Accounting Units 3 & 4

Chapter 3 The General Ledger

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Theory

The **General Ledger** is the collection of individual **accounts** a business keeps to record the effect of its transactions. There is one account for every item the business needs to keep track of — for example **Bank**, **Equipment**, a **Loan**, **Capital**, **Fees revenue** or **Wages**. Bringing all of these accounts together, the General Ledger is the central record from which the accounting reports are later prepared.

The T-form account. Each ledger account is drawn as a **T**: a bold **account name** across the top, a **left (debit) side** and a **right (credit) side**. Every entry records a **date**, a **cross-reference** and an **amount**:

- **Debit** means the **left** side of an account; **credit** means the **right** side. These are simply the two sides — neither word means “good” or “bad”, “add” or “subtract” on its own.
- The **cross-reference** is the name of the account recorded on the **other side** of the same transaction. It shows where the matching entry can be found, so a reader can trace the full effect of a transaction through the ledger.

The balance of an account. The **balance** of an account is the **difference between its total debits and its total credits**. If the debit side is larger, the account has a **debit balance**; if the credit side is larger, it has a **credit balance**. The balance tells us how much of that item the business currently has — for example, a **debit balance of $23 300** in Bank means the business holds $23 300 of cash at that date.

The rules of double-entry recording. Every transaction affects **at least two** accounts, and is recorded so that its **total debits equal its total credits**. This is the rule of **double-entry recording**, and it keeps the accounting equation **Assets = Liabilities + Owner’s equity** in balance after every transaction. Whether an increase is recorded as a debit or a credit depends on the **element** involved:

Element	Increase recorded as	Decrease recorded as	Normal balance
Assets	Debit	Credit	Debit
Liabilities	Credit	Debit	Credit
Owner’s equity	Credit	Debit	Credit
Revenues	Credit	Debit	Credit
Expenses	Debit	Credit	Debit

Assets and expenses **increase on the debit side**; liabilities, owner’s equity and revenues **increase on the credit side**. Because a **revenue** increases owner’s equity (through profit) it is credited, while an **expense** reduces owner’s equity so it is debited. This is why an account’s **normal balance** sits on the side on which it increases.

Worked model. *Fitzroy Bike Repairs* is a bicycle repair service owned by J. Duval. During July 2025 the business recorded four cash transactions directly in its General Ledger:

- 1 Jul — the owner contributed **$30 000** cash to start the business (**Dr** Bank, **Cr** Capital).
- 2 Jul — bought workshop **equipment** for **$8 000** cash (**Dr** Equipment, **Cr** Bank).
- 5 Jul — paid **rent** of **$1 200** cash (**Dr** Rent expense, **Cr** Bank).
- 8 Jul — received **$2 500** cash for repair services (**Dr** Bank, **Cr** Service revenue).

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	30 000	2 Jul	Equipment	8 000
8 Jul	Service revenue	2 500	5 Jul	Rent expense	1 200

Capital

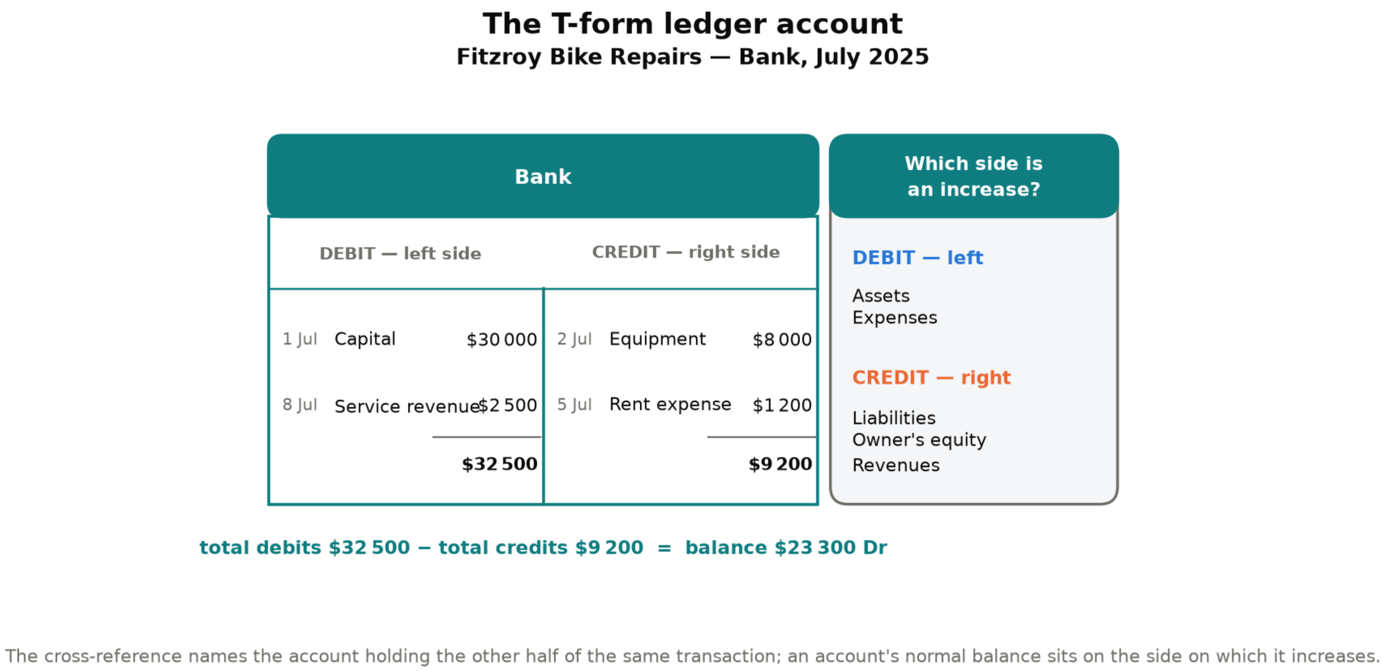
Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jul	Bank	30 000

Service revenue

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

Each amount debited to Bank is credited to another account (Capital, Service revenue), and each amount credited to Bank is debited to another account (Equipment, Rent expense) — so total debits always equal total credits. The **cross-reference** in Bank names that other account. The Bank account has total debits of $32 500 and total credits of $9 200, so its **balance is $23 300 Dr** — the cash the business holds at 8 July.

The account is worth picturing, because **debit** and **credit** mean nothing more than **left** and **right**:



The T-form Bank account of Fitzroy Bike Repairs, July 2025, with the double-entry rules

Every entry names its date, its cross-reference and its amount, and the cross-reference on each line names the account holding the other half of that transaction. The Bank account's debit side totals $32 500 and its credit side $9 200, leaving the **$23 300 debit balance** worked out above. The panel beside it is the rule that decides which side an increase goes on — and because an account's normal balance sits on the side on which it increases, Bank (an asset) carries a debit balance.

Worked examples (scaffolded)

Example 1 — recording cash transactions and identifying the debit and credit

Brightpath Tutoring is owned by A. Rae. During May 2025: on 1 May the owner contributed $25 000 cash; on 3 May the business bought office furniture for $6 000 cash; on 6 May it paid $800 cash for advertising; and on 9 May it received $3 200 cash for tutoring fees. Record these transactions in the General Ledger.

Working	Comment
1 May: Bank is an **asset** that increases → **debit $25 000**. Capital is **owner's equity** that increases → **credit $25 000**.	An owner's contribution increases both an asset and owner's equity.
3 May: Office furniture is an **asset** that increases → **debit $6 000**. Bank is an **asset** that decreases → **credit $6 000**.	Buying an asset for cash swaps one asset for another; total assets are unchanged.
6 May: Advertising is an **expense** that increases → **debit $800**. Bank decreases → **credit $800**.	An expense is debited because it reduces owner's equity.
9 May: Bank increases → **debit $3 200**. Fees revenue is	A revenue is credited because it increases owner's

Working	Comment
a **revenue** that increases → **credit $3 200**.	equity.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	25 000	3 May	Office furniture	6 000
9 May	Fees revenue	3 200	6 May	Advertising	800

Capital

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

Office furniture

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 May	Bank	6 000			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 May	Bank	800			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 May	Bank	3 200

The Bank account has total debits of $28 200 and total credits of $6 800, a **balance of $21 400 Dr**.

Example 2 — a loan, an asset purchase and a repayment

Verde Cleaning Co is owned by M. Sole. During June 2025: on 1 June the owner contributed $15 000 cash; on 4 June the business borrowed $20 000 cash from NAB; on 6 June it bought a motor vehicle for $28 000 cash; and on 20 June it repaid $2 000 of the loan in cash. Record the transactions and state the effect of each on the accounting equation.

Working	Comment
1 Jun: Dr Bank $15 000; Cr Capital $15 000. Effect: **A +15 000, OE +15 000**.	Asset up, owner's equity up.
4 Jun: Dr Bank $20 000; Cr Loan – NAB $20 000. Effect: **A +20 000, L +20 000**.	Borrowing increases an asset and a liability.
6 Jun: Dr Motor vehicle $28 000; Cr Bank $28 000. Effect: **A +28 000 and −28 000 (no net change)**.	One asset replaces another.
20 Jun: Dr Loan – NAB $2 000; Cr Bank $2 000. Effect: **A −2 000, L −2 000**.	Repaying a liability reduces both cash and the loan.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	15 000	6 Jun	Motor vehicle	28 000
4 Jun	Loan – NAB	20 000	20 Jun	Loan – NAB	2 000

Loan – NAB

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Jun	Bank	2 000	4 Jun	Bank	20 000

Capital

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

Motor vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Jun	Bank	28 000			

Bank has a **balance of $5 000 Dr** ($35 000 − $30 000); the Loan – NAB account has a **balance of $18 000 Cr** ($20 000 − $2 000).

Worked examples (unscaffolded)

Example 3 — a contribution of cash and an asset (a compound entry)

Ironbark Carpentry is owned by T. Boyd. On 1 August 2025 the owner contributed **$10 000 cash** and a set of **tools valued at $6 000** to start the business. Record the transaction in the General Ledger.

The single transaction increases two assets and increases owner's equity. Bank is debited $10 000 and Tools is debited $6 000; Capital is credited a total of $16 000. The total debits ($10 000 + $6 000) equal the total credit of $16 000, so double-entry holds even though three accounts are involved.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	10 000			

Tools

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	6 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Aug	Bank	10 000
			1 Aug	Tools	6 000

∴ the Capital account has a **balance of $16 000 Cr**, matching the $16 000 of assets contributed.

Example 4 — preparing the Bank account and stating its balance

Coral Reef Diving School is owned by K. Nguyen. During September 2025: on 1 Sep the owner contributed $50 000 cash; on 2 Sep the business bought diving equipment for $18 000 cash; on 3 Sep it paid $2 400 cash for insurance; on 10 Sep it received $9 500 cash in course fees; on 15 Sep it paid $3 600 cash in wages; and on 25 Sep it received a further $7 200 cash in course fees. Prepare the Bank account and state its balance.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	50 000	2 Sep	Diving equipment	18 000
10 Sep	Fees revenue	9 500	3 Sep	Insurance	2 400

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Sep	Fees revenue	7 200	15 Sep	Wages	3 600

Total debits are $66 700 and total credits are $24 000. ∴ Bank has a **debit balance of $42 700**, representing the cash the business holds at 25 September.

Practice questions — scaffolded

Question 1

Larkspur Gardens is a landscaping business owned by C. Hollis. During April 2025: on 1 April the owner contributed $18 000 cash; on 4 April the business bought a trailer for $5 000 cash; and on 9 April it paid $600 cash for fuel.

a. For each transaction, state which account is debited and which is credited, and name the element of each account.

b. Record the three transactions in the Bank account.

c. State the balance of the Bank account after these transactions.

Question 2

Halcyon Yoga Studio is owned by P. Devi. During May 2025: on 1 May the owner contributed $22 000 cash; on 2 May the business borrowed $8 000 cash from Bendigo Bank; and on 4 May it bought studio equipment for $12 000 cash.

a. For each transaction, name the two accounts affected and state whether each is debited or credited.

b. State the effect of each transaction on the accounting equation (Assets, Liabilities, Owner’s equity).

c. State the balance of the Bank account.

Question 3

Pixel & Co Photography is owned by S. Lim and had a nil bank balance at the start of June 2025. On 2 June the business received $4 500 cash for a wedding shoot; on 5 June it paid $1 800 cash for rent; and on 8 June it paid $350 cash for electricity.

a. State whether a revenue and an expense each increase or decrease owner’s equity, and whether each is recorded as a debit or a credit.

b. Record the three transactions in the Bank account.

c. State the balance of the Bank account.

Question 4

Cobalt IT Support is owned by R. Aziz. During August 2025: on 1 Aug the business received $5 000 cash for consulting fees; on 4 Aug it paid $2 200 cash in wages; on 7 Aug it received $3 800 cash for consulting fees; and on 11 Aug it paid $1 500 cash for rent.

a. For each of the four transactions, state which account is debited and which is credited.

b. Prepare the Consulting fees revenue account and state its balance.

c. Prepare the Wages account and state its balance.

