expense**, so it accumulates on the debit side and carries a **$10 600 debit balance**.

Question 9

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Mar	Balance c/d	73 000	1 Jan	Balance b/d	55 000
			1 Mar	Bank	18 000
		73 000			**73 000**
			1 Apr	Balance b/d	73 000

Capital is **owner's equity**, so the Balance b/d appears on the **credit** side — a **$73 000 credit balance**.

Question 10

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Aug	Balance c/d	15 100	10 Jul	Bank	5 100
			5 Aug	Bank	4 700
			27 Aug	Bank	5 300
		15 100			**15 100**
			1 Sep	Balance b/d	15 100

Fees revenue is **revenue**, so it accumulates on the credit side and carries a **$15 100 credit balance**.

Question 11

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
12 Jun	Bank	1 300	31 Aug	Balance c/d	4 300
16 Jul	Bank	1 600			
22 Aug	Bank	1 400			
		4 300			**4 300**
1 Sep	Balance b/d	4 300			

Drawings carries a **$4 300 debit balance** (drawings reduce owner's equity and accumulate on the debit side).

Question 12

Loan

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
8 Oct	Bank	6 000	1 Oct	Balance b/d	65 000
27 Oct	Bank	4 000	15 Oct	Bank	14 000
31 Oct	Balance c/d	69 000			
		79 000			**79 000**
			1 Nov	Balance b/d	69 000

Total credits $79 000 − total debits $10 000 = **$69 000 credit balance**.

Question 13

Trial Balance of Blackwood Bricklaying as at 30 June 2026

Account	Debit $	Credit $
Bank	23 200	
Tools & equipment	15 500	
Motor vehicle	30 000	
Drawings	7 800	
Wages	17 100	
Fuel expense	4 400	
Rent expense	7 500	
Insurance	2 000	
Capital		44 000
Loan		23 000
Fees revenue		40 500
Total	**107 500**	**107 500**

Account	Debit $	Credit $

The Trial Balance totals **$107 500** in each column.

Question 14

Trial Balance of Ferngrove Marquees as at 31 December 2026

Account	Debit $	Credit $
Bank	12 100	
Equipment	20 500	
Drawings	8 400	
Wages	23 800	
Rent expense	10 200	
Advertising	3 600	
Electricity	2 400	
Capital		37 000
Loan		16 000
Fees revenue		21 500
Commission revenue		6 500
Total	**81 000**	**81 000**

The Trial Balance totals **$81 000** in each column.

Question 15

Total of the listed debit balances = $9 900 + $13 600 + $6 800 + $15 500 + $5 700 + $3 400 = $54 900. Total of the credit balances = $30 000 + $25 000 + $44 000 = **$99 000**. For the Trial Balance to balance, the debit column must also reach $99 000, so:

Motor vehicle = $99 000 − $54 900 = $44 100.

∴ the Trial Balance totals **$99 000** in each column.

Question 16

a. **Balances — error of omission** (the whole transaction, both debit and credit, is missing).
b. **Balances — error of principle** (the $350 was debited to an asset, Motor vehicle, instead of an expense, Fuel, but a $350 debit still matched a $350 credit).
c. **Balances — error of commission** (the $510 debit went to the wrong expense account, Salaries instead of Wages, but the debit and credit were still equal).
d. **Balances — compensating errors** (the $250 overstatement of the Rent expense debit is cancelled by the $250 understatement of the Wages debit).

Conclusion: a Trial Balance that balances proves only that debits equal credits; it does **not** prove the ledger is free of error, because errors of omission, principle, commission and compensating errors all leave the two column totals equal.

Question 17

The two columns differ by $60 200 − $49 400 = $10 800, which is **twice the $5 400 Drawings balance**. Drawings has a **debit** balance (it accumulates on the debit side), but it was listed in the **Credit** column. Moving the $5 400 to the Debit column removes $5 400 from the credit total and adds $5 400 to the debit total, bringing both to $54 800.

Corrected Trial Balance of Tumbleton Signage as at 30 June 2026

Account	Debit $	Credit $
Bank	11 600	
Equipment	18 000	
Drawings	5 400	
Wages	13 400	
Rent expense	6 400	
Capital		27 000
Loan		15 000
Fees revenue		12 800
Total	**54 800**	**54 800**

∴ the corrected Trial Balance totals **$54 800** in each column.

Question 18

The owner's instruction asks the bookkeeper to alter a ledger balance to a figure that is **not supported by any recorded transaction** — inflating the Loan (a liability) by $1 260 purely to force the Trial Balance to agree. This is **unethical**. It breaches **faithful representation**, because the reports would no longer be a complete, neutral and error-free account of the business's position: the Loan, and total liabilities, would be **overstated by $1 260** with no underlying transaction. It also undermines **verifiability**, because an independent accountant tracing the Loan account back to the source documents could not reproduce the figure. Worst of all, it **conceals rather than corrects** a genuine recording error that the out-of-balance Trial Balance has correctly flagged, and it does so in reports a **lender** is entitled to rely on. The deadline and the owner's pressure do not justify misrepresenting the reports.

The bookkeeper should **decline to "plug" the difference** and instead **investigate** the $1 260 discrepancy — checking for a one-sided posting, an amount entered on the wrong side, an unequal debit and credit, or an addition error. (A difference that is **exactly divisible by 9** — here $1 260 = 9 × $140 — often signals a **transposed figure**, a useful place to start.) Once the true error is found and **corrected in the ledger**, the account balances and the Trial Balance are re-prepared, and only then are the reports finalised. The bookkeeper should explain to the owner that the meeting must proceed on **honest figures**, even if that means a short delay, because acting with integrity protects both the business and the users of its reports.