

Module 5: Introduction to Small Business Accounting

Assessment 1: The Accounting Equation

<h3>Assessment Answers</h3>

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Assessment 1: The Accounting Equation

Transaction 1

Harry purchased a work van for the business for \$12,000. He paid a \$500 deposit on the van, and the remaining \$11,500 was paid for using a bank loan.

Assets		=	Liabilities		+	Owner's Equity	
Bank	\$2000	=	Bank Loan	\$11500	+	Initial Capital	\$4000
Equipment	\$1500						
Van	\$12000						
TOTAL	\$15500	=	0	\$11500	+		\$4000

Transaction 2

Harry decided to keep one of the ladders (equipment) owned by the business for his own personal use at home. This ladder was worth \$500.

Assets		=	Liabilities		+	Owner's Equity	
Bank	\$2000	=	Bank Loan	\$11500	+	Initial Capital	\$4000
Equipment	\$1000					Drawings	(\$500)
Van	\$12000						
TOTAL	\$15000	=	0	\$11500	+		\$3500

Transaction 3

Harry purchased a computer for the business for \$950. He paid for the computer using cash from the business bank account.

Assets		=	Liabilities		+	Owner's Equity	
Bank	\$1050	=	Bank Loan	\$11500	+	Initial Capital	\$4000
Equipment	\$1000					Drawings	(\$500)
Van	\$12000						
Computer	\$950						
TOTAL	\$15000	=	0	\$11500	+		\$3500

* Note that it is acceptable for taura to include the computer as 'equipment', in which case the value of equipment would be \$1950.

Transaction 4

Throughout his first month of trading, Harry's business earned \$10,900 in revenues. At the end of the month, most of his customers had paid cash. However, \$1,400 of revenues had not yet been received. The business incurred expenses of \$6,200 during the month. Only one account, for \$1,000 had not been paid by the end of the month. Harry withdrew \$2,500 in cash from the business for his own use during the month.

Assets		=	Liabilities		+	Owner's Equity	
Bank	\$2850	=	Bank Loan	\$11500	+	Initial Capital	\$4000
Equipment	\$1000		Creditors	\$1000		Drawings	(\$3000)
Van	\$12000					Net Profit	\$4700
Computer	\$950						
Debtors	\$1400						
TOTAL	\$18200	=	0	\$12500	+		\$5700

The bank account figure is calculated as follows:

Opening Bank Account:	\$1,050
Plus: Cash Received (\$10,900 - \$1,400)	\$9,500
Less: Expenses Paid (\$6,200 - \$1,000)	-\$5,200
Less: Drawings	<u>-\$2,500</u>
Closing Bank Account	\$2,850

Guidelines for minor errors

- The instructions to the assessment indicated that the 'Initial Capital' figure shouldn't be changed. However, if you do reduce the 'Initial Capital' figure by the drawings amount (i.e. Initial Capital in transaction 2 & 3 = \$3,500), this is ok.
- If you label 'profit' instead of 'net profit', they can still get 'achieved'.
- If you do not show Drawings as a negative amount in Transaction 2, they should not get 'achieved' for Item 4 of the Marking Schedule. If you carry this mistake forward to Transaction 3, don't penalise them again. However, if they show the additional \$2500 drawings (total of \$3000 drawings) as a positive amount in Transaction 4, they will get a YTA for Item 10 of the Marking Schedule.