Question 5

Everest Freight is owned by N. Watts. During September 2025: on 1 Sep the owner contributed $40 000 cash; on 2 Sep the business borrowed $25 000 cash from Westpac; on 5 Sep it bought a truck for $55 000 cash; and on 28 Sep it repaid $5 000 of the loan in cash.

a. Record the four transactions in the appropriate ledger accounts, naming the account debited and the account credited for each.

b. Prepare the Loan – Westpac account and state its balance.

c. State the balance of the Bank account.

Question 6

Willow Counselling is owned by G. Hart. During October 2025: on 1 Oct the owner contributed $12 000 cash; on 3 Oct the business paid $900 cash for rent; and on 9 Oct it received $2 100 cash for counselling fees.

a. Record the three transactions in the Bank account and state its balance.

b. Explain, in one or two sentences, what the balance of the Bank account represents.

c. Explain why the total debits recorded for these transactions equal the total credits.

Practice questions — unscaffolded

Question 7

Meridian Signwriting is owned by D. Poole. During March 2025: on 1 Mar the owner contributed $35 000 cash; on 3 Mar the business bought equipment for $9 000 cash; on 6 Mar it paid $1 100 cash for advertising; on 12 Mar it received $6 400 cash for fees; and on 20 Mar it paid $2 800 cash in wages. Prepare the Bank account and state its balance.

Question 8

Stonefield Bricklaying is owned by L. Marsh. On 1 April 2025 the owner contributed $8 000 cash and a trailer valued at $7 500 to start the business; on 4 April the business bought tools for $2 300 cash. Prepare the Capital account and the Bank account, state the balance of each, and show that the total debits equal the total credits for the owner's contribution.

Question 9

Tidewater Kayak Tours is owned by B. Everett. Record the following six transactions of July 2025: 1 Jul owner contributed $30 000 cash; 3 Jul borrowed $10 000 cash from Suncorp; 6 Jul bought kayaks for $16 000 cash; 12 Jul received $4 200 cash in tour fees; 18 Jul paid $2 500 cash in wages; and 26 Jul repaid $1 000 of the loan in cash. For each transaction, state the account debited, the account credited, and the effect on the accounting equation.

Question 10

Northwind Consulting is owned by F. Okafor. During June 2025: on 1 Jun the owner contributed $20 000 cash; on 2 Jun the business bought office equipment for $4 800 cash; on 5 Jun it received $7 500 cash in fees; on 9 Jun it paid $260 cash for internet; on 15 Jun it received $5 100 cash in fees; and on 22 Jun it paid $1 900 cash for rent. Prepare the Bank account and the Fees Revenue account, and state the balance of each.

Question 11

For each of the following accounts, state the element it belongs to and whether it normally has a **debit** or a **credit** balance: Bank; Capital; Loan – ANZ; Equipment; Rent expense; Fees Revenue; Motor vehicle; Wages; Advertising.

Question 12

Granite Earthworks is owned by H. Serrano. During May 2025: on 1 May the owner contributed $60 000 cash; on 3 May the business borrowed $40 000 cash from CBA; on 6 May it bought an excavator (plant and equipment) for $85 000 cash; on 18 May it repaid $3 000 of the loan in cash; and on 30 May it repaid a further $3 000 in cash. Prepare the Loan – CBA account and the Bank account, and state the balance of each.

Question 13

Azure Pool Servicing is owned by W. Bianchi. During July 2025: on 1 Jul the owner contributed $16 000 cash; on 2 Jul the business borrowed $12 000 cash from Bendigo Bank; on 4 Jul it bought a motor vehicle for $19 000 cash; on 10 Jul it received $3 400 cash in service fees; and on 25 Jul it paid $1 500 cash in wages. Prepare the Bank account, state its balance, and explain what the balance represents and why it is a debit balance.

Question 14

Explain what is meant by **double-entry recording**. Illustrate your answer by recording the following transaction in the General Ledger of *Vantage Detailing*: on 1 August 2025 the owner contributed $14 000 cash to start the business.

Question 15

Fernbrook Veterinary Mobile Service is owned by V. Salib. During September 2025: on 1 Sep the owner contributed $45 000 cash; on 2 Sep the business bought veterinary equipment for $13 000 cash; on 3 Sep it paid $2 100 cash for insurance; on 12 Sep it received $8 900 cash in consultation fees; on 20 Sep it bought a motor vehicle for $27 000 cash; and on 28 Sep it received a further $6 500 cash in consultation fees. Prepare the Bank, Veterinary equipment and Motor vehicle accounts, and state the balance of the Bank account.

Question 16

Skyline Window Cleaning is owned by J. Ferraro. State the effect on the accounting equation (Assets, Liabilities, Owner's equity) of each of the following transactions of August 2025: owner contributed $28 000 cash; borrowed $9 000 cash from ANZ; bought equipment for $6 000 cash; received $3 300 cash in fees; and paid $1 200 cash for insurance.

Question 17

Explain why assets and expenses are increased on the **debit** side of an account, while liabilities, owner's equity and revenues are increased on the **credit** side. Refer to the accounting equation in your answer.

Question 18

Auroralight Electrical Services is owned by E. Cho. During November 2025 the business recorded the following cash transactions: 1 Nov owner contributed $50 000 cash; 2 Nov borrowed $15 000 cash from Suncorp; 3 Nov bought tools and equipment for $11 000 cash; 4 Nov bought a work van for $22 000 cash; 10 Nov received $9 400 cash in service fees; 14 Nov paid $3 200 cash in wages; 18 Nov paid $700 cash for advertising; 22 Nov received $8 600 cash in service fees; 28 Nov paid $3 200 cash in wages; and 30 Nov repaid $1 500 of the loan in cash. Prepare the Bank, Capital, Service Revenue and Wages accounts, state the balance of each, and confirm that the total debits recorded for the month equal the total credits.

Answers

1.
   a. Dr Bank / Cr Capital (asset, owner's equity); Dr Trailer / Cr Bank (asset, asset); Dr Fuel / Cr Bank (expense, asset). c. Bank $12 400 Dr
2.
   b. +A/+OE $22 000; +A/+L $8 000; +A/−A $12 000 (no net change). c. Bank $18 000 Dr
3.
   a. Revenue increases owner's equity → credit; expense decreases owner's equity → debit.
   b. Bank $2 350 Dr
4.
   b. Consulting fees revenue $8 800 Cr. c. Wages $2 200 Dr
5.
   b. Loan – Westpac $20 000 Cr. c. Bank $5 000 Dr
6.
   a. Bank $13 200 Dr
7. Bank $28 500 Dr
8. Capital $15 500 Cr; Bank $5 700 Dr
9. See solutions (Bank would show $24 700 Dr; Loan – Suncorp $9 000 Cr)
10. Bank $25 640 Dr; Fees revenue $12 600 Cr
11. See solutions
12. Loan – CBA $34 000 Cr; Bank $9 000 Dr
13. Bank $10 900 Dr
14. Bank $14 000 Dr; Capital $14 000 Cr
15. Bank $18 300 Dr
16. See solutions
17. See solutions
18. Bank $41 400 Dr; Capital $50 000 Cr; Service revenue $18 000 Cr; Wages $6 400 Dr; total debits = total credits = $124 600

Fully-worked solutions

Question 1

a. **1 Apr:** Dr **Bank** (asset) $18 000; Cr **Capital** (owner's equity) $18 000. **4 Apr:** Dr **Trailer** (asset) $5 000; Cr **Bank** (asset) $5 000. **9 Apr:** Dr **Fuel** (expense) $600; Cr **Bank** (asset) $600.

b, c.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr	Capital	18 000	4 Apr	Trailer	5 000
			9 Apr	Fuel	600

Total debits $18 000 − total credits $5 600 = **balance $12 400 Dr**.

Question 2

a. **1 May:** Dr Bank; Cr Capital. **2 May:** Dr Bank; Cr Loan – Bendigo. **4 May:** Dr Studio equipment; Cr Bank.

Transaction	Assets	Liabilities	Owner's equity
Owner contributed $22 000 cash	+22 000 (Bank)	–	+22 000 (Capital)
Borrowed $8 000 cash	+8 000 (Bank)	+8 000 (Loan – Bendigo)	–

Transaction	Assets	Liabilities	Owner's equity
Bought equipment $12 000 cash	+12 000 (Studio equipment) −12 000 (Bank)	–	–

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	22 000	4 May	Studio equipment	12 000
2 May	Loan – Bendigo	8 000			

Balance = $30 000 − $12 000 = **$18 000 Dr**.

Question 3

a. A **revenue increases owner's equity**, so it is recorded as a **credit**; an **expense decreases owner's equity**, so it is recorded as a **debit**. Bank is debited when cash is received and credited when cash is paid.

b, c.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Jun	Photography revenue	4 500	5 Jun	Rent expense	1 800
			8 Jun	Electricity	350

Balance = $4 500 − $2 150 = **$2 350 Dr**.

Question 4

a. **1 Aug:** Dr Bank; Cr Consulting fees revenue. **4 Aug:** Dr Wages; Cr Bank. **7 Aug:** Dr Bank; Cr Consulting fees revenue. **11 Aug:** Dr Rent expense; Cr Bank.

Consulting fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Aug	Bank	5 000
			7 Aug	Bank	3 800

Balance = **$8 800 Cr**.

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Aug	Bank	2 200			

Balance = **$2 200 Dr**.

Question 5

a. **1 Sep:** Dr Bank; Cr Capital. **2 Sep:** Dr Bank; Cr Loan – Westpac. **5 Sep:** Dr Motor vehicle; Cr Bank. **28 Sep:** Dr Loan – Westpac; Cr Bank.

Loan – Westpac

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Sep	Bank	5 000	2 Sep	Bank	25 000

Balance = $25 000 − $5 000 = **$20 000 Cr**.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	40 000	5 Sep	Motor vehicle	55 000
2 Sep	Loan – Westpac	25 000	28 Sep	Loan – Westpac	5 000

Balance = $65 000 − $60 000 = **$5 000 Dr**.

Question 6

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	12 000	3 Oct	Rent expense	900
9 Oct	Fees revenue	2 100			

Balance = $14 100 − $900 = **$13 200 Dr**.

b. The balance represents the **amount of cash the business currently holds** ($13 200) at 9 October. Because it is a **debit balance**, it shows a positive asset — the cash available in the bank account.

c. Under **double-entry recording**, every transaction is recorded with **equal total debits and credits**, because each transaction has two equal and opposite effects — one recorded as a debit and one as a credit. Adding the entries in **every** account affected, the three transactions produce debits of Bank $12 000 + Rent expense $900 + Bank $2 100 = **$15 000** and credits of Capital $12 000 + Bank $900 + Fees revenue $2 100 = **$15 000**.

Question 7

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Mar	Capital	35 000	3 Mar	Equipment	9 000
12 Mar	Fees revenue	6 400	6 Mar	Advertising	1 100
			20 Mar	Wages	2 800

Total debits $41 400 − total credits $12 900 = **balance $28 500 Dr**.

Question 8

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Apr	Bank	8 000
			1 Apr	Trailer	7 500

Balance = **$15 500 Cr**.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr	Capital	8 000	4 Apr	Tools	2 300

Balance = $8 000 − $2 300 = **$5 700 Dr**.

For the owner's contribution, the total debits (Bank $8 000 + Trailer $7 500 = $15 500) equal the total credit to Capital ($15 500), so double-entry holds.

Question 9

Transaction	Debit	Credit	Effect on the accounting equation
Owner contributed $30 000 cash	Bank	Capital	A +30 000, OE +30 000
Borrowed $10 000 cash	Bank	Loan – Suncorp	A +10 000, L +10 000
Bought kayaks $16 000 cash	Kayaks	Bank	A +16 000 and −16 000 (no net change)
Received $4 200 tour fees	Bank	Tour fees revenue	A +4 200, OE +4 200
Paid $2 500 wages	Wages	Bank	A −2 500, OE −2 500
Repaid $1 000 of loan	Loan – Suncorp	Bank	A −1 000, L −1 000

Question 10

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	20 000	2 Jun	Office equipment	4 800
5 Jun	Fees revenue	7 500	9 Jun	Internet	260
15 Jun	Fees revenue	5 100	22 Jun	Rent expense	1 900

Balance = $32 600 − $6 960 = **$25 640 Dr**.

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			5 Jun	Bank	7 500
			15 Jun	Bank	5 100

Balance = **$12 600 Cr**.

