

### Lesson 4 – Introduction to Double Entry Bookkeeping

#### Question 4.1

Which **one** of the following statements best describes the function of bookkeeping?

|   |   |
|---|---|
|   | ✓ |
| <b>The systematic routine by which business transactions are processed</b>  | ✓ |
| <b>The use of information from within the financial records to prepare financial statements</b>   |   |
| <b>A process of internal accounting, the purpose of which is to provide financial information at a time and in a format that makes it suitable for use by those responsible for planning and controlling the activities of a business</b> |   |

#### Question 4.2

Which **one** of the following business documents is used as the source document for the purpose of recording the transaction where goods are bought and sold on credit?

|                              |   |
|------------------------------|---|
|                              | ✓ |
| <b>Credit note</b>           |   |
| <b>Invoice</b>               | ✓ |
| <b>Cash register receipt</b> |   |

**Question 4.3**

Nazia recently bought a laptop computer for use in her business. She bought the laptop in a local computer store and made payment using the business debit card.

Which **one** of the following documents is Nazia likely to use as the source from which she will record the purchase of the computer in her bookkeeping system?

|  |   |
|--|---|
|  | ✓ |
| <b>Credit note</b>                               |   |
| <b>Till receipt issued by the computer store</b> | ✓ |
| <b>Paying-in slip</b>                            |   |

**Question 4.4**

Which **one** of the following is prepared for the purpose of showing the financial position of a business as at a particular point in time?

|  |   |
|--|---|
|  | ✓ |
| <b>Trial balance</b>                       |   |
| <b>Trading and profit and loss account</b> |   |
| <b>Balance sheet</b>                       | ✓ |

**Question 4.5**

Complete the blank box below and show the element which is missing from the accounting equation.

**ASSETS =**  **+ LIABILITIES**

### Question 4.6

Which **one** of the following statements is a description of the accounting term 'liabilities'?

|  |   |
|--|---|
|  | ✓ |
| <b>Funds provided to a business by its owner(s)</b>  |   |
| <b>Financial obligations of a business i.e. amounts owed to individuals or organisations other than its owner(s)</b> | ✓ |
| <b>Items of value owned by a business, or amounts owed to it</b>   |   |

### Question 4.7

Which **one** of the following accounting concepts is the foundation on which the principle of double entry bookkeeping is based?

|                          |   |
|--------------------------|---|
|                          | ✓ |
| <b>Dual aspect</b>       | ✓ |
| <b>Money measurement</b> |   |
| <b>Business entity</b>   |   |
| <b>Historic cost</b>     |   |

### Question 4.8

Which **one** of the following transactions would result in an increase in both the assets and liabilities of a business?

|   |   |
|---|---|
|   | ✓ |
| <b>A business buys a delivery vehicle at a cost of £12,500, making payment directly from the business bank current account.</b>                           |   |
| <b>A business makes payment to a supplier to clear the balance on the supplier account making payment directly from the business bank current account</b> |   |
| <b>A business borrows £10,000 from the bank. The funds are transferred by the bank directly into the business bank current account.</b>                   | ✓ |

### Question 4.9

Using the table provided below identify each of the following as being examples of assets, capital or liabilities.

| <b>Item</b>  | <b>Asset</b><br>✓ | <b>Capital</b><br>✓ | <b>Liability</b><br>✓ |
|--|-------------------|---------------------|-----------------------|
| <b>Finance introduced by the owner of the business</b>                               |                   | ✓                   |                       |
| <b>A vehicle owned by the business</b>   | ✓                 |                     |                       |
| <b>Money on deposit in a bank account</b>  | ✓                 |                     |                       |
| <b>An amount owed by the business to a supplier who has supplied goods on credit</b> |                   |                     | ✓                     |
| <b>A computer owned by the business</b>  | ✓                 |                     |                       |
| <b>An overdraft balance on a business bank current account</b>                       |                   |                     | ✓                     |
| <b>Stock carried by a business</b>   | ✓                 |                     |                       |
| <b>A loan from a bank</b>  |                   |                     | ✓                     |
| <b>Notes and coins in the business cash box</b>                                      | ✓                 |                     |                       |
| <b>An amount owed to the business by a customer who was supplied goods on credit</b> | ✓                 |                     |                       |

