

Exercise 3.1 Reap and Sow

a. Analysing Chart

Date	Accounts affected	Classification (A / L / Oe / R / E)	Increase / Decrease	Debit \$	Credit \$
May 1	Bank	A	Inc.	40 000	
	Capital	Oe	Dec.		40 000
2	Prepaid rent	A	Inc.	500	
	Bank	A	Dec.		500
3	Stock Control	A	Inc.	8 000	
	Creditors Control	L	Inc.		8 000
4	Office furniture	A	Inc.	3 000	
	Bank	A	Dec.		3 000
5	Advertising	E	Inc.	150	
	Bank	A	Dec.		150
6	Computer	A	Inc.	1 200	
	Capital	Oe	Inc.		1 200

Exercise 5.2 Phil's Pianos

a.

Explanation	<i>To summarise all credit purchases of stock; total credit purchases of stock can then be posted to the ledger in fewer entries, increasing the efficiency of the recording system</i>
	<i>OR: Ledger entries can be traced to the source document that verified the transaction</i>

b.

Purchases Journal

Date	Creditor	Invoice number	Stock	GST	Total Creditors
Aug. 3	Yamaha	Yh3764	20 000	2 000	22 000
8	Bernstein	B4801	6 000	600	6 600
15	Yamaha	Yh3784	4 000	400	4 400
24	Rachman	R132	15 600	1 560	17 160
29	Bernstein	B4816	3 600	360	3 960
	Totals		\$ 49 200	4 920	54 120

c. **General Ledger****Creditors Control (L)**

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
			Aug. 1	Balance	12 000
			30	Stock Control / GST Clear.	54 120

Should read "31".

Stock Control (A)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
Aug. 1	Balance	27 000			
30	Creditors Control	49 200			

GST Clearing (A/L)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
Aug. 30	Stock Control	4 920	Aug. 1	Balance	600

Should read "Creditors Control".

Exercise 5.3 Glow Warm

a.

Explanation	<i>Invoices in the Purchases Journal do not run in sequence because they are issued by the suppliers, who will also issue them to their other customers between transactions with Glow Warm.</i>

b./d./e. General Ledger

Creditors Control (L)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
April 30	Bank	1 320	April 1	Balance	4 070
	Balance	15 950	30	Stock Control / GST Clear.	13 200
		\$17 270			\$17 270
			May 1	Balance	15 950

Stock Control (A)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
April 1	Balance	8 000			
30	Creditors Control	12 000			

GST Clearing (A/L)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
Aug. 30	Stock Control	1 200	April 1	Balance	1 700

"Aug. 30 Stock Control" should read "Apr. 30 Creditors Control".

Exercise 7.10 Blue Lines

a.

General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
June 30	Equipment	120			
	Cleaning expenses		120		
June 30	Advertising	500			
	Drawings		500		
June 30	Interest expense	100			
	Loan – HBM		100		
June 30	Debtor – B. Quack	350		350	
	Debtor – B. Quick		350		350
June 30	Wages	505			
	Creditors Control		505		
	Creditor – N. Smythe				505

Insert a new row between those showing Wages and Creditors Control. This new row will read "Bank" in the Details column and "45" in General Ledger - Debit column.

Delete

Should read "550"

b.

Explanation <i>Cleaning expenses would be overstated by \$120, meaning Net profit would be understated by \$120.</i>
<i>(Equipment is an asset, not an expense.)</i>

c.

Explanation <i>No effect: Drawings decreases meaning Owner's equity increases, but Advertising expenses increase meaning Net profit and Owner's equity decrease.</i>

d.

All entries for "understated" and "overstated" should be reversed.

	Overstated / Understated / No effect	Amount \$
Assets	<i>No effect</i>	
Liabilities	<i>Overstated (Loan – HBM)</i>	100
Owner's equity	<i>Understated (Overstated interest expense means Net profit is understated)</i>	100

d.

General Journal

Date	Details	General Ledger		Subsidiary Ledger	
		Debit \$	Credit \$	Debit \$	Credit \$
Mar. 31	Stock loss	160			
	Stock Control		160		
	Stock loss revealed by stocktake (Memo 5)				

e.

Calculation		Should read "2 790".					Should read "1 120".
	Sales revenue	\$5 440	(34 units × \$160 per unit)				
	less Cost of sales	<u>2 770</u>	(970 + 700 + 1 100)				
	Gross profit	2 670					
	less Stock loss	<u>160</u>					Should read "2 490".
	Adjusted Gross profit	<u>\$2 510</u>					Adjusted Gross profit \$ 2 510

f.

Should read "\$2 490".

Explanation	<i>No effect: although Drawings would be understated by \$240, the loss of these units would be detected (by the stocktake) as a stock loss, reducing profit by \$240.</i>
	<i>As a result, Owner's equity would be unchanged.</i>

e.

		Should read "\$900".
		Should read "1 950".
Calculation		
<i>Sales revenue</i>	\$6 930	<i>(7 units × \$990 per unit)</i>
<i>less Cost of sales</i>	4 350	<i>(3 050 + 1 300)</i>
<i>Gross profit</i>	2 580	
<i>add Stock gain</i>	650	
<i>Adjusted Gross profit</i>	\$3 230	
		Adjusted Gross profit \$ 3 230
		Should read "2 600".

f.

Should read "\$2 600".

Explanation	<i>It would be reported under the heading 'Other expenses' as Advertising, as it is a loss or outflow of an economic benefit in the form of a decrease in assets (Stock Control), which leads to a decrease in Owner's equity, but it occurs after the goods are ready for sale.</i>
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GST Clearing (A/L)

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	<i>Balance</i>	<i>15 950</i>	<i>30</i>	<i>Stock Control / GST Clear.</i>	<i>13 200</i>
		<i>\$17 270</i>			<i>\$17 270</i>
			<i>May 1</i>	<i>Balance</i>	<i>15 950</i>

Stock Control (A)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
April 1	Balance	8 000			
<i>30</i>	<i>Creditors Control</i>	<i>12 000</i>			

GST Clearing (A/L)

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
<i>Apr. 30</i>	<i>Creditors Control</i>	<i>1 200</i>	April 1	Balance	1 700

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	Debtor – B. Quick				350
June 30	Wages	505			
	Bank	45			
	Creditors Control		550		
	Creditor – N. Smythe				550

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Calculation			
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less	Cost of sales	<u>2 790</u>	(970 + 700 + 1 120)
	Gross profit	2 670	
less	Stock loss	<u>160</u>	
	Adjusted Gross profit	\$2 490	
			Adjusted Gross profit \$ 2 490

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Explanation	<i>No effect: although Drawings would be understated by \$240, the loss of these units would be detected (by the stocktake) as a stock loss, reducing profit by \$240.</i>
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Calculation			
	<i>Sales revenue</i>	\$6 930	<i>(7 units × \$900 per unit)</i>
<i>less</i>	<i>Cost of sales</i>	<u>4 350</u>	<i>(3 050 + 1 300)</i>
	<i>Gross profit</i>	1 950	
<i>add</i>	<i>Stock gain</i>	<u>650</u>	
	<i>Adjusted Gross profit</i>	\$2 600	
			Adjusted Gross profit \$ 2 600

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Explanation	<i>It would be reported under the heading 'Other expenses' as Advertising, as it is a loss or outflow of an economic benefit in the form of a decrease in assets (Stock Control), which leads to a decrease in Owner's equity, but it occurs after the goods are ready for sale.</i>
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