Question 11

Account	Element	Normal balance
Bank	Asset	Debit
Capital	Owner’s equity	Credit
Loan – ANZ	Liability	Credit
Equipment	Asset	Debit
Rent expense	Expense	Debit
Fees revenue	Revenue	Credit
Motor vehicle	Asset	Debit
Wages	Expense	Debit
Advertising	Expense	Debit

Question 12

Loan – CBA

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 May	Bank	3 000	3 May	Bank	40 000
30 May	Bank	3 000			

Balance = $40 000 − $6 000 = **$34 000 Cr**.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	60 000	6 May	Plant & equipment	85 000
3 May	Loan – CBA	40 000	18 May	Loan – CBA	3 000
			30 May	Loan – CBA	3 000

Balance = $100 000 − $91 000 = **$9 000 Dr**.

Question 13

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	16 000	4 Jul	Motor vehicle	19 000
2 Jul	Loan – Bendigo	12 000	25 Jul	Wages	1 500
10 Jul	Fees revenue	3 400			

Balance = $31 400 − $20 500 = **$10 900 Dr**.

The balance is the **cash the business holds at 25 July**. It is a **debit balance** because the total debits (cash received: contribution, loan and fees) exceed the total credits (cash paid: the vehicle and wages); Bank is an asset, and an asset's normal balance is a debit balance.

Question 14

Double-entry recording means that every transaction is recorded in **at least two accounts**, with the **total amount debited equal to the total amount credited**. Each transaction has two equal and opposite effects, so recording one as a debit and the other as a credit keeps the accounting equation in balance. For example, the owner's contribution increases the asset Bank (a debit) and increases owner's equity through Capital (a credit) by the same $14 000:

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Capital	14 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Aug	Bank	14 000

Question 15

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	45 000	2 Sep	Veterinary equipment	13 000
12 Sep	Consultation fees revenue	8 900	3 Sep	Insurance	2 100
28 Sep	Consultation fees revenue	6 500	20 Sep	Motor vehicle	27 000

Balance = $60 400 − $42 100 = **$18 300 Dr**.

Veterinary equipment

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

Motor vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Sep	Bank	27 000			

Question 16

Transaction	Assets	Liabilities	Owner's equity
Owner contributed $28 000 cash	+28 000 (Bank)	–	+28 000 (Capital)
Borrowed $9 000 cash	+9 000 (Bank)	+9 000 (Loan – ANZ)	–
Bought equipment $6 000 cash	+6 000 (Equipment) −6 000 (Bank)	–	–
Received $3 300 fees	+3 300 (Bank)	–	+3 300 (revenue)
Paid $1 200 insurance	−1 200 (Bank)	–	−1 200 (expense)

Question 17

The accounting equation is **Assets = Liabilities + Owner's equity**. Assets sit on the **left** of the equation, so an asset **increases on the left (debit)** side of its account; liabilities and owner's equity sit on the **right**, so they **increase on the right (credit)** side. Recording an increase in an asset as a debit and an increase in a liability or owner's equity as a credit keeps the two sides of the equation equal after every transaction. **Revenues** increase owner's equity, so they are credited like owner's equity; **expenses** decrease owner's equity, so they are recorded on the opposite (debit) side. This is why, for every transaction, the total debits equal the total credits.

Question 18

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov	Capital	50 000	3 Nov	Equipment	11 000
2 Nov	Loan – Suncorp	15 000	4 Nov	Motor vehicle	22 000
10 Nov	Service revenue	9 400	14 Nov	Wages	3 200
22 Nov	Service revenue	8 600	18 Nov	Advertising	700
			28 Nov	Wages	3 200
			30 Nov	Loan – Suncorp	1 500

Balance = $83 000 − $41 600 = **$41 400 Dr**.

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Nov	Bank	50 000

Balance = **$50 000 Cr**.

Service revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Nov	Bank	9 400

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			22 Nov	Bank	8 600

Balance = **$18 000 Cr**.

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Nov	Bank	3 200			
28 Nov	Bank	3 200			

Balance = **$6 400 Dr**.

Across every account for the month, the **total debits recorded = $124 600** and the **total credits recorded = $124 600**, confirming that double-entry has been applied to each transaction.

Chapter 3 The General Ledger — 3B Recording revenues, expenses and specific transactions

Theory

Every transaction a business enters is recorded in the **General Ledger** — the complete set of **T-form accounts**, one for each item the business needs to keep track of. Section 3A established the two rules that govern every entry:

- each transaction is recorded in **at least two accounts** (**double entry**), and
- the **total debits equal the total credits** for every transaction.

The **left** side of a T-account is the **debit** side; the **right** side is the **credit** side. Every entry carries a **cross-reference** — the name of the *other* account in the same transaction — so a reader can trace both halves of the entry. This section applies those rules to the transactions of a **service business**: earning **revenue**, incurring **expenses**, and a set of **specific transactions** (the owner's contributions, drawings, loans, and the cash purchase of a non-current asset). Because this chapter comes **before** the GST and source documents, every transaction here is **cash-based and GST-free** — the foundational double entry on which the later chapters build.

Which side? The rules restated. Whether an entry is a debit or a credit depends on the **element** of the account and on whether that element is increasing or decreasing:

Element	Increased by a	Decreased by a	Normal balance
Asset	debit	credit	debit
Liability	credit	debit	credit
Owner's equity — Capital	credit	debit	credit
Owner's equity — Drawings	debit	credit	debit
Revenue	credit	debit	credit
Expense	debit	credit	debit

An asset such as **Bank** is *debited* when cash is received and *credited* when cash is paid. Because **every transaction in this chapter is settled in cash**, **Bank is the account through which nearly every transaction flows** — appearing on one side of almost every entry. (A service business may also trade on credit; once credit transactions are introduced, many entries will not touch Bank at all.)

Recording revenue. Revenues are **increases in assets or decreases in liabilities that result in increases in owner's equity, other than those relating to contributions from the owner**. When a service business earns fees in cash, two things happen: the asset **Bank increases** (a debit) and **revenue increases** (a credit). Receiving $2 400 cash for services performed is recorded as a **debit to Bank $2 400** (cross-referenced to the revenue account) and a **credit to Fees revenue $2 400** (cross-referenced to Bank). On the accounting equation, assets rise by $2 400 and owner's equity rises by $2 400, so the identity **A = L + OE** still holds. The exclusion matters: cash put in by the owner also increases assets and owner's equity, but it is a **contribution from the owner**, so it is credited to **Capital**, not to a revenue account.

Recording expenses. Expenses are **decreases in assets or increases in liabilities, other than those relating to distributions to the owner, that result in a decrease in owner's equity**. Paying an expense in cash **decreases Bank** (a credit) and **increases the expense** (a debit). Paying $1 200 rent in cash is recorded as a **debit to Rent expense $1 200** and a **credit to Bank $1 200**; assets fall by $1 200 and owner's equity falls by $1 200. Each expense is recorded in its **own named account** — Wages, Rent expense, Advertising, Electricity, Interest expense, and so on — so the business can report the cost of each activity separately. Here too the exclusion matters: cash taken by the owner also decreases assets and owner's equity, but it is a **distribution to the owner**, so it is debited to **Drawings**, not to an expense account.

How revenues and expenses reach owner's equity. Revenue and expense accounts are, in effect, *temporary* subdivisions of owner's equity: revenues **increase** it and expenses **decrease** it. Over a period the difference between them is **profit** (when revenue exceeds expenses) or a **loss** — and profit is the amount by which owner's equity grows through trading. (The transfer of these balances into the owner's Capital is performed later, when the ledger is closed at the end of the period.)

Specific transactions. Four further transactions of a service business are recorded directly in the ledger:

- **Owner's capital contribution — cash.** The owner deposits their own money into the business: **debit Bank**, **credit Capital**. Assets and owner's equity both increase. Capital is an owner's-equity account with a **credit** balance.
- **Owner's capital contribution — a non-cash asset.** The owner may instead contribute an asset such as a **vehicle** at its **fair value** — what the asset is worth at the date it is contributed, not what the owner originally paid for it: **debit the asset** (e.g. Vehicle), **credit Capital**. No cash changes hands, so **Bank is not affected** — the asset that increases is the vehicle. Assets and owner's equity both rise by the fair value.
- **Owner's drawings.** When the owner withdraws cash for private use: **debit Drawings**, **credit Bank**. Drawings is a **negative** owner's-equity account (a **debit** balance): it *reduces* owner's equity but is kept separate from Capital and from the expenses, because it is a **distribution to the owner** — the very thing the definition of an expense excludes — and not a cost of running the business.
- **Loan — received and repaid.** Borrowing increases cash and creates a **liability**: **debit Bank**, **credit Loan – [lender]**. Repaying **principal** reverses this: **debit Loan – [lender]**, **credit Bank** — assets and liabilities both fall and **owner's equity is unchanged**. Any **interest** charged on the loan is a separate **expense** (debit Interest expense, credit Bank): it is the cost of borrowing, not a repayment of the amount borrowed.
- **Cash purchase of a non-current asset.** Buying equipment, a vehicle or office furniture for cash **debits the asset** and **credits Bank**. One asset rises and another falls by the same amount, so **total assets do not change**, and neither liabilities nor owner's equity are affected.

Worked model. *Marlowe Mowing* (owner J. Marlowe) begins trading in July 2025 with three transactions: on 1 July the owner contributes $18 000 cash as capital; on 4 July the business pays $1 200 rent in cash; on 9 July it receives $2 400 cash for mowing fees. The four accounts affected are:

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	18 000	4 Jul	Rent expense	1 200
9 Jul	Fees revenue	2 400			

Capital

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

Fees revenue

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

Rent expense

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

The **Bank** account is debited for the two cash inflows and credited for the one cash outflow; each entry is cross-referenced to the account holding the other half of the transaction. Owner's equity has been affected in three different ways — a **contribution** (Capital), a **revenue** (Fees revenue) and an **expense** (Rent expense) — each kept in its own account.

Worked examples (scaffolded)

Example 1 — recording cash revenue and expenses

Brightpath Tutoring had the following cash transactions in August 2025: 2 Aug received $3 600 tutoring fees; 6 Aug paid wages $1 400; 13 Aug paid rent $900; 20 Aug paid advertising $350; 27 Aug received $2 800 tutoring fees. Record these transactions in the General Ledger.

Working	Comment
2 Aug: debit Bank $3 600; credit Fees revenue $3 600.	Cash received for services — the asset Bank increases (debit) and revenue increases (credit). Assets and owner's equity each rise by $3 600.
6 Aug: debit Wages $1 400; credit Bank $1 400.	An expense paid in cash — the expense increases (debit) and Bank decreases (credit). Assets and owner's equity each fall by $1 400.
13 Aug: debit Rent expense $900; credit Bank $900.	Each expense has its own account so its cost can be reported separately.
20 Aug: debit Advertising $350; credit Bank $350.	Same pattern; the cross-reference in Bank names the expense account.
27 Aug: debit Bank $2 800; credit Fees revenue $2 800.	A second fee receipt is posted to the *same* Fees revenue account.
Total revenue = $6 400; total expenses = $2 650.	The month's revenues and expenses together **increase owner's equity by $3 750** — a profit.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Aug	Fees revenue	3 600	6 Aug	Wages	1 400
27 Aug	Fees revenue	2 800	13 Aug	Rent expense	900
			20 Aug	Advertising	350

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Aug	Bank	3 600
			27 Aug	Bank	2 800

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Aug	Bank	1 400			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
13 Aug	Bank	900			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Aug	Bank	350			

Example 2 — recording specific transactions

Delacroix Detailing (owner P. Delacroix) began operating in October 2025 with the following transactions: 1 Oct the owner contributed $12 000 cash as capital; 1 Oct the owner also contributed a vehicle at a fair value of $9 000 as capital; 3 Oct the business borrowed $15 000 from Westpac, deposited to its bank account; 5 Oct it purchased equipment for $6 500 cash; 18 Oct the owner withdrew $700 cash for private use; 31 Oct the business repaid $1 000 of the loan principal in cash. Record these transactions in the General Ledger.

Working	Comment
1 Oct (cash): debit Bank $12 000; credit Capital $12 000.	Owner deposits cash — assets and owner's equity each rise by $12 000. Capital has a credit balance.
1 Oct (vehicle): debit Vehicle $9 000; credit Capital $9 000.	A non-cash contribution at fair value — the asset **Vehicle** increases (not Bank); owner's equity rises $9 000.
3 Oct (loan): debit Bank $15 000; credit Loan – Westpac $15 000.	Borrowing — assets and *liabilities* each rise by $15 000; owner's equity is unchanged.
5 Oct (equipment): debit Equipment $6 500; credit Bank $6 500.	One asset increases and another decreases, so total assets do not change.
18 Oct (drawings): debit Drawings $700; credit Bank $700.	Owner takes cash for private use — assets and owner's equity each fall by $700. Drawings has a debit balance.
31 Oct (repay loan): debit Loan – Westpac $1 000; credit Bank $1 000.	Repaying principal — assets and liabilities each fall by $1 000; owner's equity is unchanged.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	12 000	5 Oct	Equipment	6 500
3 Oct	Loan – Westpac	15 000	18 Oct	Drawings	700
			31 Oct	Loan – Westpac	1 000

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	12 000
			1 Oct	Vehicle	9 000

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	9 000			

Loan – Westpac

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Oct	Bank	1 000	3 Oct	Bank	15 000

Equipment

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

Drawings

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

The **Capital** account now carries two credits — $12 000 (Bank) and $9 000 (Vehicle) — a total capital contribution of $21 000, even though only $12 000 of it was cash.