### Question 4.10

Classify each of the items listed in the table below as being examples of capital income or expenditure, or revenue income or expenditure.

| Item  | Capital     |                  | Revenue     |                  |
|---|-------------|------------------|-------------|------------------|
|   | Income<br>✓ | Expenditure<br>✓ | Income<br>✓ | Expenditure<br>✓ |
| Receipt of funds invested by the owner of a business              | ✓           |                  |             |                  |
| Payment made to purchase goods for resale                         |             |                  |             | ✓                |
| Income received from sales to customers                           |             |                  | ✓           |                  |
| Payment of a heat and light bill                                  |             |                  |             | ✓                |
| Receipt of a loan from a bank                                     | ✓           |                  |             |                  |
| Payment made to purchase office machinery for use in the business |             | ✓                |             |                  |
| Payment made for repairs to property                              |             |                  |             | ✓                |
| Payment made to purchase a vehicle for use in the business        |             | ✓                |             |                  |
| A receipt of interest from the bank on funds in a deposit account |             |                  | ✓           |                  |
| Payment made for advertising                                      |             |                  |             | ✓                |
| Payment made for business rates                                   |             |                  |             | ✓                |

### Question 4.11

A vehicle bought for use by a business to deliver goods to customers is an example of a:

|                     |   |
|---------------------|---|
|                     | ✓ |
| Current asset       |   |
| Long-term liability |   |
| Fixed asset         | ✓ |
| Current liability   |   |

**Question 4.12**

A loan to a business from a bank, repayable over a period of 5 years, is an example of a:

|                            |   |
|----------------------------|---|
|                            | ✓ |
| <b>Current asset</b>       |   |
| <b>Long-term liability</b> | ✓ |
| <b>Fixed asset</b>         |   |
| <b>Current liability</b>   |   |

**Question 4.13**

A business has an overdrawn balance on its bank current account with the bank. This is an example of a:

|                            |   |
|----------------------------|---|
|                            | ✓ |
| <b>Current asset</b>       |   |
| <b>Long-term liability</b> |   |
| <b>Fixed asset</b>         |   |
| <b>Current liability</b>   | ✓ |

**Question 4.14**

An amount owed to a business by one of its credit customers is an example of a:

|                            |   |
|----------------------------|---|
|                            | ✓ |
| <b>Current asset</b>       | ✓ |
| <b>Long-term liability</b> |   |
| <b>Fixed asset</b>         |   |
| <b>Current liability</b>   |   |

### Question 4.15

If the liabilities of a business are £100,000 and its assets have a value of £500,000, which **one** of the following represents the capital claim of the owner of the business on its assets?

|                 |   |
|-----------------|---|
|                 | ✓ |
| <b>£300,000</b> |   |
| <b>£600,000</b> |   |
| <b>£400,000</b> | ✓ |

### Question 4.16

Carla recently set-up in business as a market trader. Her business is not as yet registered for VAT. The following is a table of transactions which took place during a recent week of trading. You are required to complete the table by stating for each transaction the account to be debited and the account to be credited, the amount should also be stated. As an example the first transaction has been processed for you:

