

PRACTICE WORKSHEET + FULL ANSWER KEY

Accounting: the equation and business transactions

Secondary accounting: foundation bookkeeping. Work through the sections in order, or choose the one that matches this week's topic.

QUESTIONS	SECTIONS	ANSWER KEY	WORKING SPACE
52	5	At the back	Ruled

Name _____ Class _____ Date _____

Before you start

Use the accounting equation to check how a transaction changes the business. Keep the owner's personal finances separate and distinguish cash received from revenue earned.

WORKED EXAMPLE

A business owns assets of 12,000 and owes liabilities of 4,500. Calculate owner's equity.

- 1 Use $\text{Assets} = \text{Liabilities} + \text{Equity}$.
- 2 Rearrange: $\text{Equity} = \text{Assets} - \text{Liabilities}$.
- 3 $\text{Equity} = 12,000 - 4,500 = 7,500$, in the same currency units.

Use this method as your model. Set out your own working the same way.

Common mistakes to avoid

- Treating every cash receipt as revenue
- Recording only one side of a transaction

There are 52 questions across 5 sections. Write in the ruled space, then mark your work against the answer key at the back. Topics covered: Assets and liabilities, Owner's equity, Transaction effects.

SECTION A The accounting equation

Use $\text{Assets} = \text{Liabilities} + \text{Equity}$ to check how a transaction changes the business.

- 1** Assets are 9,000 and liabilities are 2,500. Find equity.

- 2** A business owns assets of 12,000 and owes liabilities of 4,500. Calculate owner's equity.

3 Equity is 18,000 and liabilities are 7,000. Find total assets.

4 State the accounting equation.

5 Classify as asset or liability: bank loan, delivery van, cash at bank, trade payable.

6 Define a current asset and give one example.

7 Define a non-current asset and give one example.

8 Explain the business entity concept.

9 Explain why the accounting equation always balances.

10 The owner takes 500 cash for personal use. Name the account used and the effect.

11 Explain the difference between capital and drawings.

SECTION B Transactions and double entry

Record both sides of every transaction and name each account affected.

12 The owner invests 2,000 cash in the business. How do assets and equity change?

13 The business buys equipment for 600 cash. What happens to total assets?

14 The business borrows 1,000 from a bank. Is that receipt sales revenue?

15 Goods are sold on credit for 900. State the two accounts affected.

16 A credit customer pays 900. State the two accounts affected.

17 The business pays rent of 400 in cash. State the effect on equity.

- 18 State the rule for debits and credits on an asset account.

- 19 State the rule for debits and credits on a liability account.

- 20 Explain the purpose of a trial balance.

- 21 Name one error a trial balance will not reveal.

- 22 Explain why recording only one side of a transaction is a problem.

SECTION C Profit, revenue and expenses

Distinguish cash received from revenue earned, and cash paid from expense incurred.

- 23 Revenue is 5,000 and expenses are 3,200 for the period. Calculate profit.

- 24 Revenue is 24,000, cost of sales is 14,000 and expenses are 6,500. Find gross profit and profit.

- 25 Explain why profit and the change in cash can differ.

- 26 Define the accrual concept.

- 27 Rent of 1,200 is paid for a year but only 9 months fall in this period. Find the expense and the prepayment.

- 28 Explain what depreciation represents.

- 29 An asset costs 10,000 with a 5-year life and no residual value. Find annual straight-line depreciation.

- 30 Find the carrying amount of that asset after 3 years.

- 31 Define revenue and explain when it is normally recognised.

- 32 Explain why not every cash receipt is revenue.

SECTION D Financial statements

Name the statement, the period it covers and the users who rely on it.

33 Name the statement that reports profit for a period.

34 Name the statement that reports the position at a point in time.

35 State the formula for gross profit.

36 Opening inventory is 2,000, purchases 9,000 and closing inventory 3,000. Find cost of sales.

37 Revenue is 20,000 and gross profit is 8,000. Find the gross profit margin.

38 Profit is 3,000 on revenue of 20,000. Find the profit margin.

39 Current assets are 9,000 and current liabilities are 4,500. Find the current ratio.

40 Explain what a current ratio below 1 might indicate.

41 Explain why a business prepares financial statements at least yearly.

42 Name two users of a small business's financial statements and what each wants to know.

SECTION E Records, controls and interpretation

Evidence supports every entry. Controls make error and fraud harder to hide.

43 Explain why source documents such as invoices are kept.

44 Explain the purpose of a bank reconciliation.

45 Name one internal control over cash and explain why it helps.

46 Explain what an aged receivables report shows.

- 47 Explain why a business might offer a settlement discount.

- 48 State one limitation of comparing two businesses by profit alone.