Worked examples (unscaffolded)

Example 3 — establishing a business with a non-cash contribution and a loan

Ridgeway Removals is established by owner M. Ridgeway in September 2025. On 1 September the owner contributes $8 000 cash and a truck at a fair value of $22 000 as capital; on 2 September the business borrows $10 000 from NAB, deposited to its bank account; on 4 September it buys office furniture for $2 400 cash. Record these transactions and state the total capital contributed by the owner.

The two contributions on 1 September are debited to Bank ($8 000) and to Vehicle ($22 000), each credited to Capital. The loan is debited to Bank and credited to Loan – NAB. The furniture is debited to Office furniture and credited to Bank.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	8 000	4 Sep	Office furniture	2 400
2 Sep	Loan – NAB	10 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Sep	Bank	8 000
			1 Sep	Vehicle	22 000

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Sep	Capital	22 000			

Loan – NAB

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

Office furniture

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

∴ the owner contributed capital of $8 000 + $22 000 = **$30 000**. This differs from the cash in the Bank: only $8 000 of the capital was cash (the other $22 000 was the truck), and a further $10 000 of the Bank balance came from the NAB loan — a **liability**, not owner's equity.

Example 4 — revenue, expenses and drawings in one period

Fenwick Fitness recorded these cash transactions in November 2025: 5 Nov received $4 200 membership fees; 9 Nov paid wages $1 600; 14 Nov paid electricity $480; 21 Nov paid $250 interest on its loan; 28 Nov the owner withdrew $900 cash for private use. Record these transactions and state the overall effect on owner's equity.

The fees are credited to Fees revenue; wages, electricity and interest are each debited to their own expense account; the drawings are debited to Drawings; Bank is on the other side of every entry.

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Nov	Fees revenue	4 200	9 Nov	Wages	1 600
			14 Nov	Electricity	480
			21 Nov	Interest expense	250
			28 Nov	Drawings	900

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			5 Nov	Bank	4 200

Wages

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

Electricity

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
14 Nov	Bank	480			

Interest expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Nov	Bank	250			

Drawings

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

The expenses total $1 600 + $480 + $250 = $2 330, so trading produced a **profit of $4 200 − $2 330 = $1 870**, which *increases* owner's equity. The $900 of drawings *decreases* owner's equity but is **not** an expense. ∴ the overall effect is that owner's equity **increases by $1 870 − $900 = $970**.

Practice questions — scaffolded

Question 1

Harborview Gardening received the following cash amounts for garden-maintenance fees in March 2025: 3 March $1 900; 17 March $2 300.

a. Record these transactions in the Bank account and the Fees revenue account.
b. State the cross-reference used in the Bank account for the entry on 3 March.
c. State the total revenue earned and its effect on owner's equity.

Question 2

Otway Plumbing paid the following expenses in cash during April 2025: 4 April wages $2 100; 12 April rent $1 350; 26 April advertising $480.

a. Record these transactions in the Bank account and the relevant expense accounts.
b. State which side of each expense account the amount is recorded on, and explain why in one sentence.
c. State the total expenses and their effect on owner's equity.

Question 3

Sable Signwriting (owner K. Sable) had these transactions in May 2025: 1 May the owner contributed $14 000 cash as capital; 20 May the owner withdrew $600 cash for private use.

a. Record these transactions in the Bank, Capital and Drawings accounts.
b. State the effect of the 1 May transaction on the accounting equation.
c. State the effect of the 20 May transaction on the accounting equation.

Question 4

Trellis Landscaping (owner D. Trellis) began trading on 1 June 2025, when the owner contributed $16 000 cash and a trailer at a fair value of $5 500 as capital.

a. Record the contribution in the Bank, Trailer and Capital accounts.

b. State the effect of the trailer contribution on the accounting equation.

c. Explain, in one sentence, why the trailer contribution does not affect the Bank account.

Question 5

Merrilees Mechanical had these loan transactions: on 2 July 2025 it borrowed $20 000 from Bendigo Bank, deposited to its bank account; on 30 July 2025 it repaid $1 500 of the loan principal in cash.

a. Record these transactions in the Bank and Loan – Bendigo Bank accounts.

b. State the effect of the 2 July transaction on the accounting equation.

c. State the effect of the 30 July transaction on the accounting equation.

Question 6

On 8 August 2025 *Coldstream Catering* purchased a commercial oven (equipment) for $7 800 cash.

a. Record this transaction in the Bank and Equipment accounts.

b. State the effect of this transaction on the accounting equation.

c. Explain, in one sentence, why the total assets of the business do not change as a result of this transaction.

Practice questions — unscaffolded

Question 7

Vermont Vets received $3 100 cash for consultation fees on 6 February 2025 and $2 650 cash for consultation fees on 20 February 2025. Record these transactions in the Bank and Fees revenue accounts, and state the total revenue earned.

Question 8

Kalinda Cleaning paid the following expenses in cash during March 2025: 3 March wages $2 500; 10 March rent $1 100; 17 March advertising $300; 24 March telephone $185; 28 March electricity $220. Record these transactions in the Bank account and each expense account, and state the total expenses for the month.

Question 9

On 1 April 2025 the owner of *Pinnacle Painting*, R. Pinnacle, contributed $25 000 cash as capital. Record this transaction in the Bank and Capital accounts, and state its effect on the accounting equation.

Question 10

On 1 May 2025 the owner of *Grampians Guiding*, S. Grampian, contributed $6 000 cash and a four-wheel-drive vehicle at a fair value of $28 000 as capital. Record the contribution in the Bank, Vehicle and Capital accounts, and state the total capital contributed.

Question 11

During June 2025 the owner of *Aldgate Accounting Services* withdrew cash for private use on two occasions: 9 June $800 and 23 June $1 200. Record these transactions in the Bank and Drawings accounts, and state the total drawings and their effect on owner's equity.

Question 12

On 4 July 2025 *Bellarine Boating* borrowed $35 000 from Commonwealth Bank, which was deposited into its bank account. Record this transaction in the Bank and Loan – Commonwealth Bank accounts, and state its effect on the accounting equation.

Question 13

Strathmore Freight owes a loan to ANZ. On 15 August 2025 it repaid $3 000 of the loan principal in cash, and on 29 August 2025 it paid $400 interest on the loan in cash. Record these transactions in the Bank, Loan – ANZ and Interest expense accounts, and state the effect of **each** transaction on the accounting equation.

Question 14

On 10 September 2025 *Yarrawonga Yoga* purchased studio equipment for $9 400 cash. Record this transaction in the Bank and Equipment accounts, and state its effect on the accounting equation.

Question 15

Explain, using the definitions of **revenue** and **expense**, how earning revenue and incurring an expense each affect owner's equity. Refer to one example of each drawn from a service business.

Question 16

For each of the following independent transactions of *Redgum Removals*, state the effect on **Assets**, **Liabilities** and **Owner's equity** (the direction and the amount):

i. the owner contributed $10 000 cash as capital;

ii. the business purchased a trailer for $4 500 cash;

iii. the business borrowed $8 000 from a bank;

iv. the business paid wages of $1 300 in cash;

v. the owner withdrew $500 cash for private use;

vi. the business received $2 700 cash for removal fees.

Question 17

Nolan's Notary Services was established by owner T. Nolan in October 2025. Record all of the following in the appropriate T-form General Ledger accounts:

- 1 Oct: T. Nolan contributed $13 000 cash and office furniture at a fair value of $4 000 as capital;
- 2 Oct: borrowed $9 000 from Suncorp, deposited to the business bank account;
- 4 Oct: purchased a computer (equipment) for $3 200 cash;
- 11 Oct: received $2 900 cash for service fees;
- 18 Oct: paid rent $1 100 cash;
- 25 Oct: paid wages $1 600 cash;
- 30 Oct: the owner withdrew $700 cash for private use.

Question 18

Both a capital contribution of cash and a loan received are recorded as a debit to the Bank account. Distinguish between the two transactions by reference to the **classification** of the account credited and the effect on the **accounting equation**.

Answers

1.
    b. Fees revenue. c. Total revenue $4 200; owner's equity increases by $4 200.
2.
    b. Debit side (an expense decreases owner's equity, recorded as a debit). c. Total expenses $3 930; owner's equity decreases by $3 930.
3.
    b. Assets increase $14 000 (Bank), owner's equity increases $14 000 (Capital). c. Assets decrease $600 (Bank), owner's equity decreases $600 (Drawings).
4.
    b. Assets increase $5 500 (Trailer), owner's equity increases $5 500 (Capital); total capital $21 500. c. See solutions.
5.
    b. Assets increase $20 000, liabilities increase $20 000. c. Assets decrease $1 500, liabilities decrease $1 500.
6.
    b. Assets increase $7 800 (Equipment) and decrease $7 800 (Bank); no change in total assets, liabilities or owner's equity. c. See solutions.
7. Total revenue $5 750.
8. Total expenses $4 305.
9. Assets increase $25 000 (Bank), owner's equity increases $25 000 (Capital).
10. Total capital $34 000 (Bank $6 000 + Vehicle $28 000).
11. Total drawings $2 000; owner's equity decreases by $2 000.
12. Assets increase $35 000 (Bank), liabilities increase $35 000 (Loan – Commonwealth Bank).
13. 15 Aug: assets decrease $3 000, liabilities decrease $3 000. 29 Aug: assets decrease $400, owner's equity decreases $400.
14. Assets increase $9 400 (Equipment) and decrease $9 400 (Bank); no change in total assets.
15. See solutions.
16.
    i. A +$10 000, OE +$10 000. ii. no net effect. iii. A +$8 000, L +$8 000. iv. A −$1 300, OE −$1 300. v. A −$500, OE −$500. vi. A +$2 700, OE +$2 700.
17. Capital $17 000; total cash received (Bank debits) $24 900; total cash paid (Bank credits) $6 600.
18. See solutions.

Fully-worked solutions

Question 1

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
3 Mar	Fees revenue	1 900			
17 Mar	Fees revenue	2 300			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			3 Mar	Bank	1 900
			17 Mar	Bank	2 300

b. The cross-reference is **Fees revenue** (the account holding the other half of the entry).

c. Total revenue = $1 900 + $2 300 = **$4 200**; owner's equity **increases by $4 200**.

Question 2

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			4 Apr	Wages	2 100
			12 Apr	Rent expense	1 350
			26 Apr	Advertising	480

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Apr	Bank	2 100			

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
12 Apr	Bank	1 350			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Apr	Bank	480			

b. Each expense is recorded on the **debit** side, because an expense **decreases owner's equity** and a decrease in owner's equity is recorded as a debit.

c. Total expenses = $2 100 + $1 350 + $480 = **$3 930**; owner's equity **decreases by $3 930**.

Question 3

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	14 000	20 May	Drawings	600

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 May	Bank	14 000

Drawings

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

b. Assets **increase by $14 000** (Bank) and owner's equity **increases by $14 000** (Capital).

c. Assets **decrease by $600** (Bank) and owner's equity **decreases by $600** (Drawings).

Question 4

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	16 000			

Trailer

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jun	Capital	5 500			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Jun	Bank	16 000
			1 Jun	Trailer	5 500

b. Assets **increase by $5 500** (Trailer) and owner's equity **increases by $5 500** (Capital).

c. Because the owner contributed an asset **other than cash**, no money was deposited into the business bank account — the asset that increases is the trailer, not Bank.

Question 5

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
2 Jul	Loan – Bendigo Bank	20 000	30 Jul	Loan – Bendigo Bank	1 500

Loan – Bendigo Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jul	Bank	1 500	2 Jul	Bank	20 000

b. Assets **increase by $20 000** (Bank) and liabilities **increase by $20 000** (Loan – Bendigo Bank); owner's equity is unchanged.

c. Assets **decrease by $1 500** (Bank) and liabilities **decrease by $1 500** (Loan – Bendigo Bank); owner's equity is unchanged.

Question 6

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			8 Aug	Equipment	7 800

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
8 Aug	Bank	7 800			

b. Assets **increase by $7 800** (Equipment) and **decrease by $7 800** (Bank); there is no change in total assets, liabilities or owner's equity.

c. Because one asset (Equipment) increases while another asset (Bank) decreases by the same amount, the two effects cancel and total assets are unchanged.