| Transaction   | Account to be Debited              | Account to be Credited               |
|---|------------------------------------|--------------------------------------|
| <b>1 Paid rent on market stall £100 by cheque.</b>  | Rent £100                          | Bank £100                            |
| <b>2 Purchased goods for resale costing £1,200 on credit from Clearance Products Ltd.</b>   | <b>Purchases £1,200</b>            | <b>Clearance Products Ltd £1,200</b> |
| <b>3 Carla borrowed £5,000 from the bank to invest in the business. The money was transferred by the bank into the business bank account.</b> | <b>Bank £5,000</b>                 | <b>Bank Loan £5,000</b>              |
| <b>4 Bought a vehicle for use in the business costing £10,000 paying by cheque.</b>   | <b>Vehicle £10,000</b>             | <b>Bank £10,000</b>                  |
| <b>5 Paid assistants wages in cash £120.</b>  | <b>Wages £120.</b>                 | <b>Cash £120.</b>                    |
| <b>6 Returned goods previously bought on credit costing £150 to Clearance Products Ltd.</b>   | <b>Clearance Products Ltd £150</b> | <b>Purchase returns £150</b>         |

### Question 4.17

Elsie is in the process of setting up her own business. The following six transactions took place in the week 1 May 201X to 7 May 201X. Identify for each of the transactions the account to be debited and the account to be credited:

|  |
|--|
| <b>Transaction 1</b>   |
| Elsie transferred funds from her private bank account to a business bank account as her capital to start up the business |
| <b>Account to be debited: Bank</b>   |
| <b>Account to be credited: Capital</b>   |

|  |
|--|
| <b>Transaction 2</b>                                     |
| The business purchased goods for resale paying by cheque |
| <b>Account to be debited: Purchases</b>                  |
| <b>Account to be credited: Bank</b>                      |

|   |
|---|
| <b>Transaction 3</b>  |
| The business sold goods to Top Gear giving them 30 days in which to pay for the goods |
| <b>Account to be debited: Top Gear</b>  |
| <b>Account to be credited: Sales</b>  |

|   |
|---|
| <b>Transaction 4</b>  |
| The business purchased a delivery vehicle for use in the business making payment by business debit card directly from the business bank account |
| <b>Account to be debited: Vehicle</b>   |
| <b>Account to be credited: Bank</b>   |

|   |
|---|
| <b>Transaction 5</b>                                    |
| Receipts from sales paid directly into the bank account |
| <b>Account to be debited: Bank</b>                      |
| <b>Account to be credited: Sales</b>                    |

|   |
|---|
| <b>Transaction 6</b>  |
| Elsie presented a cheque to the bank made payable to cash. Elsie took the cash as her personal drawings |
| <b>Account to be debited: Drawings</b>  |
| <b>Account to be credited: Bank</b>   |

### Question 4.18

The following **eight** transactions took place recently when a business selling garden furniture was set up by Don Charles. 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 are provided below for your use when processing the transactions.

|                       |   |
|-----------------------|---|
| <b>201X</b><br>1 June | Don introduced £50,000 into the business as his start-up capital. The funds were transferred from Dons personal bank account into a bank current account opened in the name of the business |
| <b>201X</b><br>1 June | Don paid rent of £1,000 on the business premises, making payment by cheque  |
| <b>201X</b><br>1 June | Don purchased fixtures and fittings to fit-out the display area in the business premises at a cost of £2,500, making payment by business debit card directly from the business bank account |
| <b>201X</b><br>1 June | Don purchased goods for resale at a cost of £15,000 from Pine Design. The supplier allowed Don 30 days in which to settle their invoice   |
| <b>201X</b><br>2 June | Don made a quarterly rates payment of £300 on the premises by direct debit directly from the business bank account.   |
| <b>201X</b><br>2 June | Invoiced Sea View Rest Home with £1,200 for garden furniture sold to them on credit. The customer was given 14 Days in which to settle the invoice  |
| <b>201X</b><br>3 June | Don returned some of the goods purchased from Pine Design on 1 June as they were found to be damaged and received a credit note for £400 from the supplier                                  |
| <b>201X</b><br>3 June | Receipts of £1,500 from sales to cash customers were paid directly into the business bank account   |

