

**Lesson 3 – The Basics of Double Entry
Model Answers to Practice Questions**

Question 3.1

Which **one** of the following statements describes the accounting term 'capital expenditure'?

	✓
Expenditure which has only a short-term effect on the profit making capacity of a business. The business benefits from such expenditure in one accounting period	
Capital invested by the owner in the business, or monies borrowed from a bank to help set-up a business or expand it	
Expenditure which has a long-term effect on the profit making capacity of a business. It includes payments made to buy fixed asset as well as payments made to install, modify and improve fixed assets	✓

Question 3.2

Anna is the owner of a fashion boutique. Which **one** of the following is an example of revenue income to her business?

	✓
Income received by the business from sales to its customers	✓
A loan received by the business from Anna's grandmother	
Additional money transferred by Anna from her private business account into the business bank account for the purpose of expanding the business	

Question 3.3

Classify **each** of the items listed in the table below as being either an example of capital or revenue income, or capital or revenue expenditure.

Item	Income		Expenditure	
	Capital ✓	Revenue ✓	Capital ✓	Revenue ✓
Income received from the owner of a business for the purpose of expanding the business	✓			
A payment made to purchase goods for resale				✓
A payment made to purchase a machine for use in a factory			✓	
The payment for rent and rates on the business premises				✓
Income received by an accounting practice for providing accountancy services to clients		✓		
A payment made to a garage for repairs to a vehicle				✓
A payment made to purchase a delivery vehicle for use in the business			✓	
Rent received from a company by a farmer who rents them a barn as storage space		✓		

Question 3.4

On which **one** of the following accounting concepts is the system of double entry bookkeeping based?

	✓
Business entity	
Dual aspect	✓

Question 3.5

Which **one** of the following statements describes the accounting term 'liabilities'?

	✓
Items of value to a business i.e. items owned by a business or monies owed to it	
Amounts owed by a business to persons or organisations other than its owner(s)	✓
The claim of the business owner(s) on the assets of the business	

Question 3.6

Which **one** of the following is an example of a fixed asset to a business?

	✓
A vehicle owned by a business	✓
Goods for resale held in stock	
A loan from a bank	

Question 3.7

Which **one** of the following is the correct description of what is commonly referred to as the 'accounting equation'?

	✓
Fixed assets + Current assets = Liabilities	
Assets = Capital + Liabilities	✓
Liabilities = Capital + Assets	

Question 3.8

Which **one** of the following is an example of a current liability to a business?

	✓
An overdrawn balance on the business bank account	✓
An amount owed to the business by a customer to which it supplied goods on credit	
A loan from the bank repayable over 5 years	

Question 3.9

Which **one** of the following is an example of a current asset to a business?

	✓
Trade creditors	
Fixtures and fittings	
Cash on hand	✓

Question 3.10

For **each** of the **ten** transactions below state the account to be debited and the account to be credited. Enter account names under the heading of account names on the lines DR and CR. You can assume that the business to which the transactions relate is **not** registered for VAT.

Transaction 1	
Owner transferred funds from his own private bank account to a bank account opened in the name of the business for the purpose of setting up the business	
Account names	
DR	Bank account
CR	Capital account

Transaction 2	
Sold goods on credit to Pro-Qual	
Account names	
DR	Pro-Qual
CR	Sales

Transaction 3	
Paid rent on shop premises by direct debit from the business bank account	
Account names	
DR	Rent
CR	Bank

Transaction 4	
Purchased goods for resale on credit from Slater & Co	
Account names	
DR	Purchases
CR	Slater & Co

Transaction 5	
Returned goods to Slater & Co, previously purchased from them on credit	
Account names	
DR	Slater & Co
CR	Purchase Returns

Transaction 6	
Paid for repairs to delivery vehicle by cheque	
Account names	
DR	Vehicle expenses
CR	Bank

Transaction 7	
Bought item of machinery for use in business, paid by cheque	
Account names	
DR	Machinery
CR	Bank

Transaction 8	
Made a payment over the telephone using the business debit card to settle the balance on the account of Slater & Co for goods previously purchased from them on credit	
Account names	
DR	Slater & Co
CR	Bank

Transaction 9	
Goods sold on credit to Pro-Qual were found to be damaged and were returned	
Account names	
DR	Sales returns
CR	Pro-Qual

Transaction 10	
Owner of the business presented a cheque to the bank made out to cash. The cash was for personal use	
Account names	
DR	Drawings
CR	Bank

Question 3.11

For **each** of the **four** transactions below state the account to be debited and the account to be credited and the amount to be entered in each of the accounts when processing the transaction. You can assume that the business to which the transactions relate is **not** registered for VAT.

Transaction 1

Borrowed £20,000 from the bank for the purpose of expanding the business. The amount borrowed was transferred by the bank directly into the business bank account

Account to be debited	Amount £
Bank	20,000

Account to be credited	Amount £
Bank loan	20,000

Transaction 2

Presented a cheque for £100 to the bank made payable to cash. The cash was put into a petty cash box

Account to be debited	Amount £
Petty cash	100

Account to be credited	Amount £
Bank	100

Transaction 3

Made a payment of £240 from the business bank account by direct debit for gas and electricity (heat and light)

Account to be debited	Amount £
Heat and light	240

Account to be credited	Amount £
Bank	240

Transaction 4

Paid cash of £2,000 from the cash account into the business bank account

Account to be debited	Amount £
Bank	2,000

Account to be credited	Amount £
Cash	2,000

Question 3.12

The following **five** transactions took place in May 201X when a business was set up by Nadia Sharapova selling sports goods. The business is not registered for VAT.