Question 7

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Feb	Fees revenue	3 100			
20 Feb	Fees revenue	2 650			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			6 Feb	Bank	3 100
			20 Feb	Bank	2 650

Total revenue = $3 100 + $2 650 = **$5 750**.

Question 8

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			3 Mar	Wages	2 500
			10 Mar	Rent expense	1 100
			17 Mar	Advertising	300
			24 Mar	Telephone	185
			28 Mar	Electricity	220

Wages

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

Rent expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
10 Mar	Bank	1 100			

Advertising

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
17 Mar	Bank	300			

Telephone

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
24 Mar	Bank	185			

Electricity

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
28 Mar	Bank	220			

Total expenses = $2 500 + $1 100 + $300 + $185 + $220 = **$4 305**.

Question 9

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Apr	Capital	25 000			

Capital

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

Assets **increase by $25 000** (Bank) and owner's equity **increases by $25 000** (Capital); liabilities are unchanged.

Question 10

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	6 000			

Vehicle

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 May	Capital	28 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 May	Bank	6 000
			1 May	Vehicle	28 000

Total capital = $6 000 + $28 000 = **$34 000**.

Question 11

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Jun	Drawings	800
			23 Jun	Drawings	1 200

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
9 Jun	Bank	800			
23 Jun	Bank	1 200			

Total drawings = $800 + $1 200 = **$2 000**; owner's equity **decreases by $2 000**. (Drawings reduce owner's equity but are not an expense.)

Question 12

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Jul	Loan – Commonwealth Bank	35 000			

Loan – Commonwealth Bank

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

Assets **increase by $35 000** (Bank) and liabilities **increase by $35 000** (Loan – Commonwealth Bank); owner's equity is unchanged.

Question 13

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			15 Aug	Loan – ANZ	3 000
			29 Aug	Interest expense	400

Loan – ANZ

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

Interest expense

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
29 Aug	Bank	400			

15 Aug (repayment of principal): assets **decrease by $3 000** (Bank) and liabilities **decrease by $3 000** (Loan – ANZ); owner's equity is unchanged. 29 Aug (interest): assets **decrease by $400** (Bank) and owner's equity **decreases by $400** (Interest expense); liabilities are unchanged. Interest is the **cost of borrowing** — an expense — not a repayment of the amount borrowed.

Question 14

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Sep	Equipment	9 400

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
10 Sep	Bank	9 400			

Assets **increase by $9 400** (Equipment) and **decrease by $9 400** (Bank); total assets, liabilities and owner's equity are all unchanged.

Question 15

Revenues are **increases in assets or decreases in liabilities that result in increases in owner's equity, other than those relating to contributions from the owner**. For example, when a tutoring business receives cash fees, the asset Bank increases; because that increase does not come from the owner, owner's equity increases through the Fees revenue account. **Expenses** are **decreases in assets or increases in liabilities, other than those relating to distributions to the owner, that result in a decrease in owner's equity**. For example, paying wages in cash decreases the asset Bank; because that decrease is not a distribution to the owner, owner's equity decreases through the Wages account. Over a period, the excess of revenues over expenses is **profit**, the amount by which trading increases owner's equity; an excess of expenses over revenues is a loss, which decreases it. The two exclusions are what keep the owner's own dealings out of profit: a **capital contribution** also increases assets and owner's equity but is not revenue, and **drawings** also decrease assets and owner's equity but are not an expense.

Question 16

Transaction	Assets	Liabilities	Owner's equity
i. Owner contributes $10 000 cash	increase $10 000 (Bank)	no effect	increase $10 000 (Capital)
ii. Buys trailer $4 500 cash	no net effect (Trailer +$4 500, Bank −$4 500)	no effect	no effect
iii. Borrows $8 000	increase $8 000 (Bank)	increase $8 000 (Loan)	no effect
iv. Pays wages $1 300 cash	decrease $1 300 (Bank)	no effect	decrease $1 300 (Wages)
v. Owner withdraws $500 cash	decrease $500 (Bank)	no effect	decrease $500 (Drawings)
vi. Receives $2 700 cash	increase $2 700 (Bank)	no effect	increase $2 700 (Fees

Transaction	Assets	Liabilities	Owner’s equity
fees			revenue)

Each line satisfies **A = L + OE**: for every transaction, the change in assets equals the change in liabilities plus the change in owner’s equity.

Question 17

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	13 000	4 Oct	Equipment	3 200
2 Oct	Loan – Suncorp	9 000	18 Oct	Rent expense	1 100
11 Oct	Fees revenue	2 900	25 Oct	Wages	1 600
			30 Oct	Drawings	700

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	13 000
			1 Oct	Office furniture	4 000

Office furniture

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	4 000			

Loan – Suncorp

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			2 Oct	Bank	9 000

Equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Oct	Bank	3 200			

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			11 Oct	Bank	2 900

Rent expense

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

Wages

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

Drawings

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

The **Capital** account totals \$13 000 + \$4 000 = **\$17 000**. The **Bank** account is debited for \$13 000 + \$9 000 + \$2 900 = **\$24 900** of cash received and credited for \$3 200 + \$1 100 + \$1 600 + \$700 = **\$6 600** of cash paid.

Question 18

Both transactions are recorded as a **debit to Bank**, because in each case the asset Bank increases. They differ in the account **credited**, and therefore in their effect on the accounting equation:

- A **capital contribution of cash** is credited to **Capital**, an **owner's-equity** account. Assets increase and **owner's equity** increases: the owner's claim on the business grows, and the amount does not have to be repaid.
- A **loan received** is credited to a **Loan** account, a **liability**. Assets increase and **liabilities** increase: the claim belongs to an external lender and must be repaid, usually with interest.

∴ although both increase Bank by the same mechanism, a capital contribution increases the owner's-equity side of **A = L + OE**, whereas a loan increases the liabilities side.

Chapter 3 The General Ledger — 3C The Trial Balance and balancing

Theory

At the end of a reporting period the business works out the single figure each General Ledger account contributes to its reports, and checks that the ledger as a whole still obeys the rules of double entry. Accounts whose figure belongs to the business at a *point in time* — **assets**, **liabilities** and the owner's **Capital** — are **balanced**: ruled off, and the balance brought down as the opening figure of the next period. Accounts that measure *one period only* — **revenue**, **expense** and **Drawings** accounts — are simply **totalled**, because their figures must not be carried into the next period. Setting all of those figures out in a **Trial Balance** is the bridge between *recording* transactions (sections 3A–3B) and *preparing* the accounting reports.

Balancing a General Ledger account. Balancing is the process applied to the **asset**, **liability** and **owner's equity (Capital)** accounts. Because every account is a "T" with a debit (left) side and a credit (right) side, 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 entering 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.

Revenue, expense and Drawings accounts are not balanced. These accounts measure one reporting period only, so they must never open the next period with a figure already in them: leaving this period's fees or wages in the account would mix two periods together and misstate the profit of both. They are therefore **totalled**, not ruled off with a Balance c/d and brought down as a Balance b/d — the total is the figure that goes into the Trial Balance. What becomes of those totals at the end of the period is the subject of Chapter 10: revenue and expense accounts are **closed** to the Profit and Loss Summary account, and the Drawings total is **transferred to Capital**.

The side on which an account's figure falls tells you the **type of balance** it carries, and therefore which accounting element it belongs to:

- **Debit balance — assets, expenses and drawings**. For an asset this is the side the Balance b/d sits on; for an expense or Drawings it is the side the entries accumulate on.
- **Credit balance — liabilities, owner's equity (Capital) and revenue**. For a liability or Capital this is the side the Balance b/d sits on; for revenue it is the side the entries accumulate on.

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 2025 the Bank account of **Marlin Signage** (owner R. Delgado) recorded the entries below. Total debits = $26 000 and total credits before balancing = $9 800, so the account has a **debit balance of $16 200**. Balance c/d ($16 200) 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	20 000	5 Mar	Equipment	6 500
8 Mar	Fees revenue	3 400	12 Mar	Wages	1 800
22 Mar	Fees revenue	2 600	27 Mar	Rent expense	1 500
			31 Mar	Balance c/d	16 200
		26 000			**26 000**
1 Apr	Balance b/d	16 200			

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 or totalled, 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 it falls on — for a balanced account, the side its Balance b/d sits on — 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 used to prepare 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:

- **A transaction left out of the ledger entirely** — both the debit and the credit are missing, so each column is short by the same amount and the two still agree.
- **An amount posted to the wrong account of the same type** — e.g. wages debited to the Salaries account instead of Wages. The debit and the credit are still equal.
- **An amount posted to an account of the wrong class** — e.g. buying a tool (an asset) but debiting the Repairs expense account. Debits still equal credits.
- **Two or more errors that cancel each other out** — e.g. one debit overstated by $200 while another is understated by $200, so the columns still agree.

(Bookkeeping tradition gives these four situations names — errors of *omission*, *commission* and *principle*, and *compensating* errors. Those labels are not VCE terminology, so an answer should **describe** what went wrong and explain why the columns still agree, rather than rely on a name.)

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.

Worked examples (scaffolded)

Example 1 — Balancing an asset account (debit balance)

The Bank account of Coral Coast Plumbing (owner J. Nardone) recorded the following during May 2025: a debit opening balance of $4 200 (1 May); cash fees banked of $5 600 (9 May) and $4 900 (20 May); and cash payments for wages $2 300 (6 May), rent $1 700 (14 May) and drawings $1 500 (28 May). Balance the account at 31 May and bring the balance down.

Working	Comment
Total debit side = $4 200 + $5 600 + $4 900 = **$14 700**.	Add every entry on the debit side, including the opening balance b/d.
Total credit side = $2 300 + $1 700 + $1 500 = **$5 500**.	The credit side records the cash paid out.
Debit side is larger → **debit balance** = $14 700 − $5 500 = **$9 200**.	Assets increase with debits, so Bank normally carries a debit balance.
Enter **Balance c/d $9 200** on the **credit** (smaller) side, dated 31 May; rule both sides off at **$14 700**.	The balancing figure makes the two sides equal so the account can be ruled off.
Bring the balance down as **Balance b/d $9 200** 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	4 200	6 May	Wages	2 300
9 May	Fees revenue	5 600	14 May	Rent expense	1 700
20 May	Fees revenue	4 900	28 May	Drawings	1 500
			31 May	Balance c/d	9 200
		14 700			**14 700**
1 Jun	Balance b/d	9 200			

Example 2 — Balancing a liability account (credit balance)

Barwon Boat Hire has a loan with Coastline Finance. On 1 April 2025 the Loan – Coastline Finance account had a credit balance of $30 000. On 15 April the business borrowed a further $10 000 (banked), and on 20 April it repaid $4 000 of the principal from the Bank. Balance the account at 30 April and bring the balance down.

Working	Comment
Total credit side = $30 000 + $10 000 = **$40 000**.	A loan increases on the credit side; the extra advance is cross-referenced to Bank.
Total debit side = **$4 000**.	Repaying principal reduces the loan — a debit entry, cross-referenced to Bank.
Credit side is larger → **credit balance** = $40 000 − $4 000 = **$36 000**.	Liabilities increase with credits, so a loan normally carries a credit balance.
Enter **Balance c/d $36 000** on the **debit** (smaller) side, dated 30 April; rule both sides off at **$40 000**.	The balancing figure goes on the side that is short.
Bring the balance down as **Balance b/d $36 000** on the **credit** side, dated 1 May.	b/d on the credit side confirms the loan is a liability.

Loan – Coastline Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Apr	Bank	4 000	1 Apr	Balance b/d	30 000
30 Apr	Balance c/d	36 000	15 Apr	Bank	10 000
		40 000			**40 000**
			1 May	Balance b/d	36 000

Worked examples (unscaffolded)

Example 3 — Preparing a Trial Balance

At 30 June 2025 the balanced General Ledger of Jindera Earthworks (owner M. Falzon) showed: Bank $22 400, Office equipment $18 000, Motor vehicle $32 000, Loan – Bendfield Bank $25 000, Capital $45 000, Drawings $9 000, Fees revenue $38 600, Wages $14 200, Rent expense $8 400, Fuel expense $3 600 and Advertising $1 000. Prepare the Trial Balance as at 30 June 2025.

Each figure 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 Jindera Earthworks as at 30 June 2025

Account	Debit $	Credit $
Bank	22 400	
Office equipment	18 000	
Motor vehicle	32 000	
Loan – Bendfield Bank		25 000

Account	Debit $	Credit $
Capital		45 000
Drawings	9 000	
Fees revenue		38 600
Wages	14 200	
Rent expense	8 400	
Fuel expense	3 600	
Advertising	1 000	
Total	**108 600**	**108 600**

∴ total debits = total credits = $108 600, so the ledger is arithmetically consistent.

Example 4 — an error a Trial Balance will not detect

On 12 June 2025 Delta Auto Electrics paid $800 cash for a diagnostic tool (a non-current asset). The bookkeeper debited the Repairs expense account $800 and credited Bank $800, instead of debiting the Tools & equipment asset account. Explain whether the Trial Balance prepared at 30 June will still balance, and explain the effect the error has on the reports.