**Ledger  
Bank**

| <b>DR</b>   |                |          | <b>CR</b>   |                       |          |
|-------------|----------------|----------|-------------|-----------------------|----------|
| <b>201X</b> | <b>Details</b> | <b>£</b> | <b>201X</b> | <b>Details</b>        | <b>£</b> |
| 1 June      | Capital        | 50,000   | 1 June      | Rent                  | 1,000    |
| 3 June      | Sales          | 1,500    | 1 June      | Fixtures and fittings | 2,500    |
|             |                |          | 2 June      | Rates                 | 300      |
|             |                |          |             |                       |          |
|             |                |          |             |                       |          |

| <b>DR</b>      |                |          | <b>CR</b>   |                |          |
|----------------|----------------|----------|-------------|----------------|----------|
| <b>Capital</b> |                |          |             |                |          |
| <b>201X</b>    | <b>Details</b> | <b>£</b> | <b>201X</b> | <b>Details</b> | <b>£</b> |
|                |                |          | 1 June      | Bank           | 50,000   |
|                |                |          |             |                |          |

| <b>DR</b>               |                |          | <b>CR</b>   |                |          |
|-------------------------|----------------|----------|-------------|----------------|----------|
| <b>Rent &amp; Rates</b> |                |          |             |                |          |
| <b>201X</b>             | <b>Details</b> | <b>£</b> | <b>201X</b> | <b>Details</b> | <b>£</b> |
| 1 June                  | Bank           | 1,000    |             |                |          |
| 2 June                  | Bank           | 300      |             |                |          |
|                         |                |          |             |                |          |

| <b>DR</b>                    |                |          | <b>CR</b>   |                |          |
|------------------------------|----------------|----------|-------------|----------------|----------|
| <b>Fixtures and Fittings</b> |                |          |             |                |          |
| <b>201X</b>                  | <b>Details</b> | <b>£</b> | <b>201X</b> | <b>Details</b> | <b>£</b> |
| 1 June                       | Bank           | 2,500    |             |                |          |
|                              |                |          |             |                |          |
|                              |                |          |             |                |          |

| <b>DR</b>        |                |          | <b>CR</b>   |                |          |
|------------------|----------------|----------|-------------|----------------|----------|
| <b>Purchases</b> |                |          |             |                |          |
| <b>201X</b>      | <b>Details</b> | <b>£</b> | <b>201X</b> | <b>Details</b> | <b>£</b> |
| 1 June           | Pine Design    | 15,000   |             |                |          |
|                  |                |          |             |                |          |

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| DR     |                  |     | Pine Design |           |        | CR |  |  |
|--------|------------------|-----|-------------|-----------|--------|----|--|--|
| 201X   | Details          | £   | 201X        | Details   | £      |    |  |  |
| 3 June | Purchase returns | 400 | 1 June      | Purchases | 15,000 |    |  |  |
|        |                  |     |             |           |        |    |  |  |
|        |                  |     |             |           |        |    |  |  |

| DR     |         |       | Sea View Rest Home |         |   | CR |  |  |
|--------|---------|-------|--------------------|---------|---|----|--|--|
| 201X   | Details | £     | 201X               | Details | £ |    |  |  |
| 2 June | Sales   | 1,200 |                    |         |   |    |  |  |
|        |         |       |                    |         |   |    |  |  |
|        |         |       |                    |         |   |    |  |  |

| DR   |         |   | Sales  |                    |       | CR |  |  |
|------|---------|---|--------|--------------------|-------|----|--|--|
| 201X | Details | £ | 201X   | Details            | £     |    |  |  |
|      |         |   | 2 June | Sea View Rest Home | 1,200 |    |  |  |
|      |         |   | 3 June | Bank               | 1,500 |    |  |  |
|      |         |   |        |                    |       |    |  |  |
|      |         |   |        |                    |       |    |  |  |

| DR   |         |   | Purchase Returns |             |     | CR |  |  |
|------|---------|---|------------------|-------------|-----|----|--|--|
| 201X | Details | £ | 201X             | Details     | £   |    |  |  |
|      |         |   | 3 June           | Pine Design | 400 |    |  |  |
|      |         |   |                  |             |     |    |  |  |
|      |         |   |                  |             |     |    |  |  |

**Question 4.19**

You are presented below with three ledger accounts you are required to balance of each of the accounts at 31 May 201X, showing the account balances carried down and brought down at that date.