You are required to record **each** of the transaction in the double entry accounting system of the business. Ledger accounts to be used for the purpose of recording the transactions are provided below.

<p>201X 1 May</p>	<p>Nadia introduced £50,000 into the business as her capital. The funds were transferred from per Nadia’s personal bank account into a bank current account opened in the name of the business</p>
<p>201X 1 May</p>	<p>Bought fixtures and fittings for use in the business at a cost of £5,000, paying by cheque</p>
<p>201X 1 May</p>	<p>Purchased goods costing £25,000 for resale on credit from Sports Supplies Ltd</p>
<p>201X 2 May</p>	<p>Paid rent of £1,000 on business premises by cheque</p>
<p>201X 2 May</p>	<p>Sold goods to Pro-Golf £2,500 allowing them 7 day’s credit</p>

**Ledger
Bank**

DR			CR		
201X	Details	£	201X	Details	£
1 May	Capital	50,000	1 May	Fixtures and fittings	5,000
			2 May	Rent	1,000

Capital

DR			CR		
201X	Details	£	201X	Details	£
			1 May	Bank	50,000

Fixtures and Fittings

DR			CR		
201X	Details	£	201X	Details	£
1 May	Bank	5,000			

Purchases

DR			CR		
201X	Details	£	201X	Details	£
1 May	Sport Supplies Ltd	25,000			

Sports Supplies Ltd

DR			CR		
201X	Details	£	201X	Details	£
			1 May	Purchases	25,000

DR			Rent		CR	
201X	Details	£	201X	Details	£	
2 May	Bank	1,000				

DR			Pro-Golf		CR	
201X	Details	£	201X	Details	£	
2 May	Sales	2,500				

DR			Sales		CR	
201X	Details	£	201X	Details	£	
			2 May	Pro-Golf	2,500	

Question 3.13

You are presented below with an extract from the ledger of a business at the month ended 31 March 201X.

You are required to balance off each of the accounts at 31 March 201X clearly showing the account balance carried down (Balance c/d) and balance brought down (Balance b/d) at that date.

Ledger (extract)

DR			Petty Cash			CR		
201X	Details	£	201X	Details	£			
1 March	Bank	100	4 March	Postage	12			
			9 March	Stationery	15			
			24 March	Travel	18			
			31 March	Balance c/d	55			
		100						100
31 March	Balance b/d	55						

DR			Purchases			CR		
201Y	Details	£	201Y	Details	£			
2 March	Central Stores Ltd	1,980	31 March	Balance c/d	10,013			
3 March	Fairway Group	2,880						
14 March	Fairway Group	1,760						
30 March	Fairway Group	2,148						
31 March	Wirral Trading Ltd	1,245						
		10,013						10,013
31 March	Balance b/d	10,013						

DR			Deeside Traders			CR		
201X	Details	£	201X	Details	£			
1 March	Sales	1,246	5 March	Sales returns	194			
12 March	Sales	1,075	18 March	Bank	1,052			
28 March	Sales	988						
			31 March	Balance c/d	2,063			
		3,309						3,309
31 March	Balance b/d	2,063						

DR		Fairway Group				CR
201X	Details	£	201X	Details	£	
6 March	Purchase returns	366	3 March	Purchases	2,880	
10 March	Bank	2,514	14 March	Purchases	1,760	
18 March	Purchase returns	188	30 March	Purchases	2,148	
31 March	Balance c/d	3,720				
		6,788			6,788	
			31 March	Balance b/d	3,720	

DR		Sales				CR
201Y	Details	£	201Y	Details	£	
31 March	Balance c/d	8,963	1 March	Deeside Traders	1,246	
			7 March	Clinton & Co	3,146	
			12 March	Deeside Traders	1,075	
			14 March	Bluebell & Rose Ltd	2,508	
			28 March	Deeside Traders	988	
		8,963			8,963	
			31 March	Balance b/d	8,963	

Question 3.14

The following account has been extracted from the ledger of a business. Close off the account as at 31 May 201X.

DR		Mayfair trading				CR
201X	Details	£	201X	Details	£	
5 May	Sales	2,860	7 May	Sales returns	248	
22 May	Sales	1,960	31 May	Bank	4,572	
		4,820			4,820	

Question 3.15

Which **one** of the following is periodic listing of balances on all the accounts within the double entry bookkeeping system, prepared for the purpose of checking the arithmetic accuracy of the double entry records?

	✓
Trial balance	✓
Trading and profit and loss account	
Balance sheet	

Question 3.16

Provided below is a list of **six** account names. The accounts appear in the ledger of a business at the month end 30 June 201X Indicate for **each** of the accounts whether the balance on the account would be listed on a trial balance as a debit balance (DR) or a credit balance (CR).

Account name	DR	CR
	✓	✓
Capital		✓
Purchases	✓	
Purchase returns		✓
Sales		✓
Drawings	✓	
Cash	✓	