The entry recorded an equal debit ($800) and credit ($800), so the debit column total and the credit column total are each unchanged in size — the Trial Balance will still balance. But the $800 has been posted to an account of the **wrong class**: an expense (Repairs) instead of an asset (Tools & equipment). Expenses are overstated by $800 (so profit is understated by $800) and assets are understated by $800, yet debits still equal credits.

∴ the Trial Balance still balances, so it cannot reveal an amount posted to an account of the wrong class.

Practice questions — scaffolded

Question 1

During July 2025 the Bank account of Tallara Tiling (owner K. Osei) recorded: a debit opening balance of $3 100 (1 July); cash fees banked of $4 200 (10 July) and $3 700 (24 July); and cash payments for wages $2 100 (7 July), rent $1 400 (18 July) and drawings $900 (30 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 – Harcourt Finance account of Riverton Freight had a credit balance of $40 000 on 1 August 2025. On 12 August the business received a further advance of $8 000 (banked); on 25 August it repaid $5 000 of the principal from the Bank.

a. Balance the Loan – Harcourt Finance 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 – Metro Bank, Capital, Wages and Fees 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 assets and expenses both carry a debit balance.

Question 4

At 31 May 2025 the balanced ledger of Cobram Cabinets (owner D. Marchetti) showed: Bank $16 200, Equipment $15 000, Delivery van $22 000, Capital $30 000, Loan – Goulburn Finance $18 000, Drawings $6 000, Fees revenue $27 400, Wages $9 800, Rent expense $4 800 and Electricity $1 600.

a. Prepare the Trial Balance as at 31 May 2025.

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 Yarra Bend Signs at 30 April 2025 lists every balance except Capital: Bank $7 300, Equipment $12 500, Motor vehicle $26 000, Drawings $5 500, Wages $11 200, Rent expense $6 000, Advertising $2 500, Loan – Yarrowee Finance $20 000 and Fees revenue $33 500.

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 explain why (or explain how the Trial Balance would reveal the error):

a. A $700 cash payment for rent was not recorded anywhere in the ledger.

b. $2 000 paid for new equipment (an asset) was debited to the Repairs expense account.

c. A $540 wages payment was debited to Wages but credited to Bank as $450.

Practice questions — unscaffolded

Question 7

During September 2025 the Bank account of Nhill Nurseries (owner S. Petrakis) recorded: a debit opening balance of $5 400 (1 Sep); cash fees banked of $6 800 (11 Sep) and $5 100 (23 Sep); and cash payments for wages $3 200 (8 Sep), rent $2 000 (19 Sep) and drawings $1 600 (29 Sep). Balance the account at 30 September and bring the balance down.

Question 8

The Wages account of Boort Bakehouse recorded three cash payments during the quarter ended 30 September 2025: $3 400 (6 July), $3 600 (4 August) and $3 700 (5 September). Total the Wages account at 30 September, state the amount that will be listed in the Trial Balance and the column it appears in, and explain why this account is *not* ruled off with a Balance c/d and a Balance b/d.

Question 9

The Capital account of Sunraysia Solar (owner P. Cussen) had a credit balance of $50 000 on 1 January 2025. On 1 March the owner contributed a further $15 000 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 2025 the Fees revenue account of Gippsland Glazing recorded cash fees of $4 500 (9 July), $5 200 (2 August) and $4 800 (27 August). Total the account at 31 August, state the amount and the Trial Balance column in which it appears, and state what will happen to this account once the Trial Balance has been prepared.

Question 11

The Drawings account of Warrnambool Welding (owner T. Kovac) recorded cash withdrawals by the owner of $1 200 (10 June), $1 500 (14 July) and $1 300 (20 August). Total the Drawings account at 31 August, state the amount and the Trial Balance column in which it appears, and explain why no opening balance is brought down in this account on 1 September.

Question 12

The Loan – Campaspe Finance account of Echuca Excavations had a credit balance of $60 000 on 1 October 2025. During October the business repaid $7 000 (9 Oct) and $3 000 (28 Oct) of principal, and received a further advance of $12 000 (14 Oct), all through the Bank. Balance the Loan – Campaspe Finance account at 31 October and bring the balance down.

Question 13

At 30 June 2025 the balanced ledger of Ballarat Bricklaying (owner N. Whitmore) showed: Bank $24 500, Tools & equipment $14 000, Motor vehicle $28 000, Drawings $7 500, Wages $16 400, Fuel expense $4 200, Rent expense $7 200, Insurance $2 100, Capital $40 000, Loan – Sovereign Finance $22 000 and Fees revenue $41 900. Prepare the Trial Balance as at 30 June 2025 and state the total.

Question 14

At 31 December 2025 the balanced ledger of Mildura Marquees (owner L. Abara) showed: Bank $11 300, Equipment $19 500, Drawings $8 000, Wages $22 600, Rent expense $9 600, Advertising $3 400, Electricity $2 200, Capital $35 000, Loan – Chaffey Finance $15 000, Fees revenue $20 600 and Commission revenue $6 000. Prepare the Trial Balance as at 31 December 2025 and state the total.

Question 15

The Trial Balance of Colac Concreting at 31 March 2025 lists every balance except the Motor vehicle: Bank $9 400, Equipment $13 000, Drawings $6 500, Wages $15 000, Rent expense $5 400, Fuel expense $3 200, Capital $28 000, Loan – Otway Finance $24 000 and Fees revenue $42 000. Calculate the missing Motor vehicle balance that makes the Trial Balance balance, and state the total of the Trial Balance.

Question 16

Horsham Handyman prepared a Trial Balance that balanced. For each of the following errors, state whether the Trial Balance would still have balanced and explain why:

a. A $650 cash payment for advertising was not recorded at all.
b. $300 paid for fuel was debited to the Motor vehicle asset account.
c. A $480 wages payment was debited to the Salaries account instead of the Wages account.
d. Rent expense was overstated by $200 and, in a separate error, Wages was understated by $200.

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

Question 17

The Trial Balance below was prepared for Swan Hill Signage at 30 June 2025, but it does not balance. Identify the error, prepare the corrected Trial Balance, and state the correct total.

Trial Balance of Swan Hill Signage as at 30 June 2025

Account	Debit $	Credit $
Bank	10 200	
Equipment	16 000	
Wages	12 800	
Rent expense	6 400	
Capital		25 000

Account	Debit $	Credit $
Loan – Murray Finance		14 000
Fees revenue		11 400
Drawings		5 000
Total	**45 400**	**55 400**

Question 18

During November 2025 Traralgon Tree Services (owner B. Halloran) recorded the following. The Bank account opened with a debit balance of $6 200 (1 Nov); cash fees of $7 400 (12 Nov) and $6 100 (26 Nov) were banked; and cash payments were made for wages $3 500 (8 Nov), a loan repayment $4 000 (18 Nov) and drawings $1 800 (30 Nov). The Loan – Latrobe Finance account opened with a credit balance of $30 000 (1 Nov); its only movement was the $4 000 repayment on 18 November. Balance both accounts at 30 November, bring both balances down, and state the balance of each account and the Trial Balance column in which it would appear.

Answers

1.
   b. Balance c/d $6 600 at 31 July c. Debit side — Bank is an asset, so it carries a debit balance
2.
   b. Balance c/d $43 000 on the debit side c. Liability — it increases on the credit side, so it settles with a credit balance
3.
   a. Bank Dr, Loan – Metro Bank Cr, Capital Cr, Wages Dr, Fees revenue Cr b. Bank asset, Loan – Metro Bank liability, Capital owner's equity, Wages expense, Fees revenue revenue
4.
   b. $75 400 in each column c. Prove only that debits equal credits (arithmetic consistency); do not prove the ledger is free of error
5.
   a. Capital $17 500 b. $71 000
6.
   a. Still balances (whole transaction missing — both debit and credit) b. Still balances (debited an expense instead of an asset, but debit = credit) c. Does not balance (debit $540 vs credit $450 — detected)
7. Balance c/d $10 500; Balance b/d $10 500 (debit side)
8. Total $10 700, Debit column
9. $65 000 credit balance (Balance b/d on the credit side)
10. Total $14 500, Credit column
11. Total $4 000, Debit column
12. $62 000 credit balance
13. Total $103 900
14. Total $76 600
15. Motor vehicle $41 500; total $94 000
16.
    a. balances (whole transaction missing) b. balances (wrong class — asset instead of expense) c. balances (wrong account of the same type) d. balances (the two $200 errors cancel) — 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 $50 400
18. Bank $10 400 (Debit column); Loan – Latrobe Finance $26 000 (Credit column)

Fully-worked solutions

Question 1

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Balance b/d	3 100	7 Jul	Wages	2 100
10 Jul	Fees revenue	4 200	18 Jul	Rent expense	1 400
24 Jul	Fees revenue	3 700	30 Jul	Drawings	900
			31 Jul	Balance c/d	6 600
		11 000			**11 000**
1 Aug	Balance b/d	6 600			

b. Balance c/d = $11 000 − $4 400 = **$6 600**, 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 – Harcourt Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
25 Aug	Bank	5 000	1 Aug	Balance b/d	40 000
31 Aug	Balance c/d	43 000	12 Aug	Bank	8 000
		48 000			**48 000**
			1 Sep	Balance b/d	43 000

b. Balance c/d = $48 000 − $5 000 = **$43 000**, 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 – Metro Bank	Credit	Liability
Capital	Credit	Owner's equity
Wages	Debit	Expense
Fees revenue	Credit	Revenue

c. Assets and expenses both **increase with a debit** entry. An **asset** is a present economic resource controlled by the business, and acquiring one is recorded as a debit. An **expense** is a decrease in assets (or an increase in liabilities), other than a distribution to the owner, that results in a decrease in owner's equity — and because owner's equity decreases on the debit side, an expense is recorded as a debit too. Since each accumulates on the debit side, each ends the period with total debits exceeding total credits, so both carry a **debit balance**.

Question 4

Trial Balance of Cobram Cabinets as at 31 May 2025

Account	Debit $	Credit $
Bank	16 200	
Equipment	15 000	
Delivery van	22 000	
Capital		30 000
Loan – Goulburn Finance		18 000
Drawings	6 000	
Fees revenue		27 400
Wages	9 800	
Rent expense	4 800	
Electricity	1 600	
Total	**75 400**	**75 400**

b. Each column totals **$75 400**.

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 — a transaction left out entirely, an amount posted to the wrong account or to an account of the wrong class, and two errors that cancel each other out would all leave the two totals equal.

Question 5

a. Total of the debit balances = $7 300 + $12 500 + $26 000 + $5 500 + $11 200 + $6 000 + $2 500 = **$71 000**. The listed credit balances = $20 000 + $33 500 = $53 500. For the Trial Balance to balance, the credit column must also total $71 000, so **Capital = $71 000 − $53 500 = $17 500**.

b. The total of the Trial Balance is **$71 000** 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 $71 000.

Question 6

a. **Still balances** — the whole transaction was left out, so an equal debit and credit are both missing and the two column totals stay equal.

b. **Still balances** — the $2 000 was debited to an account of the **wrong class**, an expense account instead of an asset account, but a debit of $2 000 was still matched by a credit of $2 000.

c. **Does not balance** — the debit ($540) and the credit ($450) are **unequal**, so the credit column will be $90 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	5 400	8 Sep	Wages	3 200
11 Sep	Fees revenue	6 800	19 Sep	Rent expense	2 000
23 Sep	Fees revenue	5 100	29 Sep	Drawings	1 600
			30 Sep	Balance c/d	10 500
		17 300			**17 300**
1 Oct	Balance b/d	10 500			

Balance c/d = $17 300 − $6 800 = **$10 500** (a debit balance).

Question 8

Wages

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Jul	Bank	3 400			
4 Aug	Bank	3 600			
5 Sep	Bank	3 700			
		10 700			

Wages is an **expense**, so every entry accumulates on the debit side: the account totals $3 400 + $3 600 + $3 700 = **$10 700**, which is listed in the **Debit** column of the Trial Balance.

The account is **not** ruled off with a Balance c/d and a Balance b/d because an expense measures the resources consumed in **this** period only. Bringing $10 700 down on 1 October would make the December quarter open with wages it has not yet incurred, mixing two periods together and misstating the profit of both. Instead the total is left in the account until the ledger is closed at the end of the reporting period (Chapter 10), when it is transferred to the Profit and Loss Summary account and the Wages account is reset to nil.

Question 9

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
31 Mar	Balance c/d	65 000	1 Jan	Balance b/d	50 000

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Mar	Bank	15 000
		65 000			**65 000**
			1 Apr	Balance b/d	65 000

Capital is **owner's equity**, so the Balance b/d appears on the **credit** side — a **$65 000 credit balance**.