**Ledger (extract)**

| <b>DR</b>     |                    | <b>Cash</b>   |               | <b>CR</b>          |               |
|---------------|--------------------|---------------|---------------|--------------------|---------------|
| <b>201X</b>   | <b>Details</b>     | <b>£</b>      | <b>201X</b>   | <b>Details</b>     | <b>£</b>      |
| 1 May         | Sales              | 2,450         | 2 May         | Bank               | 2,100         |
| 7 May         | Sales              | 2,120         | 2 May         | Wages              | 200           |
| 14 May        | Sales              | 1,980         | 8 May         | Bank               | 1,750         |
| 21 May        | Sales              | 2,330         | 8 May         | Wages              | 220           |
| 28 May        | Sales              | 2,080         | 15 May        | Bank               | 1,800         |
|               |                    |               | 15 May        | Wages              | 200           |
|               |                    |               | 22 May        | Bank               | 2,050         |
|               |                    |               | 22 May        | Wages              | 250           |
|               |                    |               | 29 May        | Bank               | 2,090         |
|               |                    |               | 29 May        | Wages              | 200           |
|               |                    |               | <b>31 May</b> | <b>Balance c/d</b> | <b>100</b>    |
|               |                    | <b>10,960</b> |               |                    | <b>10,960</b> |
| <b>31 May</b> | <b>Balance b/d</b> | <b>100</b>    |               |                    |               |

| <b>DR</b>     |                    | <b>Purchases</b> |               | <b>CR</b>          |               |
|---------------|--------------------|------------------|---------------|--------------------|---------------|
| <b>201X</b>   | <b>Details</b>     | <b>£</b>         | <b>201X</b>   | <b>Details</b>     | <b>£</b>      |
| 2 May         | Better Buy Ltd     | 2,954            | <b>31 May</b> | <b>Balance c/d</b> | <b>13,042</b> |
| 5 May         | M & N Trading      | 2,732            |               |                    |               |
| 15 May        | Foster & Kerr Ltd  | 2,765            |               |                    |               |
| 25 May        | Macey & Co Ltd     | 2,346            |               |                    |               |
| 27 May        | Better Buy Ltd     | 2,245            |               |                    |               |
|               |                    |                  |               |                    |               |
|               |                    | <b>13,042</b>    |               |                    | <b>13,042</b> |
| <b>31 May</b> | <b>Balance b/d</b> | <b>13,042</b>    |               |                    |               |

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| DR            |                    |              | Central Supplies Ltd |                    |              | CR |  |  |
|---------------|--------------------|--------------|----------------------|--------------------|--------------|----|--|--|
| 201X          | Details            | £            | 201X                 | Details            | £            |    |  |  |
| 1 May         | Sales              | 2,346        | 4 May                | Sales returns      | 220          |    |  |  |
| 14 May        | Sales              | 2,175        | 18 May               | Bank               | 2,126        |    |  |  |
| 26 May        | Sales              | 1,454        | 29 May               | Sales returns      | 244          |    |  |  |
|               |                    |              | <b>31 May</b>        | <b>Balance c/d</b> | <b>3,385</b> |    |  |  |
|               |                    | <b>5,975</b> |                      |                    | <b>5,975</b> |    |  |  |
| <b>31 May</b> | <b>Balance b/d</b> | <b>3,385</b> |                      |                    |              |    |  |  |

| DR            |                    |              | Better Buy Ltd |                    |              | CR |  |  |
|---------------|--------------------|--------------|----------------|--------------------|--------------|----|--|--|
| 201X          | Details            | £            | 201X           | Details            | £            |    |  |  |
| 7 May         | Purchase returns   | 224          | 2 May          | Purchases          | 2,954        |    |  |  |
| 21 May        | Bank               | 2,730        | 27 May         | Purchases          | 2,245        |    |  |  |
| 31 May        | Purchase returns   | 168          |                |                    |              |    |  |  |
| <b>31 May</b> | <b>Balance c/d</b> | <b>2,077</b> |                |                    |              |    |  |  |
|               |                    | <b>5,199</b> |                |                    | <b>5,199</b> |    |  |  |
|               |                    |              | <b>31 May</b>  | <b>Balance c/d</b> | <b>2,077</b> |    |  |  |