- 49 Explain what a cash flow forecast is for.

- 50 A forecast shows a shortfall in month 3. Name two possible responses.

- 51 Explain why consistency in accounting policies matters.

- 52 Write two sentences interpreting a fall in gross profit margin.

Answer key

Work each section before you check it. These are model answers: an equivalent method, or a different well-supported interpretation, can be just as correct.

SECTION A - THE ACCOUNTING EQUATION

1. 6,500 currency units.
2. $\text{Equity} = \text{Assets} - \text{Liabilities}$. $\text{Equity} = 12,000 - 4,500 = 7,500$.
3. 25,000 currency units.
4. $\text{Assets} = \text{Liabilities} + \text{Owner's equity}$.
5. Assets: delivery van and cash at bank. Liabilities: bank loan and trade payable.
6. An asset expected to be converted to cash within a year, for example inventory.
7. An asset held for use over more than a year, for example equipment.
8. The business is treated as separate from its owner, so personal transactions are excluded.
9. Every transaction has two equal effects, so total assets always equal the claims against them.
10. Drawings; cash and owner's equity each fall by 500.
11. Capital is what the owner puts into the business; drawings are what the owner takes out.

SECTION B - TRANSACTIONS AND DOUBLE ENTRY

12. Cash assets increase by 2,000 and owner's equity increases by 2,000.
13. Equipment increases by 600 and cash decreases by 600, so total assets are unchanged.
14. No. Cash assets and loan liabilities each increase by 1,000; borrowing is not revenue.
15. Trade receivables increase by 900 and sales revenue increases by 900.
16. Cash increases by 900 and trade receivables fall by 900.
17. Cash falls by 400 and equity falls by 400, because the expense reduces profit.
18. An increase in an asset is a debit; a decrease is a credit.
19. An increase in a liability is a credit; a decrease is a debit.
20. It checks that total debits equal total credits before the financial statements are prepared.
21. A transaction omitted entirely, or one posted to the wrong account of the correct type.
22. The books no longer balance and the reported position is wrong.

SECTION C - PROFIT, REVENUE AND EXPENSES

23. 1,800 currency units.
24. Gross profit 10,000 and profit for the year 3,500.

25. Credit transactions and payment timing differ from when revenue and expenses are recognised; loans and asset purchases also move cash without being sales or expenses.
26. Revenue and expenses are recorded when earned or incurred, not when cash moves.
27. Expense 900 and a prepayment asset of 300.
28. The allocation of a non-current asset's cost over its useful life as it is consumed.
29. 2,000 per year.
30. 4,000 currency units.
31. Income from ordinary activities, recognised when the goods or services have been delivered.
32. Loans, capital contributions and refunds bring in cash without arising from sales.

SECTION D - FINANCIAL STATEMENTS

33. The income statement, also called the statement of profit or loss.
34. The statement of financial position, also called the balance sheet.
35. Revenue minus cost of sales.
36. 8,000 currency units.
37. 40%.
38. 15%.
39. 2 to 1.
40. The business may struggle to pay short-term obligations as they fall due.
41. Owners, lenders and tax authorities need a regular, comparable account of performance and position.
42. For example the owner, who wants profitability, and a lender, who wants ability to repay.

SECTION E - RECORDS, CONTROLS AND INTERPRETATION

43. They provide evidence for each entry and allow the records to be checked.
44. It compares the cash book with the bank statement to find timing differences and errors.
45. Separating who handles cash from who records it, which makes error and fraud harder to conceal.
46. How long each customer balance has been outstanding, highlighting overdue debts.
47. To encourage faster payment and improve cash flow, at the cost of receiving less.
48. Size, sector and accounting choices differ, so ratios and context are needed.

- 49. It projects receipts and payments so shortages can be anticipated and financed.
- 50. Arrange an overdraft or delay a non-essential payment; chasing receivables also helps.
- 51. Comparable figures across periods make trends meaningful.
- 52. A statement of what the fall suggests, such as higher cost of sales or lower selling prices, with one further check you would make.

Review and next steps

Mark your work against the answer key, record your score for each section, then answer the three questions below. Bring this page to your next lesson so your tutor can start from what actually blocked you.

Which question did you find hardest, and what exactly stopped you?

Rewrite the corrected working for that question here.

Which section do you want to practise again before your next lesson?

Score record

SECTION	QUESTIONS	NUMBER CORRECT	PRACTISE AGAIN?
A. The accounting equation	11		
B. Transactions and double entry	11		
C. Profit, revenue and expenses	10		
D. Financial statements	10		
E. Records, controls and interpretation	10		
Total	52		

Keep going with one-to-one support.

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