Question 10

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			9 Jul	Bank	4 500
			2 Aug	Bank	5 200
			27 Aug	Bank	4 800
					14 500

Fees revenue is **revenue**, so every entry accumulates on the credit side: the account totals $4 500 + $5 200 + $4 800 = **$14 500**, which is listed in the **Credit** column of the Trial Balance.

Because revenue measures the earnings of one period only, the account is **not** ruled off and brought down. Once the Trial Balance has been prepared, Fees revenue is **closed** at the end of the reporting period (Chapter 10): the $14 500 is transferred to the Profit and Loss Summary account so that it forms part of this period's profit, and the account is reset to nil ready for the next period.

Question 11

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
10 Jun	Bank	1 200			
14 Jul	Bank	1 500			
20 Aug	Bank	1 300			
		4 000			

Drawings accumulates on the **debit** side, because each withdrawal reduces owner's equity: the account totals $1 200 + $1 500 + $1 300 = **$4 000**, which is listed in the **Debit** column of the Trial Balance.

No opening balance is brought down on 1 September because Drawings, like revenue and expense accounts, records one period only. At the end of the reporting period the $4 000 is **transferred to the Capital account** (Chapter 10) — reducing the owner's equity by the amount taken — and the Drawings account starts the next period at nil. Note that drawings is a distribution to the owner, not an expense, so it is transferred straight to Capital rather than closed to the Profit and Loss Summary.

Question 12

Loan – Campaspe Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
9 Oct	Bank	7 000	1 Oct	Balance b/d	60 000
28 Oct	Bank	3 000	14 Oct	Bank	12 000
31 Oct	Balance c/d	62 000			
		72 000			**72 000**
			1 Nov	Balance b/d	62 000

Total credits $72 000 − total debits $10 000 = **$62 000 credit balance**.

Question 13

Trial Balance of Ballarat Bricklaying as at 30 June 2025

Account	Debit $	Credit $
Bank	24 500	
Tools & equipment	14 000	
Motor vehicle	28 000	
Drawings	7 500	
Wages	16 400	
Fuel expense	4 200	
Rent expense	7 200	
Insurance	2 100	
Capital		40 000
Loan – Sovereign Finance		22 000
Fees revenue		41 900
Total	**103 900**	**103 900**

The Trial Balance totals **$103 900** in each column.

Question 14

Trial Balance of Mildura Marquees as at 31 December 2025

Account	Debit $	Credit $
Bank	11 300	
Equipment	19 500	
Drawings	8 000	
Wages	22 600	
Rent expense	9 600	
Advertising	3 400	
Electricity	2 200	
Capital		35 000
Loan – Chaffey Finance		15 000
Fees revenue		20 600
Commission revenue		6 000
Total	**76 600**	**76 600**

The Trial Balance totals **$76 600** in each column.

Question 15

Total of the listed debit balances = $9 400 + $13 000 + $6 500 + $15 000 + $5 400 + $3 200 = $52 500. Total of the credit balances = $28 000 + $24 000 + $42 000 = **$94 000**. For the Trial Balance to balance, the debit column must also reach $94 000, so:

Motor vehicle = $94 000 − $52 500 = $41 500.

∴ the Trial Balance totals **$94 000** in each column.

Question 16

a. **Balances** — the whole transaction was left out, so both the $650 debit and the $650 credit are missing and each column is short by the same amount.

b. **Balances** — the $300 was posted to an account of the **wrong class**, an asset (Motor vehicle) instead of an expense (Fuel expense), but a $300 debit still matched a $300 credit.

c. **Balances** — the $480 debit went to the **wrong account of the same type**, Salaries instead of Wages, but the debit and the credit were still equal.

d. **Balances** — the two errors **cancel each other out**: the $200 overstatement of one debit is offset by the $200 understatement of another debit, so the debit column total is unchanged.

Conclusion: a Trial Balance that balances proves only that debits equal credits; it does **not** prove the ledger is free of error, because a transaction left out entirely, an amount posted to the wrong account or to an account of the wrong class, and errors that cancel each other out all leave the two column totals equal.

Question 17

The two columns differ by $55 400 − $45 400 = $10 000, which is **twice the $5 000 Drawings balance**. Drawings has a **debit** balance (it accumulates on the debit side), but it was listed in the **Credit** column. Moving the $5 000 to the Debit column removes $5 000 from the credit total and adds $5 000 to the debit total, bringing both to $50 400.

Corrected Trial Balance of Swan Hill Signage as at 30 June 2025

Account	Debit $	Credit $
Bank	10 200	
Equipment	16 000	
Drawings	5 000	
Wages	12 800	
Rent expense	6 400	
Capital		25 000
Loan – Murray Finance		14 000
Fees revenue		11 400
Total	**50 400**	**50 400**

∴ the corrected Trial Balance totals **$50 400** in each column.

Question 18

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Nov	Balance b/d	6 200	8 Nov	Wages	3 500
12 Nov	Fees revenue	7 400	18 Nov	Loan – Latrobe Finance	4 000
26 Nov	Fees revenue	6 100	30 Nov	Drawings	1 800
			30 Nov	Balance c/d	10 400
		19 700			**19 700**
1 Dec	Balance b/d	10 400			

Loan – Latrobe Finance

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Nov	Bank	4 000	1 Nov	Balance b/d	30 000
30 Nov	Balance c/d	26 000			

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
		30 000			**30 000**
			1 Dec	Balance b/d	26 000

The Bank has a **$10 400 debit balance**, which appears in the **Debit** column of the Trial Balance; Loan – Latrobe Finance has a **$26 000 credit balance**, which appears in the **Credit** column. (The $4 000 repayment on 18 November appears as a credit in the Bank account and an equal debit in the Loan – Latrobe Finance account — a check on the double entry.)

Topic 1 Test A — Recording and analysis

Reading time: 10 minutes · Writing time: 50 minutes · 50 marks · A scientific calculator may be used.

This test is cumulative over Chapters 1–3 (the role of accounting, the accounting equation and the General Ledger). All transactions are GST-free; each transaction states how it is settled.

Question 1 (13 marks)

Kestrel Landscaping (owner J. Vardan) is a garden-design and maintenance business. At 30 June 2026 the business had the following items, in no particular order: Bank $6 300; Accounts Receivable $4 700; Inventory $8 000; Prepaid insurance $1 000; Office equipment $12 000; Motor vehicle $34 000; Accounts Payable $5 500; Short-term loan – Delta Finance $4 000 (repayable within 12 months); Loan – Summit Bank $30 000 (repayable over six years). During the year the business earned a net profit of $9 500; the owner's opening capital was $25 000 and drawings for the year were $8 000.

a. Prepare a classified Balance Sheet as at 30 June 2026, showing owner's equity broken into its component parts. 8 marks

b. The owner is unsure why the Short-term loan – Delta Finance and the Loan – Summit Bank appear in different sections of the report. Explain, using the classification test, why each is classified as it is. 3 marks

c. State whether the business's assets are financed more by the owner or by outside parties, justifying your answer with figures from the report. 2 marks

Question 2 (8 marks)

A newly appointed assistant at *Harlow Physiotherapy* (owner D. Harlow) makes several suggestions while the reports are being prepared.

a. The assistant proposes recording the owner's private health-insurance premium as a business expense. Name the accounting assumption this would breach, and explain how the owner's private premium should be treated. 3 marks

b. The assistant wants to record the business's motor vehicle at the high price the owner "reckons a buyer would pay for it", rather than at the amount actually paid for it. Identify the qualitative characteristic that is threatened, and explain why. 3 marks

c. The owner asks why the business prepares reports every 12 months rather than waiting until the business is eventually wound up. Referring to the relevant assumption, explain. 2 marks

Question 3 (10 marks)

Riverstone Removals (owner T. Riverstone) began 1 May 2026 with **Bank $18 000**, a **Truck $42 000**, a **Loan – Metro Bank $16 000** and **Capital $44 000**. During May the business recorded:

- 3 May — the owner contributed a further $6 000 cash.
- 7 May — bought office equipment for $5 000 cash.
- 14 May — received $3 800 cash for removal fees.
- 20 May — paid wages $2 200 cash.
- 25 May — bought a trailer for $9 000, paying $4 000 cash and borrowing the remaining $5 000 from Metro Bank.
- 28 May — the owner withdrew $1 500 cash for private use.

a. Complete an effect-on-the-equation table (with columns Assets, Liabilities and Owner's equity) showing the effect of each of the six transactions. 6 marks

b. State the closing totals for Assets, Liabilities and Owner's equity at 31 May 2026, and confirm that A = L + OE. 3 marks

c. Identify the transaction that affected three items, and state what this shows about the twofold effect. 1 mark

Question 4 (8 marks)

At 30 June 2026 *Beacon Signworks* (owner L. Beacon) reports **Total Assets of $80 000**, **Total Liabilities of $30 000** and **Owner's Equity of $50 000**. The owner plans to acquire new printing equipment costing $20 000, and is choosing between two ways of funding it:

- **Option A** — contribute a further $20 000 of personal cash as capital, then buy the equipment for cash.
- **Option B** — borrow $20 000 from Coastline Bank (a five-year loan), then buy the equipment for cash.

a. For **each** option, calculate the Total Assets, Total Liabilities and Owner's Equity that would be reported immediately after the equipment is purchased. 4 marks

b. For **each** option, calculate the proportion of the business's assets that would be financed by outside parties (total liabilities ÷ total assets), expressed as a percentage. 2 marks

c. Recommend the option that leaves the business less reliant on outside parties, justifying your recommendation with figures. 2 marks

Question 5 (6 marks)

a. Name the three general-purpose financial reports, and state for each whether it reports over a period of time or at a single point in time. 3 marks

b. A user claims that "the Balance Sheet and the Cash Flow Statement both tell me about the business's cash, so one of them is unnecessary." Explain why this claim is incorrect, referring to what each report measures. 3 marks

Question 6 (5 marks)

Two courier businesses each report **Total Assets of $120 000** at 30 June 2026. *Northpoint Couriers* reports **Total Liabilities of $84 000**; *Southpoint Couriers* reports **Total Liabilities of $24 000**.

a. Using the accounting equation, calculate the Owner's Equity of each business. 2 marks

b. Discuss which business is in the more stable financial position, referring to how each business's assets are financed. 3 marks

Topic 1 Test A — solutions

Question 1

Balance Sheet of Kestrel Landscaping as at 30 June 2026

	$	$
Current Assets		
Bank	6 300	
Accounts Receivable	4 700	
Inventory	8 000	
Prepaid insurance	1 000	20 000
Non-Current Assets		
Office equipment	12 000	
Motor vehicle	34 000	46 000
Total Assets		66 000
Current Liabilities		
Accounts Payable	5 500	
Short-term loan – Delta Finance	4 000	9 500
Non-Current Liabilities		
Loan – Summit Bank		30 000
Total Liabilities		39 500
Owner's Equity		
Capital	25 000	
add: Net Profit	9 500	
less: Drawings	(8 000)	26 500
Total Liabilities and Owner's Equity		66 000

The report balances: Total Assets $66 000 = Total Liabilities $39 500 + Owner's Equity $26 500.

b. The classification test asks whether an obligation is expected to be settled **within the next 12 months**. The **Short-term loan – Delta Finance** is repayable within 12 months, so it is a **current liability**. The **Loan – Summit Bank** is repayable over six years — it is **not** due to be settled within the next 12 months — so it is a **non-current liability**. Both are debts owed to outside parties; they differ only in *when* they must be settled, which is what the current/non-current split reports.

c. The assets are financed **more by outside parties**: Total Liabilities are **$39 500** while Owner's Equity is only **$26 500**. Outside parties have therefore financed the larger share of the $66 000 of assets (about 60%, $39 500 ÷ $66 000), and the owner the smaller share.

Question 2

a. Recording the owner's private premium as a business expense would breach the **accounting entity** assumption, under which the records of the business are kept **separate and distinct** from the personal affairs of the owner. The private health-insurance premium is a personal cost of the owner, not a cost of running the business, so it should be **kept out of the business's records altogether**; if the business were to pay it on the owner's behalf, it would be recorded as **Drawings** (a reduction of owner's equity), not as a business expense.

b. The characteristic threatened is **faithful representation** (supported by **verifiability**). Recording the vehicle at the owner's hopeful estimate of what a buyer "might pay" is not **complete, neutral and free from material error** — it is a biased, unverifiable figure that cannot be traced to independent evidence. The vehicle should be recorded at the amount actually paid for it, which is supported by a **source document** and can be verified, and is therefore a faithful representation of the transaction.

c. Under the **period** assumption, the continuous life of the business is divided into **arbitrary periods of equal length** (here, 12 months) so that profit can be determined and reports prepared for each period. The owner does not wait until the business closes: the business "draws a line" at 30 June each year and reports on the period just ended, so that users have timely, decision-useful information about how the business is performing.