**Question 4.20**

The following account has been extracted from the ledger of a business. Close off the account as at 30 April 201X.

| DR       |         |              | Bikes & Trikes |               |              | CR |  |  |
|----------|---------|--------------|----------------|---------------|--------------|----|--|--|
| 201X     | Details | £            | 201X           | Details       | £            |    |  |  |
| 4 April  | Sales   | 1,940        | 8 April        | Sales returns | 220          |    |  |  |
| 20 April | Sales   | 2,130        | 30 April       | Bank          | 3,850        |    |  |  |
|          |         | <b>4,070</b> |                |               | <b>4,070</b> |    |  |  |

### Question 4.21

You are presented below with bank account extracted from the ledger of Carpet Cuts at 31 March 201x balance off the account at 31 March 201X, clearly showing the account balance carried down and brought down at that date.

| <b>DR</b>       |                       | <b>Bank</b>   |                 | <b>CR</b>           |               |
|-----------------|-----------------------|---------------|-----------------|---------------------|---------------|
| <b>201X</b>     | <b>Details</b>        |               | <b>201X</b>     | <b>Details</b>      | <b>£</b>      |
| 1 March         | Cash                  | 2,840         | 2 March         | Gee & Co            | 280           |
| 2 March         | West & Co             | 650           | 6 March         | Armitage Carpets    | 2,760         |
| 5 March         | Stanfield Furnishings | 810           | 10 March        | Wilton Mills Ltd    | 2,100         |
| 11 March        | Fenton Fabrics        | 1,350         | 13 March        | Brenton Bros Ltd    | 1,820         |
| 13 March        | Wilson's Carpets      | 1,590         | 15 March        | Oakway Furniture    | 2,825         |
| 19 March        | Cash                  | 2,500         | 18 March        | Electricity Board   | 228           |
| 21 March        | Cawthorne & Brown     | 1,725         | 22 March        | Pine Products Ltd   | 1,625         |
| 26 March        | Cash                  | 2,500         | 25 March        | Premier Advertising | 125           |
| 28 March        | Creative Homes        | 1,910         | 30 March        | Conway & Co Ltd     | 2,920         |
| 31 March        | Bensons Furniture     | 1,520         | <b>31 March</b> | <b>Balance c/d</b>  | <b>2,712</b>  |
|                 |                       |               |                 |                     |               |
|                 |                       | <b>17,395</b> |                 |                     | <b>17,395</b> |
| <b>31 March</b> | <b>Balance b/d</b>    | <b>2,712</b>  |                 |                     |               |
|                 |                       |               |                 |                     |               |

**Question 4.22**

Provided below is a list of account titles appearing in the ledger of Four Seasons Foods. You are required to indicate for each account whether the account is likely to carry a debit (DR), or credit (CR) balance.

| <b>Account</b>                    | <b>DR</b><br>✓ | <b>CR</b><br>✓ |
|-----------------------------------|----------------|----------------|
| <b>Capital</b>                    |                | ✓              |
| <b>Vehicle</b>                    | ✓              |                |
| <b>Bank loan (loan from bank)</b> |                | ✓              |
| <b>Purchases</b>                  | ✓              |                |
| <b>Purchase returns</b>           |                | ✓              |
| <b>Sales</b>                      |                | ✓              |
| <b>Drawings</b>                   | ✓              |                |
| <b>Wages</b>                      | ✓              |                |
| <b>Sales returns</b>              | ✓              |                |
| <b>Vehicle expenses</b>           | ✓              |                |