Question 3

Transaction	Assets $	Liabilities $	Owner's equity $
3 May — Bank +, Capital +	+6 000		+6 000
7 May — Office equipment +, Bank −	+5 000 − 5 000 = 0		
14 May — Bank +, Fees revenue	+3 800		+3 800
20 May — Bank −, Wages	−2 200		−2 200
25 May — Trailer +, Bank −, Loan +	+9 000 − 4 000 = +5 000	+5 000	
28 May — Bank −, Drawings	−1 500		−1 500

b. Closing balances:

- Bank = $18 000 + $6 000 − $5 000 + $3 800 − $2 200 − $4 000 − $1 500 = $15 100.
- **Assets** = Bank $15 100 + Truck $42 000 + Office equipment $5 000 + Trailer $9 000 = **$71 100**.
- **Liabilities** = Loan – Metro Bank $16 000 + $5 000 = **$21 000**.
- **Owner's equity** = Capital $44 000 + $6 000 (contribution) + $3 800 (revenue) − $2 200 (wages) − $1 500 (drawings) = **$50 100**.

A = L + OE: $71 100 = $21 000 + $50 100. ∴ the equation balances.

c. The **25 May** transaction (the trailer bought partly for cash and partly on a loan) affected **three** items. This shows that the twofold effect is a **minimum**, not a maximum — a transaction must change *at least* two items, but may change more, provided $\Delta A = \Delta L + \Delta OE$ still holds.

Question 4

a. Buying the equipment for cash swaps one asset (Bank) for another (Equipment), so on its own it leaves totals unchanged; the difference between the options is how the $20 000 is raised.

Item	Option A (capital) $	Option B (loan) $
Total Assets	100 000	100 000
Total Liabilities	30 000	50 000
Owner's Equity	70 000	50 000

- **Option A:** contributing $20 000 capital raises owner's equity by $20 000; the equipment purchase leaves total assets $20 000 higher. Total Assets **$100 000** = Total Liabilities **$30 000** + Owner's Equity **$70 000**.
- **Option B:** borrowing $20 000 raises liabilities by $20 000; the equipment purchase leaves total assets $20 000 higher. Total Assets **$100 000** = Total Liabilities **$50 000** + Owner's Equity **$50 000**.

b. Proportion financed by outside parties = total liabilities ÷ total assets:

- **Option A:** $30 000 ÷ $100 000 = **30.0%**.
- **Option B:** $50 000 ÷ $100 000 = **50.0%**.

c. **Option A** leaves the business less reliant on outside parties. Under Option A only **30%** of assets are financed by liabilities and $70 000 by the owner, whereas under Option B **50%** are financed by liabilities and only $50

000 by the owner. Option A therefore carries a smaller repayment and interest commitment and a larger owner's-equity buffer, so it leaves the business in the more stable financing position.

Question 5

a. The three general-purpose financial reports are:

- the **Income Statement —** reports revenues and expenses **over a period of time** (for the period ended a date);
- the **Balance Sheet —** reports assets, liabilities and owner's equity **at a single point in time** (as at a date);
- the **Cash Flow Statement** — reports cash inflows and outflows **over a period of time** (for the period ended a date).

b. The claim is incorrect because the two reports measure **different things**. The **Balance Sheet** shows the **Bank balance the business holds at one instant** — a single figure that is part of its financial position *as at* the reporting date. The **Cash Flow Statement** instead explains the **movement of cash over the whole period —** the inflows and outflows, classified into Operating, Investing and Financing activities, that produced the change in the Bank balance. One is a snapshot of how much cash exists at a moment; the other explains *how* and *why* the cash changed over time, so neither makes the other unnecessary.

Question 6

a. Using Owner's Equity = Assets − Liabilities:

- **Northpoint Couriers:** \$120 000 − \$84 000 = **\$36 000**.
- **Southpoint Couriers:** \$120 000 − \$24 000 = **\$96 000**.

b. **Southpoint Couriers** is in the more stable financial position. Both control \$120 000 of assets, but Northpoint has financed **\$84 000 (70%)** of its assets with liabilities and only \$36 000 with owner's equity, whereas Southpoint has financed just **\$24 000 (20%)** with liabilities and \$96 000 with owner's equity. A business funded mainly by liabilities (Northpoint) must meet larger fixed repayment and interest commitments regardless of how it trades, so it is more exposed if its cash flows or profits fall. Southpoint's much larger owner's-equity buffer means it depends far less on outside parties and is under less pressure from creditors, so it would generally be judged the more financially stable of the two.

Topic 1 Test B — Short-answer recording

Reading time: 10 minutes · Writing time: 45 minutes · 40 marks · A scientific calculator may be used.

This test is cumulative over Chapters 1–3. All transactions are GST-free and each transaction states how it is settled; record all ledger entries in the T-form General Ledger.

Question 1 (8 marks)

Cedar Court Cleaning (owner P. Cedar) began operating in July 2026 with the following cash transactions:

- 1 Jul — the owner contributed $32 000 cash as capital;
- 2 Jul — borrowed $12 000 cash from Ridgeway Bank;
- 4 Jul — bought equipment for $9 000 cash;
- 10 Jul — received $4 600 cash for cleaning fees;
- 17 Jul — paid wages $2 400 cash;
- 24 Jul — paid rent $1 500 cash;
- 30 Jul — the owner withdrew $900 cash for private use.

a. Record these seven transactions in the T-form General Ledger accounts of Cedar Court Cleaning. 6 marks

b. State the balance of the Bank account at 31 July 2026. 2 marks

Question 2 (6 marks)

The Bank account of *Halden Plumbing* recorded the following during August 2026:

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Balance b/d	5 200	7 Aug	Wages	3 100
9 Aug	Fees revenue	6 400	12 Aug	Equipment	8 000
23 Aug	Fees revenue	5 800	28 Aug	Drawings	1 300

a. Balance the Bank account at 31 August 2026 and bring the balance down at 1 September 2026. 4 marks

b. State the balance of the account and explain, in one sentence, what it represents. 2 marks

Question 3 (5 marks)

The Loan – Bayside Bank account of *Kelverton Freight* recorded the following during September 2026:

Loan – Bayside Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Sep	Bank	6 000	1 Sep	Balance b/d	40 000
			12 Sep	Bank	9 000

a. Balance the Loan account at 30 September 2026 and bring the balance down at 1 October 2026. 3 marks

b. State the balance of the account, the side on which the Balance b/d appears, and the accounting element to which the account belongs. 2 marks

Question 4 (7 marks)

At 30 June 2026 the balanced General Ledger of *Wrenfield Electrical* (owner S. Wren) showed the following account balances: Bank $19 400; Equipment $16 000; Motor vehicle $31 000; Loan – Nework Bank $18 000; Capital $42 000; Drawings $8 500; Fees revenue $48 000; Wages $20 400; Rent expense $6 800; Advertising $2 100; Insurance $3 800.

a. Prepare the Trial Balance as at 30 June 2026 and total both columns. 5 marks

b. The bookkeeper claims the equal totals prove the ledger contains no errors. State whether this is correct, and name one type of error a Trial Balance would **not** detect. 2 marks

Question 5 (6 marks)

Oakhaven Joinery was established by owner R. Oakhaven with the following transactions:

- 1 Oct 2026 — the owner contributed $15 000 cash and a delivery van at an agreed value of $28 000 as capital;
- 2 Oct 2026 — borrowed $20 000 from Crestline Bank, deposited to the business bank account;
- 4 Oct 2026 — bought tools & equipment for $7 500 cash.

a. Record the three transactions in the T-form General Ledger accounts of Oakhaven Joinery. 4 marks

b. State the total capital contributed by the owner. 1 mark

c. State the balance of the Bank account after these transactions. 1 mark

Question 6 (4 marks)

The Trial Balance of *Pinehill Signs* at 31 May 2026 lists every balance except Capital: Bank $8 200; Equipment $14 000; Motor vehicle $27 000; Drawings $6 000; Wages $13 400; Rent expense $5 600; Advertising $2 300; Loan – Harborough Bank $19 000; Fees revenue $38 000.

a. Calculate the missing Capital balance that makes the Trial Balance balance. 2 marks

b. State the total of the Trial Balance. 1 mark

c. Explain, in one sentence, the reasoning you used to find the missing figure. 1 mark

Question 7 (4 marks)

For **each** of the following independent situations at *Marloe Motors*, 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. A $500 cash payment for advertising was not recorded anywhere in the ledger. 1 mark

b. $3 000 paid for a new motor vehicle (an asset) was debited to the Repairs expense account. 1 mark

c. A $700 wages payment was debited to Wages $700 but credited to Bank as $70. 1 mark

d. A $260 payment for electricity was debited to the Telephone account instead of the Electricity account. 1 mark

Topic 1 Test B — solutions

Question 1

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Jul	Capital	32 000	4 Jul	Equipment	9 000
2 Jul	Loan – Ridgeway Bank	12 000	17 Jul	Wages	2 400
10 Jul	Fees revenue	4 600	24 Jul	Rent expense	1 500
			30 Jul	Drawings	900

Capital

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

Loan – Ridgeway Bank

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

Equipment

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

Fees revenue

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			10 Jul	Bank	4 600

Wages

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

Rent expense

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

Drawings

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
30 Jul	Bank	900			

b. The Bank account has total debits of $32 000 + $12 000 + $4 600 = $48 600 and total credits of $9 000 + $2 400 + $1 500 + $900 = $13 800, giving a **balance of $34 800 Dr** at 31 July 2026.

Question 2

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Aug	Balance b/d	5 200	7 Aug	Wages	3 100

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
9 Aug	Fees revenue	6 400	12 Aug	Equipment	8 000
23 Aug	Fees revenue	5 800	28 Aug	Drawings	1 300
			31 Aug	Balance c/d	5 000
		17 400			**17 400**
1 Sep	Balance b/d	5 000			

Balance c/d = $17 400 − $12 400 = **$5 000**, entered on the credit (smaller) side to rule the account off at $17 400.

b. The account has a **debit balance of $5 000**, which represents the amount of **cash the business holds at the bank** at 31 August 2026.

Question 3

Loan – Bayside Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Sep	Bank	6 000	1 Sep	Balance b/d	40 000
30 Sep	Balance c/d	43 000	12 Sep	Bank	9 000
		49 000			**49 000**
			1 Oct	Balance b/d	43 000

Balance c/d = $49 000 − $6 000 = **$43 000**, entered on the debit (smaller) side.

b. The account has a **credit balance of $43 000**; the Balance b/d appears on the **credit** side. The account is a **liability** (a loan), which increases on the credit side, so it settles with a credit balance.

Question 4

Trial Balance of Wrenfield Electrical as at 30 June 2026

Account	Debit $	Credit $
Bank	19 400	
Equipment	16 000	
Motor vehicle	31 000	
Loan – Nework Bank		18 000
Capital		42 000
Drawings	8 500	
Fees revenue		48 000
Wages	20 400	
Rent expense	6 800	
Advertising	2 100	
Insurance	3 800	
Total	**108 000**	**108 000**

b. The bookkeeper is **incorrect**. A balanced Trial Balance proves only that, for every entry, a debit was matched by an equal credit — it does **not** prove the ledger is free of error. It would **not** detect an **error of omission** (a whole transaction left out), and equally would not detect an error of commission, an error of principle or a set of compensating errors, because each of those leaves the two column totals equal.

Question 5

Bank

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	15 000	4 Oct	Tools & equipment	7 500
2 Oct	Loan – Crestline Bank	20 000			

Capital

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			1 Oct	Bank	15 000
			1 Oct	Delivery van	28 000

Delivery van

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
1 Oct	Capital	28 000			

Loan – Crestline Bank

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

Tools & equipment

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
4 Oct	Bank	7 500			

b. Total capital contributed = $15 000 (cash) + $28 000 (delivery van) = **$43 000**.

c. The Bank account has debits of $15 000 + $20 000 = $35 000 and a credit of $7 500, a **balance of $27 500 Dr**.

Question 6

a. The listed debit balances total $8 200 + $14 000 + $27 000 + $6 000 + $13 400 + $5 600 + $2 300 = $76 500. The listed credit balances (Loan $19 000 + Fees revenue $38 000) total $57 000. For the Trial Balance to balance, the credit column must also reach $76 500, so **Capital = $76 500 − $57 000 = $19 500**.

b. The Trial Balance totals **$76 500** 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 of $76 500.

Question 7

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

b. **Still balances** — an **error of principle**: the $3 000 was debited to an expense account (Repairs) instead of an asset account (Motor vehicle), but a $3 000 debit was still matched by a $3 000 credit.

c. **Does not balance** — the debit ($700) and the credit ($70) are **unequal**, so the credit column will be $630 short. This error **is** detected by the Trial Balance.

d. **Still balances** — an **error of commission**: the $260 debit was posted to the wrong expense account (Telephone instead of Electricity), but the debit and credit were still equal.